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CARVER BANCORP, INC.

2004

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 54 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.

LETTER FROM THE CHAIRMAN AND THE PRESIDENT & CEO

Dear Carver Stockholder,

Fiscal 2004 was another very successful year for Carver as the Bank delivered both strong financial and operational performance, posting another record year of profitability. The financial results follow success in expanding our loan and deposit portfolios while keeping a careful eye on asset quality and interest rate risk. They were achieved despite margin compression and higher costs resulting from a backdrop of continuing challenges in the business environment, including interest rate volatility, significant new regulatory requirements and a slowly recovering national and New York City economy. Operationally, we made substantial progress in accelerating Carver's investment in new products and physical expansion in our neighborhoods, each of which are critical to growing our customer base and therefore are essential to Carver's future.

Our success, on both fronts, continues into fiscal 2005. Following are highlights of our key accomplishments and forward momentum.

Fiscal 2004 and First Quarter Fiscal 2005 Review

- ***Record profits.***
  Carver reported net income available to common stockholders of $4.6 million, or $1.87 per diluted common share, in fiscal 2004. This was up from $3.6 million, or $1.52 per diluted common share, in fiscal 2003. Return on a verage assets increased to 0.93% for fiscal 2004 compared to 0.83% for fiscal 2003, while return on average equity increased to 11.40% compared to 9.77% over the same period.

  The Company is also off to a good start for fiscal 2005. During the first three months, net income available to common stockholders was $1.0 million, or $0.42 per diluted common share, substantially unchanged from the first three months of fiscal 2004.

- ***Substantial value creation for stockholders.***
  For fiscal 2004, stockholders' equity increased $3.6 million, or 8.7%, to $44.6 million compared to $41.1 million at March 31, 2003.

  For the first three months of fiscal 2005, stockholders' equity decreased $222,000, or 0.5%, to $44.4 million. This decline was primarily attributable to a decrease of $1.1 million in accumulated other comprehensive income related to the mark-to-market of the Bank's available-for-sale securities.

  We took pride that investment bank Janney Montgomery Scott ranked Carver the best performing stock of any bank or thrift stock in New York State during calendar 2003 – no small accomplishment considering the competition. While Carver's stock has since declined from its 2003 peak, consistent with industry trends, be assured that we are sharply focused on executing our business plan to further enhance stockholder value.

  In fiscal 2004, the Board of Directors established a regular quarterly dividend on its common stock, in an amount to be determined each quarter, and subsequently declared a $0.05 per share cash dividend for each of the quarters ended in June, September and December 2003, and March 2004.

This compares to the Company's previous practice of declaring a $0.05 per share cash dividend annually.

In July 2004, the Board of Directors, citing its confidence in Carver's long-term growth and earnings outlook, increased the cash dividend 40% from $0.05 to $0.07 per common share for the quarter ended June 30, 2004.

- ***Decreased net interest margin.***
  Our net interest margin decreased to 3.56% in fiscal 2004 from 4.30% in fiscal 2003. We achieved these results in a challenging economic environment characterized by lower interest rates, significant competition for loan originations, high prepayments of mortgage loans and securities and declining investment yields.

  While our net interest margin remains favorable relative to our peers, maintaining this level will continue to be challenging throughout fiscal 2005. In the first quarter of fiscal 2005, net interest margin decreased to 3.49% compared to 3.55% in the prior year period. We remain focused on effective balance sheet management by continuing our emphasis on increased, yet disciplined underwriting of re-priceable loans, emphasizing re-priceable assets in our investment portfolio and restructuring our deposit rates where possible.

- ***Realized greater internal efficiencies.***
  We were able to improve the Company's efficiency ratio, which declined to 67.9% in fiscal 2004 compared to 68.2% in fiscal 2003, despite substantial investments in new delivery channels and products as well as significant new regulatory requirements. While our cost structure reflects investments to build long-term franchise value, we remain committed to continuing initiatives to bring our efficiency ratio into line with industry peers, particularly leveraging investments in technology to further reduce costs.

  During the first quarter of fiscal 2005, non-interest expense increased 4.2% to $3.9 million compared to the prior year period, largely the result of expenses related to the new Jamaica Center branch. The efficiency ratio for this period was 69.26%, substantially unchanged from the same period last year.

- ***Increased fee income.***
  We continue to focus on opportunities to further develop recurring fee income from our deposit and mortgage products. Non-interest income increased $2.1 million, or 66.9%, to $5.3 million for fiscal 2004 compared to $3.2 million for the prior year period. This increase was primarily due to increased loan fees and service charges, principally higher mortgage prepayment penalties and a one-time recovery of mortgage income not previously recognized.

  Non-interest income was substantially unchanged at $1.1 million in the first three months of fiscal 2005 compared to the prior year period. These results were achieved primarily from a gain on the sale of securities along with additional deposit and mortgage fees, offset by a reduction in loan fees and service charges.

- ***Improved asset quality.***
  Asset quality remains strong. As a result, the Company did not make additional provisions for loan losses in fiscal 2004 or fiscal 2003. At March 31, 2004, non-performing loans totaled $2.1 million, or 0.60% of total loans receivable, compared to $1.8 million, or 0.61% of total loans receivable, at March 31, 2003. The ratio of allowance to non-performing loans at March 31, 2004 was 194.3% compared to 230.7% at March 31, 2003.

The Company did not make additional provisions for loan loss reserves for the first three months of fiscal 2005. At June 30, 2004, non-performing assets totaled $1.9 million, or 0.50% of total loans receivable, resulting in a ratio of allowance to non-performing loans of 217.8%.

- ***Expanded delivery channels.***
  In February 2004, Carver opened its Jamaica Center branch in a major retail and transportation hub in Queens. The response from the community has been gratifying as we seek to improve the convenience of the Carver franchise and therefore our ability to retain and attract more customers. Importantly, we were able to leverage significant public sector support under the Banking Development District program as the City of New York deposited $10 million in the new branch in March, followed by a $35 million deposit by the State of New York in August. We are most grateful for the support of our City and State elected officials, which will assist us in absorbing the extensive costs of the new branch. In addition, Carver significantly increased convenience for our Harlem customers by opening two free-standing 24/7 ATM Centers on 125th Street at Amsterdam Avenue and on Broadway Avenue at 137th Street, near City College.

  In August, we opened our seventh branch at Atlantic Terminal in the Fort Greene community of Brooklyn, one of that borough's busiest retail and transportation hubs.

- ***Expanded product offerings.***
  During the second quarter of fiscal 2003, we launched Carver's consumer debit card, which was well received. This fiscal year we launched a debit card for businesses. Fees from the Bank's debit cards have become a growing contributor to fee income as usage continues to build. In addition, we introduced business online banking, which has improved convenience for our small business and non-profit customers.

  In June 2004, Carver launched its wealth management initiative with Carver Investment Services, Inc. Through Essex Corporation and its affiliates, a third party provider of non-deposit products to over 190 banks nationwide, Carver Investment Services, Inc. is now offering customers investment products, including annuities and mutual funds of brands known around the world, as well as SBLI insurance products. We are excited about the opportunities this avenue presents for customer wealth and financial literacy as well as fee income for Carver. We also recently introduced consumer and corporate credit cards through an alliance with 5Star Bank, a leading third party provider of credit cards for community banks. This strategy allows us to provide a convenient service for our customers without taking on credit risk. Finally, we piloted Freedom Checking, Carver's free checking offering, with the Jamaica Center branch launch. We have been pleased with its results and will monitor its success in conjunction with the Atlantic Terminal branch launch.

Focus on the Year Ahead

We know, as you do, that the level of competition in banking generally, and in inner city markets specifically, is increasing significantly. This competitive environment requires us more than ever to differentiate ourselves relative to competitors who have greater resources by providing superior personal service and products directly related to our inner city customers' needs. Furthermore, we have set ourselves on a course for growth locally and regionally with the delivery channel expansion described in this letter and announcement of our intention to purchase Independence Federal Savings Bank, a $200 million asset Washington D.C. bank, which provides an opportunity for us to reach a large and growing customer base with substantial financial assets and to gain greater scale, thereby spreading the costs of our operations across a larger asset base. We believe that this focused strategy provides significant long-term potential for earnings growth and stockholder returns. Over the next year we are working to:

- ***Maintain effective balance sheet management.*** The current interest rate environment will require continued attention to the Bank's sensitivity to interest rate changes and asset allocation. In the first three months of fiscal 2005 we continued 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.

- ***Continue to 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 core geographic markets and to expand its market share. Later this fiscal year we will open a full service branch in a Pathmark supermarket anchoring Bradhurst Court, a new cooperative and retail complex in north Harlem, and two 24/7 ATM Centers.

- ***Build revenue through product expansion.*** This fiscal year we intend to promote our wealth management products and services and expand our credit offerings, including sub-prime mortgages (to be sold in the secondary market) and overdraft lines of credit for select customers. We believe these products can play an important role in credit management for some of our customers and provide greater opportunities to build fee income from existing customers and attract new customers to Carver.

- ***Market our brand effectively.*** In the coming fiscal year we plan to build on a successful fiscal 2004 in which we significantly increased communication with our customers. We expect to continue grass roots advertising along with other "hands on" strategies to market the "new" Carver and new delivery channels to prospective customers and to distinguish our company relative to others new to the inner city communities we serve. In addition, we will introduce advertising to launch new products, particularly our lending and investment products which we expect to distinguish the company this year.

In closing, we are gratified by two recent developments that recognize our success in expanding capital in Carver's target markets. First, Carver received its first "Outstanding" Community Reinvestment Act rating by the Office of Thrift Supervision. Second, the Community Development Financial Institutions Fund of the Department of Treasury awarded the Bank a $1.5 million grant in recognition of its expanded lending in its market. Both achievements, coupled with the momentum building from our financial performance and the market presence of our lending and retail teams, position us for a strong and promising future. We expect the year ahead to be a transformational one for Carver as we move aggressively to grow our business, integrate new employees and operations from our acquisition and expand our presence in inner city markets locally and regionally. Certainly, we also expect challenges. Nevertheless, we remain confident that the investments we are making in the Carver franchise will provide long term results of which our stockholders and community, Board and management team can all be very proud. On behalf of the entire Carver team, thank you for your continued support of Carver.

Sincerely,

Frederick O. Terrell
Chairman

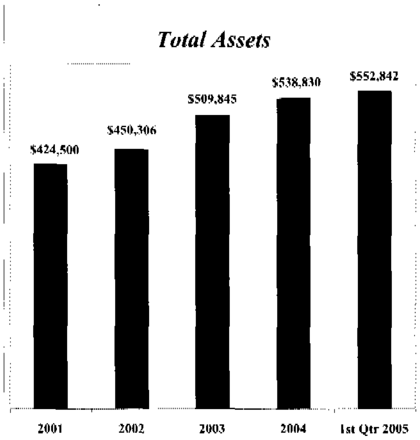
Deborah C. Wright
President & Chief Executive Officer

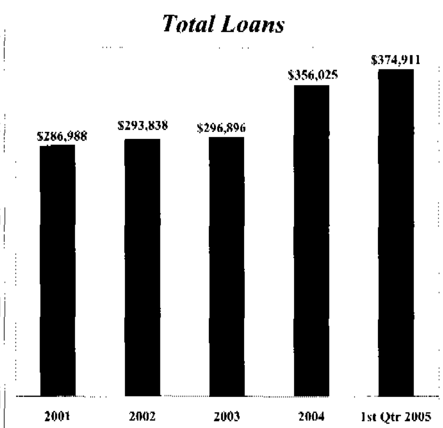
August 11, 2004

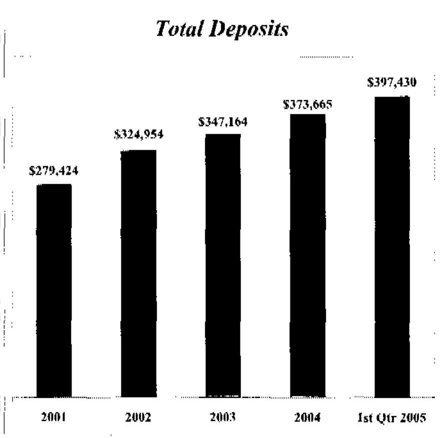
FINANCIAL HIGHLIGHTS

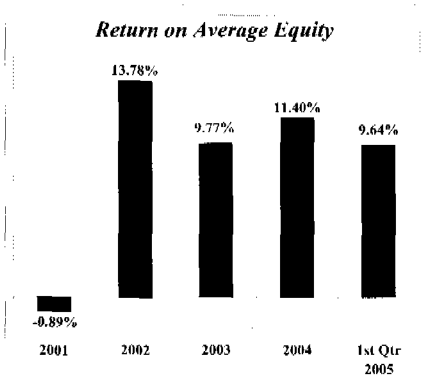
The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding Carver Bancorp, Inc. at the dates and for the periods indicated. The financial information should be read in conjunction with the consoldiated financial statements and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

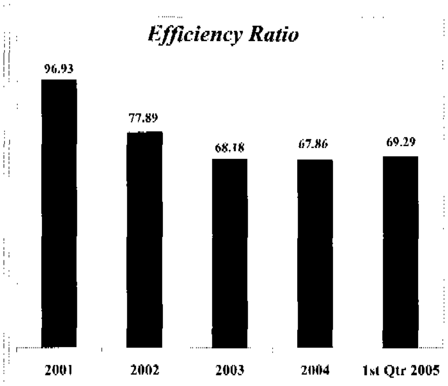
	Three Months Ending June 30, 2004	At or for the Fiscal Year Ended March 31, 2004	2003	2002	2001
		(Dollars in thousands)			
Selected Financial Condition Data:					
Assets	$ 552,842	$ 538,830	$ 509,845	$ 450,306	$ 424,500
Total loans	374,911	356,025	296,896	293,838	286,988
Securities	131,346	139,877	165,585	105,464	87,788
Cash and cash equivalents	25,908	22,774	23,160	34,851	31,758
Deposits	397,430	373,665	347,164	324,954	279,424
Borrowed funds	102,266	104,282	108,996	75,651	105,600
Stockholders' equity	44,423	44,645	41,073	36,742	32,096
Number of deposit accounts	38,767	38,578	41,220	41,200	44,751
Number of offices	6	6	5	5	5

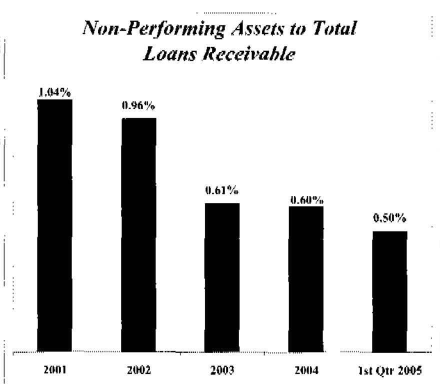








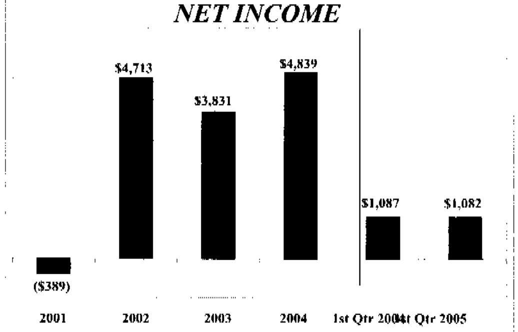




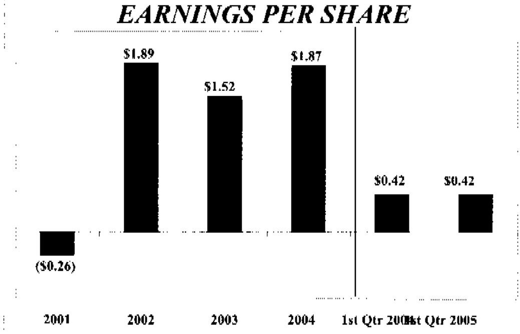
FINANCIAL HIGHLIGHTS (cont.)

	Three Months Ending June 30, 2004	At or for the Fiscal Year Ended March 31, 2004	2003	2002	2001
		(Dollars in thousands, except per share data)			
Selected Operating Data:					
Interest income	$ 6,712	$ 26,234	$ 27,390	$ 28,395	$ 28,336
Interest expense	2,168	8,700	8,983	12,047	14,278
Net interest income	4,544	17,534	18,407	16,348	14,058
Provision for loan losses	-	-	-	900	1,793
Net interest income after provision for loan losses	4,544	17,534	18,407	15,448	12,265
Non-interest income	1,139	5,278	3,161	4,485	2,934
Non-interest expenses	3,938	15,480	14,704	14,339	15,490
Income (loss) before income taxes	1,745	7,332	6,864	5,594	(291)
Income tax (benefit)	663	2,493	3,033	881	98
Net income (loss)	$ 1,082	$ 4,839	$ 3,831	$ 4,713	$ (389)
Diluted earnings (loss) per common share	$ 0.42	$ 1.87	$ 1.52	$ 1.89	$ (0.26)

NET INCOME



EARNINGS PER SHARE



	Three Months Ending June 30, 2004	At or for the Fiscal Year Ended March 31, 2004	2003	2002	2001
Selected Statistical Data:					
Return on average assets (1)(9)	0.79 %	0.93 %	0.83 %	1.11 %	(0.07) %
Return on average equity (2)(9)	9.64	11.40	9.77	13.78	(0.89)
Net interest margin (3)	3.49	3.56	4.26	4.09	3.61
Average interest rate spread (4)	3.31	3.40	4.08	3.89	3.48
Efficiency ratio (5)	69.29	67.86	68.18	77.89	96.93
Operating expense to average assets (6)(9)	2.88	2.97	3.18	3.37	3.72
Equity to total assets at end of period	8.04	8.29	8.06	8.16	7.56
Average equity to average assets	8.20	8.13	8.48	8.03	7.85
Dividend payout ratio (7)	11.04	9.86	3.19	2.55	(17.24)
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.34 %	0.39 %	0.36 %	0.63 %	0.71 %
Non-performing assets to total loans receivable (8)	0.50	0.60	0.61	0.96	1.04
Allowance for loan losses to total loans receivable	1.10	1.16	1.40	1.41	1.24
Allowance for loan losses to non-performing assets (8)	217.80	194.34	230.74	146.23	118.56
Net loan charge-offs (recoveries) to average loans outstanding (9)	0.02	0.01	(0.01)	0.10	0.42

(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, 2004 annualized.

FORWARD-LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K, including information incorporated by reference, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, senior management may make forward looking statements orally to analysts, investors, the media and others. These forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "intend," "should," "will," "would," "could," "may," "planned," "estimated," "potential," "outlook," "predict," "project" and similar terms and phrases, including references to assumptions.

Forward-looking statements are based on various assumptions and analyses made by the Company (as defined below) in light of the management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Factors which could result in material variations include, without limitation, the following:

- the Company's success in implementing its initiatives, including expanding its product line, adding new branches and ATM centers, successfully re-branding its image and achieving greater operating efficiencies;
- increases in competitive pressure among financial institutions or non-financial institutions;
- legislative or regulatory changes which may adversely affect the Company's business;
- technological changes which may be more difficult or expensive than we anticipate;
- changes in interest rates which may reduce net interest margins and net interest income;
- changes in deposit flows, loan demand or real estate values which may adversely affect the Company's business;
- changes in accounting principles, policies or guidelines which may cause the Company's condition to be perceived differently;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, which may delay the occurrence or non-occurrence of events longer than anticipated;
- 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;
- the Company's costs or difficulties in completing its planned acquisition of Independence Federal Savings Bank; and
- general economic conditions, either nationally or locally in some or all areas in which the Company does business, or conditions in the securities markets or the banking industry which could affect liquidity in the capital markets, the volume of loan origination, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses.

The forward-looking statements contained herein are made as of the date of this report, and 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 or to update the reasons why actual results could differ from those projected in the forward-looking statements. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not place undue reliance on these statements.

GENERAL DESCRIPTION OF BUSINESS

Carver Bancorp, Inc.

Carver Bancorp, Inc., a Delaware corporation (on a stand-alone basis, the "Holding Company" or "Registrant"), is the holding company for Carver Federal Savings Bank, a federally chartered savings bank, and its subsidiaries (collectively, the "Bank" or "Carver Federal"), Carver Statutory Trust I (the "Trust") and Alhambra Holding Corporation, a Delaware corporation ("Alhambra"). The Trust, which was formed in September 2003, exists for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of subordinated debentures of the Holding Company. The Holding Company formed Alhambra to hold the

Holding Company's investment in a commercial office building that was subsequently sold in March 2000. Alhambra is currently inactive. 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

Carver Federal 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 it obtained federal deposit insurance and became a member of the Federal Home Loan Bank (the "FHLB") of New York. Carver Federal converted to a federal savings bank in 1986 and changed its name at that time to Carver Federal Savings Bank. On October 24, 1994, Carver Federal 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 six 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, 2004, Carver Federal is the largest African-American operated financial institution in the United States.

On March 8, 1995, Carver Federal formed CFSB Realty Corp. as a wholly owned subsidiary to hold real estate acquired through foreclosure pending eventual disposition. At March 31, 2004, this subsidiary had $220,000 in total capital and a net operating loss of approximately $1,300. At March 31, 2004 there was no real estate owned pending disposition. Carver Federal also owns CFSB Credit Corp., currently an inactive subsidiary originally formed to undertake the Bank's credit card issuance. During the fourth quarter of the fiscal year ended March 31, 2003 ("fiscal 2003"), Carver Federal formed Carver Asset Corporation, a wholly owned subsidiary which qualifies as a real estate investment trust ("REIT") pursuant to the Internal Revenue Code of 1986, as amended. This subsidiary may, among other things, be utilized by Carver Federal to raise capital in the future. Upon its formation, Carver Federal transferred approximately $119 million of mortgage loans to Carver Asset Corporation.

Carver Federal's current operating strategy consists primarily of: (1) the origination and purchase of one– to four-family residential, commercial, construction and multifamily real estate in its primary market area; (2) investing funds not utilized for loan originations or purchases in the purchase of United States Government Agency securities and mortgage-backed securities; (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) continuing to lower its expense ratio by efficiently utilizing personnel, branch facilities and alternative delivery channels (telephone banking, online banking, and ATMs) to service its customers. Carver Federal plans to generate additional fee income by utilizing third party providers to sell non-deposit investment products and to offer a Carver Federal credit card. The business is not operated in such a way that would require segment reporting.

Carver Federal's primary market area for deposits consists of the areas served by its six branches. Carver Federal considers its primary lending market to include Bronx, Kings, New York, Queens and Richmond counties, together comprising New York City, and lower Westchester County, New York. See "Item 2—Properties."

Although Carver Federal's branches are located in areas that were historically underserved by other financial institutions, Carver Federal is facing increasing competition for deposits and residential mortgage lending in its immediate market areas. Management believes that this competition has become more intense as a result of an increased examination emphasis by federal banking regulators on financial institutions' fulfillment of their responsibilities under the Community Reinvestment Act ("CRA") and the improving economic conditions in its market area. The Bank's competition for loans comes principally from mortgage banking companies, commercial banks, savings banks and savings and loan associations. The Bank's most direct competition for deposits comes from commercial banks, savings banks, savings and loan associations and credit unions. Competition for deposits also comes from money market mutual funds and other corporate and government securities funds as well as from other financial intermediaries such as brokerage firms and insurance companies. Many of Carver Federal's competitors have substantially greater resources than Carver Federal and offer a wider array of financial services and products than Carver Federal. At times, these larger financial institutions may offer below market interest rates on mortgage loans and above market interest rates for deposits. These pricing concessions combined with competitors' larger presence in the New York market add to the challenges Carver Federal faces in expanding its current market share. The Bank believes that it can compete with these institutions by offering a competitive range of products and services as well as through personalized attention and community involvement.

As of March 31, 2004, Carver Federal had 132 full-time equivalent employees, of whom 45 are officers and 87 are non-officers, none of whom was represented by a collective bargaining agreement. The Bank considers its employee relations to be satisfactory.

Available Information

The Company makes available on or through its internet website, http://www.carverbank.com, its Annual Reports 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 Exchange Act. 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 ("SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC, 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company, at http://www.sec.gov.

In addition, on or before September 21, 2004, the date of our annual meeting of stockholders, we will post on our website certain other basic corporate documents, including our Corporate Governance Principles, Code of Ethics, Code of Ethics for Senior Financial Officers and the charters of our Finance and Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee. Printed copies of these documents are also available free of charge to any stockholder who requests them. Stockholders seeking additional information should contact the Corporate Secretary's office by mail at 75 West 125th Street, New York, NY 10027 or by e-mail at linda.dunn@carverbank.com.

Pending Merger with Independence Federal Savings Bank

On March 15, 2004, the Company entered into a definitive merger agreement to acquire Independence Federal Savings Bank ("Independence"). Independence is a federally chartered savings bank with approximately $201 million in assets as of March 31, 2004 and five branches located in greater Washington, D.C. At the time of announcement, the cash transaction was valued at approximately $33 million. The transaction is currently expected to close before the end of 2004. It remains subject to both regulatory and shareholder approvals. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" for a more detailed discussion of the pending merger. Except as specifically noted otherwise, the information contained or incorporated by reference in this Form 10-K does not give effect to the proposed transaction.

Asset Quality

General. One of the Bank's key operating objectives 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 commercial mortgage lending (which includes multifamily and non-residential real estate loans), 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, the Bank 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 servicing department to have the delinquency cured and the loan restored to current status. Once the payment grace period has expired (15 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.

	At March 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis (1):					
Real estate:					
One- to four-family	$ 558	$ 1,113	$ 756	$ 947	$ 966
Multifamily	1,532	-	253	978	870
Non-residential	-	639	1,754	565	-
Construction	23	23	23	23	122
Consumer and business	10	27	37	6	168
Total non-accrual loans	2,123	1,802	2,823	2,519	2,126
Accruing loans contractually past due 90 days or more	-	-	-	-	-
Total of non-accrual and accruing 90-day past due loans	$ 2,123	$ 1,802	$ 2,823	$ 2,519	$ 2,126
Other non-performing assets (2):					
Real estate:					
One- to four-family	-	-	-	-	127
Multifamily	-	-	-	27	27
Non-residential	-	-	-	449	768
Consumer and business	-	-	-	-	16
Total other non-performing assets	-	-	-	476	938
Total non-performing assets (3)	$ 2,123	$ 1,802	$ 2,823	$ 2,995	$ 3,064
Non-performing loans to total loans	0.60%	0.61%	0.96%	1.04%	1.12%
Non-performing assets to total assets	0.39%	0.36%	0.63%	0.71%	0.73%

(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. 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, 2004, gross interest income of $185,000 would have been recorded on non-accrual loans had they been current throughout the year

(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, 2004, total non-performing assets increased by $321,000, or 17.8%, to $2.1 million compared to $1.8 million at March 31, 2003. All non-performing assets at March 31, 2004 and 2003 relate to loans accounted for on a non-accrual basis. The increase primarily reflects an increase in non-accruing multifamily real estate loans partially offset by a decrease in non-accruing one- to four-family real estate loans and non-residential loans.

There were no accruing loans contractually past due 90 days or more at March 31, 2004 and March 31, 2003, 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 quarterly 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 uncollectible, 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 as a 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, 2004, Carver Federal had \$2.7 million of loans classified as substandard which represented 0.5% of the Bank's total assets and 4.8% of the Bank's tangible regulatory capital at March 31, 2004. There were no loans classified as doubtful or loss at March 31, 2004.

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 analyze all significant factors that affect the ability to collect the portfolio in a reasonable manner and that management establish 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 Federal's assets, will not require Carver Federal to increase its loss allowance, thereby negatively affecting Carver Federal'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 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 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 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 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 and Originations." 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, 2004, 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,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Balance at beginning of period	$ 4,158	$ 4,128	$ 3,551	$ 2,935	$ 4,020
Loans charged-off:					
Real Estate:					
One- to four-family	6	2	-	252	138
Non-residential	55	-	-	194	171
Consumer and business	264	226	500	931	2,260
Total Charge-offs	325	228	500	1,377	2,569
Recoveries:					
One- to four-family	107	-	3	-	31
Multifamily	-	-	-	-	40
Non-residential	10	-	-	-	22
Consumer and business	175	258	174	200	292
Total Recoveries	292	258	177	200	385
Net loans charged-off (recovered)	33	(30)	323	1,177	2,184
Provision for losses	-	-	900	1,793	1,099
Balance at end of period	$ 4,125	$ 4,158	$ 4,128	$ 3,551	$ 2,935
Ratio of net charge-offs to loans outstanding	0.01%	-0.01%	0.11%	0.42%	0.84%
Ratio of allowance to total loans	1.16%	1.40%	1.41%	1.24%	1.07%
Ratio of allowance to non-performing assets (1)	194.30%	230.74%	146.23%	118.56%	95.79%

(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,									
	2004		2003		2002		2001		2000	
	Amount	% of Loans in Each Category to Total Gross Loans	Amount	% of Loans in Each Category to Total Gross Loans	Amount	% of Loans in Each Category to Total Gross Loans	Amount	% of Loans in Each Category to Total Gross Loans	Amount	% of Loans in Each Category to Total Gross Loans
Loans:										
Real Estate										
One- to four-family	$ 355	27.80%	$ 298	24.20%	$ 429	41.84%	$ 1,198	54.94%	$ 1,050	55.76%
Multifamily	1,240	33.88%	656	44.45%	1,468	40.39%	748	29.13%	764	31.52%
Non-residential	853	28.92%	1,967	26.74%	729	13.66%	353	12.58%	202	8.31%
Construction	158	7.71%	170	3.89%	76	3.32%	290	2.03%	272	1.95%
Consumer and business	487	1.69%	344	0.72%	377	0.79%	962	1.32%	647	2.46%
Unallocated	1,032	N/A	723	N/A	1,049	N/A	-	N/A	-	N/A
Total Allowance for loan losses	$ 4,125	100.00%	$ 4,158	100.00%	$ 4,128	100.00%	$ 3,551	100.00%	$ 2,935	100.00%

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

The Holding Company's common stock is listed on the American Stock Exchange under the symbol "CNY." As of May 31, 2004, there were 2,286,380 shares of the common stock outstanding, held by approximately 1,135 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 2004				**Fiscal Year 2003**			
June 30, 2003	$16.59	$ 13.70	$ 0.05	June 30, 2002	$ 13.10	$ 11.31	$ –
September 30, 2003	$18.15	$ 16.25	$ 0.05	September 30, 2002	$ 12.15	$ 9.83	$ –
December 31, 2003	$26.50	$ 17.60	$ 0.05	December 31, 2002	$ 11.27	$ 9.08	$ 0.05
March 31, 2004	$25.99	$ 23.02	$ 0.05	March 31, 2003	$ 14.54	$ 11.13	$ 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 dependent upon its earnings, financial condition and other factors. In each of the four fiscal years prior to fiscal 2003, the Company 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 capital distributions 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.

On August 6, 2002 the Holding Company announced a stock repurchase program. To date, 29,100 shares of its common stock have been repurchased in open market transactions at an average price of $13.84 per share as part of this program. The Holding Company intends to use repurchased shares to fund its stock-based benefit and compensation plans and for any other purpose the Board deems advisable in compliance with applicable law. The Holding Company did not make any purchases of its equity securities during the fourth quarter of fiscal 2004.

SELECTED FINANCIAL DATA

	At or for the Fiscal Year Ended March 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Assets	$ 538,830	$ 509,845	$ 450,306	$ 424,500	$ 420,119
Loans, net	351,900	292,738	289,710	283,437	270,148
Securities	139,877	165,585	105,464	87,788	104,177
Cash and cash equivalents	22,774	23,160	34,851	31,758	22,202
Deposits	373,665	347,164	324,954	279,424	281,941
Borrowed funds	104,282	108,996	75,651	105,600	98,578
Stockholders' equity	$ 44,645	$ 41,073	$ 36,742	$ 32,096	$ 32,641
Number of deposit accounts	38,578	41,220	41,200	44,751	54,597
Number of offices	6	5	5	5	7
Operating Data:					
Interest income	$ 26,234	$ 27,390	$ 28,395	$ 28,336	$ 27,371
Interest expense	8,700	8,983	12,047	14,278	14,009
Net interest income	17,534	18,407	16,348	14,058	13,362
Provision for loan losses	-	-	900	1,793	1,099
Net interest income after provision for loan losses	17,534	18,407	15,448	12,265	12,263
Non-interest income	5,278	3,161	4,485	2,934	2,539
Non-interest expenses	15,480	14,704	14,339	15,490	15,827
Income (loss) before income taxes	7,332	6,864	5,594	(291)	(1,025)
Income tax	2,493	3,033	881	98	110
Net income (loss)	$ 4,839	$ 3,831	$ 4,713	$ (389)	$ (1,135)
Diluted earnings (loss) per common share	$ 1.87	$ 1.52	$ 1.89	$ (0.26)	$ (0.53)
Selected Statistical Data:					
Return on average assets (1)	0.93 %	0.83 %	1.11 %	(0.07) %	(0.27) %
Return on average equity (2)	11.40	9.77	13.78	(0.89)	(3.29)
Net interest margin (3)	3.56	4.26	4.09	3.61	3.47
Average interest rate spread (4)	3.40	4.08	3.89	3.48	3.38
Efficiency ratio (5)	67.86	68.18	77.89	96.93	104.31
Operating expense to average assets (6)	2.97	3.18	3.37	3.72	3.82
Equity to total assets at end of period	8.29	8.06	8.16	7.56	7.77
Average equity to average assets	8.13	8.48	8.03	7.85	8.33
Dividend payout ratio (7)	9.86	3.19	2.55	(17.24)	(5.17)
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.39 %	0.36 %	0.63 %	0.71 %	0.73 %
Non-performing assets to total loans receivable (8)	0.60	0.61	0.96	1.04	1.12
Allowance for loan losses to total loans receivable	1.16	1.40	1.41	1.24	1.07

(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.

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

Executive Summary

The Company's results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies, changes in accounting standards and actions of regulatory agencies.

Success in the Company's fiscal 2004 performance reflects multiple factors:

- A strong net interest margin
- Strong credit quality
- Continued loan and deposit growth
- Prudent investment portfolio management
- Active capital management

During fiscal 2004, net interest margin was strong. However, net interest margin compression impacted earnings growth due to the historically low interest rate environment. Net interest margin declined to 3.56% for fiscal 2004 from 4.26% for fiscal 2003. Prepayments continued at an accelerated rate over the last two fiscal years due to the sustained low interest rate environment. Prepayments on mortgage-backed securities and mortgage loans contributed to net interest margin compression as these cash flows were reinvested at lower market yields. Partially offsetting the decline in net interest margin was the increase in average interest-earning assets of $61.2 million to $493.0 million for fiscal 2004 from $431.8 million for fiscal 2003.

Structurally, the Bank's balance sheet exhibits an asset sensitive bias over the long term. As a result, the Bank's greatest exposure is to a sustained lower rate environment as asset yields would be expected to decline further while deposit costs would be expected to stabilize. Should rates begin to rise, additional margin compression would be expected in the near term; however, management anticipates that the Bank's balance sheet would benefit over time from a prolonged rising rate environment. In the fiscal year ending March 31, 2005 ("fiscal 2005"), it is anticipated that the Bank will be operating with a lower net interest margin relative to fiscal 2004.

Asset quality of the Bank's loan portfolio remained strong. To accomplish this objective the Company seeks to follow its loan policies and underwriting practices, which include (1) granting loans on a sound and collectible basis; (2) understanding the needs of borrowers and the economic conditions in the Company's target market, while maintaining a balance between yield and risk; (3) ensuring that primary, secondary and tertiary sources of repayment are adequate in relation to the amount of the loan; (4) developing and maintaining adequate diversification of the Bank's loan portfolio as a whole and within loan categories; (5) ensuring that each loan is properly documented; and (6) developing and applying adequate collection procedures.

The Bank experienced strong growth in its core business with increases in net loans receivable and deposits of 20.2% and 7.6%, respectively, compared to March 31, 2003. While the average balance of interest earning assets increased, the higher volume was more than offset by a decrease in yields. Management is mindful of growth levels and the long-term effects of adding assets to the balance sheet in this low interest rate environment. Management believes that its loans are priced sensibly, and as the rate environment shifts management is cognizant of potentially repositioning assets. Management continues its strategy not to take undue risks by extending asset maturities or to compromise credit quality to record higher yielding assets. Lowering the Bank's efficiency ratio remains a priority while continuing to expand Carver's franchise value through delivery channel expansion and new product offerings. Financial results were achieved while maintaining an efficiency ratio of 67.86% for fiscal 2004.

For fiscal 2004, net gains from sales of securities available-for-sale totaled $31,000. The Bank sold investment securities that were susceptible to increased prepayment risk in a continued low interest rate environment. Additional securities were sold as part of ongoing investment portfolio strategies. Mortgage-backed securities are sometimes sold when they pay down to a certain level to mitigate increased price risk. Government securities are sometimes sold to take advantage of changes in the yield curve. Cash flows from the investment and loan portfolios, as well as deposit growth, were deployed into loans and investment securities.

Earnings growth outpaced asset growth for the fiscal year, adding to the importance of active capital management. During fiscal 2003, the Company approved a stock repurchase plan, allowing the repurchase of up to 10% of its then current outstanding common shares. Since inception of the stock repurchase program, the Company has purchased 29,100 shares of its common stock in open market transactions at an average price of $13.84 per share, representing 1.3% of its outstanding shares. In addition, in fiscal 2003 the Company established a regular quarterly dividend. Despite the change from an annual to a quarterly dividend, Carver's capital levels remain high and at a level that should be sufficient to support our intended acquisition of Independence and our planned branch expansion and organic growth. In April 2004, the Bank successfully opened a full service state-of-the-art branch in Jamaica, Queens and has plans to open an additional branch in fiscal 2005 in Fort Greene, Brooklyn. Additionally, in the last 12 months the Bank opened two 24/7 ATM banking centers in Harlem.

Each of these elements is discussed in the analysis of our financial results and the accompanying financial statements and footnotes.

Pending Merger with Independence Federal Savings Bank

On March 15, 2004, the Company entered into a definitive merger agreement to acquire Independence in a cash transaction valued at approximately $33 million. Under the terms of the merger agreement, Independence's stockholders will receive $21.00 in cash for each share of their common stock. The merger agreement has been approved by the directors of Independence, the Company and the Bank. The transaction, which is expected to close before the end of 2004, is subject to customary closing conditions, including regulatory approvals and the approval of Independence's shareholders. The merger agreement requires Independence to pay the Company a termination fee of $1.6 million if the merger agreement is terminated under certain circumstances following Independence's receipt of a superior acquisition proposal or $325,000 if the merger is not approved by Independence's shareholders.

The Holding Company has made an Amended Share Voting Stipulation and Undertaking in favor of the OTS and entered into a Trust Agreement with American Stock Transfer & Trust Company pursuant to which it has placed 72,400 of the common shares of Independence owned by the Holding Company, representing approximately 4.7% of the outstanding common shares of Independence, in a non-voting trust. The shares held in the trust are shares of Independence owned by the Holding Company in excess of the 5% limit set forth in Section 10(e)(1)(A)(iii) of HOLA prior to the OTS approving the Holding Company's H-(e)3 Application to acquire Independence. Section 10(e)(1)(A)(iii) provides that a savings and loan holding company may not acquire or retain more than 5% of the outstanding voting shares of a savings association that is not a subsidiary without the prior approval of the OTS. The Trust Agreement will terminate, and the Independence common shares held in the trust will be transferred back to the Holding Company, upon the receipt by the Holding Company of the approval of the OTS to retain more than 5% of Independence's outstanding voting stock.

General

Carver Federal'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.

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 interest rates, primarily on competing investments, account maturities, and the levels of personal income and savings.

Critical Accounting Policies

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Our policy with respect to the methodologies used to determine the allowance for loan losses is our most critical accounting policy. This policy is important to the presentation of our financial condition and results of operations, and it involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in our results of operations or financial condition.

See Note 1 of Notes to Consolidated Financial Statements for a description of our critical accounting policy related to allowance for loan losses and an explanation of the methods and assumptions underlying its application.

Asset/Liability Management

Net interest income, the primary component of Carver Federal'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 Federal's interest-bearing liabilities consist primarily of shorter term deposit accounts, Carver Federal'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. The Bank has sought to reduce its 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 mortgage 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 mortgage loans originated into the secondary market.

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 the Company's interest-bearing liabilities and virtually all of the Company's interest-earning assets are located at the Bank, most of the Company'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 Federal seeks to manage its IRR by monitoring and controlling the variation in repricing intervals between its assets and liabilities. To a lesser extent, Carver Federal 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 Federal had a negative one-year gap equal to 8.46% of total rate sensitive assets at March 31, 2004. As a result, Carver Federal's 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 Federal as of March 31, 2004. Maturity repricing dates have been projected by applying estimated prepayment rates based on the current rate environment. 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.

	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	$ 23,023	$ 103,025	$ 169,308	$ 112,222	$ 33,097	$ 32,574	$ 473,248
Federal Funds Sold	8,200	-	-	-	-	-	8,200
Investment Securities	6,394	-	10,461	4,640	-	4,635	26,130
Total interest-earning assets	37,617	103,025	179,769	116,862	33,097	37,209	507,578
Rate Sensitive Liabilities:							
NOW demand	149	4,014	4,251	1,551	7,329	5,806	23,100
Savings and clubs	3,152	7,696	15,501	13,000	32,918	58,855	131,122
Money market savings	2,924	10,314	8,416	1,960	3,394	3,834	30,842
Certificates of Deposit	28,700	100,619	21,102	17,644	-	-	168,065
Borrowings	2,025	24,000	60,974	4,300	242	-	91,541
Total interest-bearing liabilities	$ 36,950	$ 146,643	$ 110,244	$ 38,455	$ 43,883	$ 68,495	$ 444,670
Interest Sensitivity Gap	$ 667	$ (43,618)	$ 69,525	$ 78,407	$ (10,786)	$ (31,286)	$ 62,908
Cumulative Interest Sensitivity Gap	$ 667	$ (42,951)	$ 26,574	$ 104,981	$ 94,195	$ 62,908	-
Ratio of Cumulative Gap to Total Rate Sensitive assets	0.13%	-8.46%	5.24%	20.68%	18.56%	12.39%	

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 Federal'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 while managing 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, 2004, 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 Bank's level of IRR, as measured by changes in NPV, for fiscal 2004 is substantially unchanged from fiscal 2003. 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.

Change in Rate	$ Amount	$ Change	% Change	NPV Ratio	Change
			(Dollars in thousands)		
+300 bp	73,093	-14,877	-17%	13.39%	-208 bp
+200 bp	79,383	-8,586	-10%	14.31%	-116 bp
+100 bp	84,450	-3,519	-4%	15.02%	-45 bp
0 bp	87,970	–	–	15.47%	–
(100) bp	90,175	2,205	3%	15.71%	+24 bp

	March 31, 2004
Risk Measures: +200 BP Rate Shock	
Pre-Shock NPV Ratio: NPV as % of PV of Assets	15.47%
Post-Shock NPV Ratio	14.31%
Sensitivity Measure; Decline in NPV Ratio	116 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 Federal'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 Federal'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 Federal'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 Federal'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. The use of average monthly balances instead of average daily balances on all other accounts should not result in 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.

	Month Ended March 31, 2004		Year Ended March 31, 2004		
	Average Balance	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
		(Dollars in thousands)			
Interest-earning Assets:					
Loans (1)	$ 348,418	6.25%	$ 314,297	$ 20,117	6.40%
Investment securities (2)	25,844	3.71%	29,708	1,161	3.91%
Mortgage-backed securities	120,666	3.93%	126,764	4,789	3.78%
Federal funds	6,626	0.89%	22,194	167	0.75%
Total interest-earning assets	501,554	5.49%	492,963	26,234	5.32%
Non-interest-earning assets	25,264		28,423		
Total assets	$ 526,818		$ 521,386		
Interest-bearing Liabilities:					
Deposits:					
NOW demand	$ 22,568	0.31%	$ 23,286	$ 85	0.37%
Savings and clubs	130,771	0.59%	130,509	1,001	0.77%
Money market savings	29,383	0.80%	27,662	235	0.85%
Certificates of deposit	168,223	1.95%	163,382	3,304	2.02%
Total deposits	350,945	1.24%	344,839	4,625	1.34%
Mortgagors deposits	1,753	1.34%	1,643	24	1.46%
Borrowed money	104,375	4.03%	106,350	4,051	3.81%
Total deposits and interest-bearing liabilities	457,073	1.88%	452,832	8,700	1.92%
Non-interest-bearing liabilities:					
Demand	19,508		19,408		
Other liabilities	6,308		6,746		
Total liabilities	482,889		478,986		
Stockholders' equity	43,929		42,400		
Total liabilities and stockholders' equity	$ 526,818		$ 521,386		
Net interest income				$17,534	
Average interest rate spread		3.61%			3.40%
Net interest margin		3.67%			3.56%
Ratio of average interest-earning assets to interest-bearing liabilities		109.73%			108.86%

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

Interest Earning Assets:	2003 Average Balance	2003 Interest	2003 Average Yield/Cost	2002 Average Balance	2002 Interest	2002 Average Yield/Cost
			(Dollars in thousands)			
Loans (1)	$ 282,439	$21,194	7.50%	$ 297,130	$ 22,727	7.65%
Investment securities (2)	36,660	1,614	4.40%	38,505	2,324	6.04%
Mortgage-backed securities	93,002	4,282	4.60%	50,450	2,918	5.78%
Fed funds sold	19,744	300	1.52%	13,662	426	3.12%
Total interest earning assets	431,845	27,390	6.34%	399,747	28,395	7.10%
Non-interest earning assets	30,414			26,177		
Total assets	$ 462,259			$ 425,924		
Interest Bearing Liabilities:						
Deposits						
NOW demand	$ 18,138	$ 130	0.72%	$ 21,114	$ 237	1.12%
Savings and clubs	127,004	1,477	1.16%	126,065	2,342	1.86%
Money market savings	16,747	189	1.13%	16,181	302	1.87%
Certificates of deposit	155,187	3,964	2.55%	133,624	5,246	3.93%
Total deposits	317,076	5,760	1.82%	296,984	8,127	2.74%
Borrowed money	80,861	3,223	3.99%	78,153	3,920	5.02%
Total interest bearing liabilities	397,937	8,983	2.26%	375,137	12,047	3.21%
Non-interest-bearing liabilities:						
Demand	15,234			7,781		
Other liabilities	9,880			8,809		
Total liabilities	423,051			391,727		
Stockholders' equity	39,208			34,197		
Total liabilities and stockholders' equity	$ 462,259			$ 425,924		
Net interest income		$18,407			$ 16,348	
Average interest rate spread			4.08%			3.89%
Net interest margin			4.26%			4.09%
Ratio of avg interest-earning assets to interest-bearing liabilities			108.52%			106.56%

(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 (1) changes in volume (changes in volume multiplied by new rate), (2) changes in rates (change in rate multiplied by old volume) and (3) changes in rate/volume. Changes in rate/volume variance are allocated proportionately between changes in rate and changes in volume.

	Year Ended March 31,					
	2004 vs. 2003			2003 vs. 2002		
	Increase (Decrease) due to			Increase (Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest Earning Assets:						
Loans	$ 2,039	$ (3,116)	$ (1,077)	$ (1,124)	$ (409)	$ (1,533)
Investment securities	(273)	(180)	(453)	(81)	(629)	(710)
Mortgage-backed securities	1,270	(763)	507	1,959	(595)	1,364
Fed funds	18	(151)	(133)	92	(218)	(126)
Total interest earning assets	3,054	(4,210)	(1,156)	846	(1,851)	(1,005)
Interest Bearing Liabilities:						
Deposits						
NOW demand	19	(64)	(45)	(21)	(85)	(106)
Savings and clubs	27	(503)	(476)	11	(876)	(865)
Money market savings	93	(47)	46	6	(119)	(113)
Certificates of deposit	165	(801)	(636)	551	(1,834)	(1,283)
Total deposits	304	(1,415)	(1,111)	547	(2,914)	(2,367)
Borrowed money	1,024	(196)	828	109	(806)	(697)
Total deposits and interest bearing liabilities	1,328	(1,611)	(283)	656	(3,720)	(3,064)
Net change in interest income	$ 1,726	$ (2,599)	$ (873)	$ 190	$ 1,869	$ 2,059

Comparison of Financial Condition at March 31, 2004 and 2003

At March 31, 2004, total assets increased by $29.0 million, or 5.7%, to $538.8 million compared to $509.8 million at March 31, 2003. The increase in total assets was primarily attributable to an increase in loans receivable, partially offset by decreases in securities. The increase in loans receivable and the decrease in securities reflects the decision to reinvest funds received from the maturities and repayments of securities into higher yielding real estate loans.

Loans receivable, net, increased by $59.2 million, or 20.2%, to $351.9 million as of March 31, 2004 compared to $292.7 million one year ago. The loan growth during fiscal 2004 represented loan originations of $87.1 million and loan purchases of $93.7 million, offset by principal repayments of $111.9 million and loans sold to Fannie Mae of $9.4 million. The increase in mortgage loan principal repayments, originations and purchases in fiscal 2004 and fiscal 2003 is primarily a result of the lower interest rate environment during both fiscal years, which has significantly increased the level of mortgage refinance activity. One- to four-family mortgage loans increased by $26.9 million, or 37.5%, to $98.6 million at March 31, 2004 compared to $71.7 million at March 31, 2003. The increase in one- to four-family loans is primarily due to increased loan purchases as well as $8.3 million in increased loan originations. Multifamily real estate loans decreased by $11.4 million, or 8.7%, to $120.3 million at March 31, 2004 compared to $131.7 million at March 31, 2003. Non-residential real estate loans (including church loans) increased by $23.4 million, or 29.5%, to $102.6 million at March 31, 2004 compared to $79.2 million at March 31, 2003. Construction loans increased by $15.9 million, or 138.3%, to $27.4 million at March 31, 2004 compared to $11.5 million at March 31, 2003 primarily due to purchases. The Bank continues to focus on the origination of multifamily, non-residential and construction real estate loans in the markets it serves and will augment these originations with loan purchases. Consumer and business loans increased by $3.9 million, or 182.8%, to $6.0 million at March 31, 2004 compared to $2.1 million at March 31, 2003. The increase in consumer and business loans comprises four separate secured business loans in the amount of $1.0 million each originated during fiscal 2004.

Total securities at March 31, 2004 decreased $25.7 million to $139.9 million from $165.6 million at March 31, 2003, reflecting a $32.7 million decrease in available-for-sale securities and a $6.9 million increase in held-to-maturity securities. The decrease in available-for-sale securities primarily reflects $65.1 million in principal repayments, maturities and calls, $23.9 million in proceeds from sales of securities, and an $860,000 decrease in the market value of the portfolio, substantially offset by purchases of $58.5 million. The increase in held-to-maturity securities reflects securities purchases of $19.9 million offset by principal payments and maturities of $12.7 million. Available-for-sale securities represented 68.9% of the total securities portfolio at March 31, 2004 compared to 77.9% at March 31, 2003. The Bank invests in securities to help diversify its asset portfolios and satisfy collateral requirements for certain deposits and borrowings.

At March 31, 2004, total liabilities increased $25.4 million, or 5.4%, to $494.2 million compared to $468.8 million at March 31, 2003. Deposits increased $26.5 million, or 7.6%, to $373.7 million at March 31, 2004 from $347.2 million at March 31, 2003.

The increase in deposits was primarily attributable to increases of $10.1 million in money market accounts, $8.9 million in demand accounts, $5.3 million in certificates of deposit and $2.2 million in regular savings and club accounts. Funds from deposit growth were used to pay down higher cost advances from the FHLB-NY, resulting in a net decrease in total borrowed money of $4.7 million, or 4.3%, to $104.3 million at March 31, 2004, from $109.0 million one year ago. Advances from the FHLB-NY declined by $17.5 million which were partially offset by new borrowings from the issuance of $12.7 million of trust preferred securities.

At March 31, 2004, stockholders' equity increased $3.6 million, or 8.7%, to $44.6 million compared to $41.1 million at March 31, 2003. The increase in stockholders' equity was primarily attributable to net income of $4.8 million partially offset by other comprehensive losses, net of taxes, of $492,000, a net increase in treasury stock holdings of $200,000 and dividends declared of $659,000. The Bank's capital levels meet regulatory requirements of a well capitalized financial institution.

Comparison of Operating Results for the Years Ended March 31, 2004 and 2003

Net Income

The Bank reported net income for fiscal 2004 of $4.8 million compared to $3.8 million for the prior fiscal year. Net income available to common stockholders for fiscal 2004 was $4.6 million, or $1.87 per diluted common share compared to $3.6 million, or $1.52 per diluted common share, for fiscal 2003. The increase in net income was primarily due to a $2.1 million increase in non-interest income and a $540,000 reduction in income tax expense partially offset by an $873,000 decrease in net interest income and a $776,000 increase in non-interest expense.

Interest Income

Interest income for fiscal 2004 was $26.2 million, a decrease of $1.2 million, or 4.2%, from the prior fiscal year. The average balance of interest-earning assets increased to $493.0 million for fiscal 2004 from $431.8 million for the prior fiscal year. This increase was more than offset by a decline in the average yield on interest-earning assets to 5.32% for fiscal 2004 compared to 6.34% for fiscal 2003.

Interest income on loans decreased by $1.1 million, or 5.1%, to $20.1 million for fiscal 2004 compared to $21.2 million for the prior fiscal year. The decrease in interest income from loans reflects a 110 basis point decrease in the average rate earned on loans to 6.40% for fiscal 2004 from 7.50% for the prior fiscal year, the effects of which were partially offset by an increase of $31.9 million, or 11.3%, in the average balance of loans to $314.3 million for fiscal 2004 compared to $282.4 million for fiscal 2003. The increase in the average balance of loans reflects originations and purchases in excess of principal collections. The decline in the average rate earned on loans was principally due to the downward pricing on loan products during the low interest rate environment experienced during fiscal 2004, see "Item 7. Management Discussion and Analysis—Liquidity and Capital Resources."

Interest income on mortgage-backed securities increased by $507,000, or 11.8%, to $4.8 million for fiscal 2004 compared to $4.3 million for the prior fiscal year, reflecting an increase of $33.8 million in the average balance of mortgage-backed securities to $126.8 million for fiscal 2004 compared to $93.0 million for fiscal 2003. 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 an 82 basis point decrease in the average rate earned on mortgage-backed securities to 3.78% for fiscal 2004 from 4.60% for the prior fiscal year.

Interest income on investment securities decreased by approximately $453,000, or 28.1%, to $1.2 million for fiscal 2004 compared to $1.6 million for the prior fiscal year. The decrease in interest income on investment securities reflects a 49 basis point decrease in the average rate earned on investment securities to 3.91% for fiscal 2004 from 4.40% for the prior fiscal year and a decrease of $7.0 million in the average balance of investment securities to $29.7 million for fiscal 2004 compared to $36.7 million for fiscal 2003.

Interest income on federal funds decreased $133,000, or 44.3%, to $167,000 for fiscal 2004 compared to $300,000 for the prior fiscal year. The decrease is attributable to a 77 basis point decrease in the average rate earned on federal funds, partially offset by a $2.5 million increase in the average balance of federal funds.

Interest Expense

Interest expense decreased by $283,000, or 3.2%, to $8.7 million for fiscal 2004 compared to $9.0 million for the prior fiscal year. The decrease in interest expense reflects a decline of 34 basis points in the average cost of interest-bearing liabilities. This decline in average rate paid was partially offset by a $54.9 million increase in the average balance of interest-bearing liabilities to $452.8 million in fiscal 2004 from $397.9 million in fiscal 2003. The increase in the average balance of interest-bearing liabilities in fiscal 2004 compared to fiscal 2003 was due to increases in the average balance of interest-bearing deposits, as well as increases in the average balance of borrowed money.

Interest expense on deposits decreased $1.1 million, or 19.3%, to $4.6 million for fiscal 2004 compared to $5.8 million for the prior fiscal year. This decrease is attributable to a 48 basis point decrease in the cost of average deposits partially offset by a $27.7 million, or 8.8%, increase in the average balance of interest-bearing deposits to $344.8 million for fiscal 2004 compared to $317.1 million for fiscal 2003. The increase in the average balance of interest-bearing deposits was primarily due to an increase in the average balance of money market accounts of $10.9 million, or 65.2%, and an increase in the average balance of certificates of deposit of $8.2 million, or 5.3%. The increase in average interest-bearing deposits was achieved in part through deposits generated by a new branch and two new ATM centers in fiscal 2004. The decrease in the average rate paid on deposits was principally due to the declining interest rate environment experienced in fiscal 2004.

Interest expense on borrowed money increased by $828,000, or 25.7%, to $4.1 million for fiscal 2004 compared to $3.2 million for the prior fiscal year. The increase in interest expense on borrowed money for fiscal 2004 reflects a $25.5 million increase in the average balance of borrowed money, of which $6.9 million resulted from the issuance of trust preferred securities, partially offset by a decrease of 18 basis points in the average cost of borrowed money. The decrease in average cost of borrowings was due to the continued declining interest rate environment experienced during fiscal 2004.

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 decreased $873,000, or 4.7%, to $17.5 million for fiscal 2004 compared to $18.4 million for the prior fiscal year. The 102 basis point decrease in the return on average interest-earning assets, coupled with a 34 basis point decrease in the cost of interest-bearing liabilities used to fund interest-earning assets, contributed to a 68 basis point decrease in the interest rate spread to 3.40% for fiscal 2004 compared to 4.08% for the prior fiscal year. The net interest margin decreased to 3.56% for fiscal 2004 compared to 4.26% for fiscal 2003.

Provision for Loan Losses

During fiscal 2004 no provision was recorded for loan losses. 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. Factors considered when evaluating the adequacy of the allowance for loan losses 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 and trends in the local and national economy and trends in the real estate market.

During fiscal 2004, the Bank had net charge-offs of $33,000 compared to net recoveries of $30,000 for fiscal 2003. At March 31, 2004, non-performing loans totaled $2.1 million, or 0.6% of total loans compared to $1.8 million, or 0.6% of total loans, at March 31, 2003. At March 31, 2004, the Bank's allowance for loan losses was $4.1 million, substantially unchanged from that of March 31, 2003, resulting in a ratio of the allowance to non-performing loans of 194.3% at March 31, 2004 compared to 230.7% at March 31, 2003, and a ratio of allowance for possible loan losses to total loans of 1.16% and 1.40% at March 31, 2004 and March 31, 2003, respectively. The Bank believes its reported allowance for loan loss at March 31, 2004 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 "Item 1—Business—General Description of Business—Asset Quality" and Note 1 of Notes to the Consolidated Financial Statements.

Non-Interest Income

Non-interest income is comprised 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 $2.1 million, or 67.0%, to $5.3 million for fiscal 2004 compared to $3.2 million for fiscal 2003. The increase is primarily due to a $1.3 million increase in loan fees and service charges and a $590,000 increase in other, or miscellaneous, non-interest income. Loan fees and service charges amounted to $2.6 million for fiscal 2004, a 94.4% increase from the prior fiscal year, primarily resulting from higher mortgage prepayment penalties relating to increased refinancing activity including several loans whose prepayment penalties were based on the yield maintenance method compared to a flat declining rate method usually used by the Bank. The yield maintenance method is calculated by using a stated contractual interest rate for the remaining term of the loan multiplied by the current outstanding balance. Current loan production does not incorporate the yield maintenance method. Additionally, a decline in the refinance market could result in lower prepayment penalty fee income. Other non-interest income amounted to $597,000 for fiscal 2004 compared to

$7,000 for the prior fiscal year. The increase in other non-interest income was primarily a result of a recovery of $558,000 of which $411,000 was related to the recognition of previously unrecognized mortgage loan income from one problem loan that had been held in escrow pending the resolution of certain mechanics' liens. The remaining recovery of $147,000 was from previously unrecognized prepaid mortgage loan income.

Non-Interest Expense

Non-interest expense increased by $776,000, or 5.3%, to $15.5 million for fiscal 2004 compared to $14.7 million for the prior fiscal year. The increase in non-interest expense was primarily attributable to increases of $813,000 in salaries and employee benefits and $58,000 in net occupancy and equipment expenses, slightly offset by a decrease of $95,000 in other non-interest expense. The increase in salaries and employee benefits was primarily attributable to annual salary increases, new hires and the increased costs of benefit plans. Net occupancy expenses increased primarily from new and upgraded 24/7 ATM centers and the Bank's recently opened Jamaica Center branch.

Income Tax Expense

Income tax expense was approximately $2.5 million for fiscal 2004, a $540,000, or 17.8%, decrease from $3.0 million for fiscal 2003 due to a reduction in the Company's tax rate following the establishment of a REIT. The effective tax rate in fiscal 2004 was 34.0% compared to 44.2% in fiscal 2003.

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 income tax expense, a $1.3 million decrease in non-interest income and a $366,000 increase in non-interest expense partially offset by a $2.1 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 $1.0 million, or 3.5%, from the prior fiscal year. The average balance of interest-earning assets increased to $431.8 million for fiscal 2003 from $399.7 million for the prior fiscal 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 7.10% for fiscal 2002.

Interest income on loans decreased by $1.5 million, or 6.8%, to $21.2 million for fiscal 2003 compared to $22.7 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 7.65% for the prior fiscal 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 of 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 fiscal 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 fiscal 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 fiscal 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 fiscal 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 fiscal 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 fiscal 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 before the provision for loan losses increased $2.1 million, or 12.6%, to $18.4 million for fiscal 2003 compared to $16.3 million for the prior fiscal 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 76 basis point decrease in the return on average interest-earning assets, contributed to a 19 basis point increase in the interest rate spread to 4.08% for fiscal 2003 compared to 3.89% for the prior fiscal year. The net interest margin increased to 4.26% for fiscal 2003 compared to 4.09% 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. Management believes that the decrease in provisions for loan losses compared to fiscal 2002 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, substantially unchanged from that 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 "Item 1—Business—General Description of Business—Asset Quality" and Note 1 of Notes 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 of $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 fiscal 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 $366,000, or 2.6%, to $14.7 million for fiscal 2003 compared to $14.3 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, partially offset by a decrease of $210,000 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 $2.5 million for fiscal 2004, a $540,000, or 17.8%, decrease from $3.0 million for fiscal 2003, reflecting the benefit of the Bank's REIT. The effective tax rate in fiscal 2004 was 34.0% compared to 44.2% in fiscal 2003.

Liquidity and Capital Resources

Liquidity is a measure of the Bank's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover potential deposit outflows, fund increases in its loan and investment portfolios and cover its ongoing operating expenses. The Company's primary sources of funds are deposits, borrowed funds and principal and interest payments on loans, mortgage-backed securities and investment securities. While maturities and scheduled amortization of loans, mortgage-backed securities and investment securities are predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are strongly influenced by changes in general interest rates, economic conditions and competition.

Management believes the Bank's short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash requirements. In addition, as previously discussed, the Bank has the ability to borrow funds from the FHLB-NY to further meet any liquidity needs. The Bank monitors its liquidity utilizing guidelines that are contained in a policy developed by management of the Bank and approved by the Bank's Board of Directors. The Bank's several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of March 31, 2004.

Congress eliminated the statutory liquidity requirement which required federal savings banks to maintain a minimum amount of liquid assets of between 4% and 10%, 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. The Bank's most liquid assets are cash and short-term investments. The level of these assets is dependent on the Bank's operating, investing and financing activities during any given period. At March 31, 2004 and 2003, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $28.7 million and $45.3 million, respectively.

The levels of the Bank's short-term liquid assets are dependent on the Bank's operating, financing and investing activities during any given period. The most significant liquidity challenge the Bank currently faces is the variability in its cash flows as a result of mortgage refinance activity, which has resulted in a lag in redeploying lower yielding federal funds into higher yielding mortgage loans, which has had a negative impact on the Company's net interest margin and net interest income. As mortgage interest rates decline, customers' refinance activities tend to accelerate, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to accelerate. In addition, as mortgage interest rates decrease, customers generally tend to prefer fixed rate mortgage loan products over variable rate products. Since the Bank generally sells its 15-year and 30-year fixed rate loan production into the secondary mortgage market, the origination of such products for sale does not significantly reduce the Bank's liquidity. During fiscal 2002, the Federal Open Market Committee reduced the federal funds rate on eight separate occasions by a total of 325 basis points, resulting in a lower interest rate environment in fiscal 2002 compared to the fiscal year ended March 31, 2001. During fiscal 2003, the federal funds rate was again lowered on three separate occasions a total of 125 basis points. During fiscal 2004 the federal funds rate has remained unchanged. The increase in loan and securities repayments experienced by the Bank over the past two fiscal years was primarily the result of the increase in mortgage loan refinancing activity caused by this lower interest rate environment.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal 2004, cash and cash equivalents decreased by $386,000. Net cash provided by operating activities was $17.0 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 $38.2 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 $20.8 million, reflecting primarily net increases in deposits and borrowed money.

Contractual Obligations

The following table presents the Bank's contractual obligations at March 31, 2004.

Contractual Obligations	Payments due by period: Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(In Thousands)				
Long term debt obligations:					
FHLB advances	$ 91,516	$ 26,000	$ 64,274	$ 1,000	$ 242
Guaranteed preferred beneficial interest in junior subordinated debentures	12,741			12,741	
Total long term debt obligations	104,257	26,000	64,274	13,741	242
Operating lease obligations:					
Lease obligations for rental properties	2,619	370	946	606	697
Total contractual obligations	$ 106,876	$ 26,370	$ 65,220	$ 14,347	$ 939

Regulatory Capital Position

The Bank must satisfy three minimum capital standards established by the OTS. For a description of the OTS capital regulation, see "Item 1—Regulation and Supervision—Federal Banking Regulation—Capital Requirements."

The Bank presently exceeds all capital requirements as currently promulgated. At March 31, 2004, the Bank had tangible, core, and total risk-based capital ratios of 10.6%, 10.6% and 17.7%, respectively.

The following table reconciles the Bank's stockholders' equity at March 31, 2004 under accounting principles generally accepted in the United States of America ("GAAP") to regulatory capital requirements.

	Regulatory Capital Requirements: GAAP Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
	(in thousands)			
Stockholders' Equity at March 31, 2004 (1)	$ 57,442	$ 57,442	$ 57,442	$ 57,442
Add:				
General valuation allowances		-	-	4,125
Deduct:				
Unrealized loss on securities available-for-sale, net		(251)	(251)	(251)
Goodwill and qualifying intangible assets		-	-	-
Regulatory Capital		57,191	57,191	61,316
Minimum Capital requirement		10,776	21,553	27,726
Regulatory Capital Excess		$ 46,415	$ 35,638	$ 33,590

(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 GAAP, 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 LLP
345 Park Avenue
New York, NY 10154

Report of Independent Registered Public Accounting Firm

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, 2004 and 2003, 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, 2004. 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 standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2004 and 2003, and the results of their its operations and their cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

New York, New York
June 24, 2004

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

	March 31, 2004	March 31, 2003
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 11,574	$ 15,160
Federal funds sold	8,200	5,500
Interest earning deposits	3,000	2,500
Total cash and cash equivalents	22,774	23,160
Securities:		
Available-for-sale, at fair value (including pledged as collateral of $82,325 at March 31, 2004, $124,954 at March 31, 2003)	96,403	129,055
Held-to-maturity, at amortized cost (including pledged as collateral of $42,189 at March 31, 2004 and $35,138 at March 31, 2003; fair value of $43,794 at March 31, 2004 and $37,543 at March 31, 2003)	43,474	36,530
Total securities	139,877	165,585
Loans receivable:		
Real estate mortgage loans	350,015	294,771
Consumer and business loans	6,010	2,125
Allowance for loan losses	(4,125)	(4,158)
Total loans receivable, net	351,900	292,738
Premises and equipment, net	11,826	10,193
Federal Home Loan Bank of New York stock, at cost	4,576	5,440
Accrued interest receivable	2,489	3,346
Identifiable intangible asset, net	--	178
Other assets	5,388	9,205
Total assets	$ 538,830	$ 509,845
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 373,665	$ 347,164
Advances from the Federal Home Loan Bank of New York and other borrowed money	104,282	108,996
Other liabilities	16,238	12,612
Total liabilities	494,185	468,772
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; 2,285,267 and 2,296,960 outstanding at March 31, 2004 and March 31, 2003, respectively)	23	23
Additional paid-in capital	23,882	23,781
Retained earnings	20,892	16,712
Unamortized awards of common stock under management recognition plan ("MRP")	(21)	(4)
Treasury stock, at cost (31,091 shares at March 31, 2004 and 19,398 shares at March 31, 2003)	(390)	(190)
Accumulated other comprehensive income	258	750
Total stockholders' equity	44,645	41,073
Total liabilities and stockholders' equity	$ 538,830	$ 509,845

See accompanying notes to consolidated financial statements.

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

	For the Year Ended March 31,		
	2004	2003	2002
Interest income:			
Loans	$ 20,117	$ 21,194	$ 22,727
Mortgage-backed securities	4,789	4,282	2,918
Investment securities	1,161	1,614	2,324
Federal funds sold	167	300	426
Total interest income	26,234	27,390	28,395
Interest expense:			
Deposits	4,649	5,760	8,127
Advances and other borrowed money	4,051	3,223	3,920
Total interest expense	8,700	8,983	12,047
Net interest income	17,534	18,407	16,348
Provision for loan losses	–	–	900
Net interest income after provision for loan losses	17,534	18,407	15,448
Non-interest income:			
Depository fees and charges	1,925	1,813	1,497
Loan fees and service charges	2,607	1,341	686
Gain on sale of investment securities	31	–	1,399
Income from sale of branches	–	–	987
Gain (loss) from sale of loans	118	–	(101)
Other	597	7	17
Total non-interest income	5,278	3,161	4,485
Non-interest expense:			
Compensation and benefits	7,587	6,774	6,505
Net occupancy expense	1,443	1,261	1,144
Equipment	1,486	1,610	1,420
Other	4,964	5,059	5,269
Total non-interest expense	15,480	14,704	14,338
Income before income taxes	7,332	6,864	5,595
Income taxes	2,493	3,033	881
Net income	$ 4,839	$ 3,831	$ 4,714
Dividends applicable to preferred stock	$ 197	$ 197	$ 197
Net income available to common stockholders	$ 4,642	$ 3,634	$ 4,517
Earnings per common share:			
Basic	$ 2.03	$ 1.59	$ 1.98
Diluted	$ 1.87	$ 1.52	$ 1.89

See accompanying notes to consolidated financial statements.

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(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, 2001	**$1**	**$23**	**$23,769**	**$8,793**	**($61)**	**$ -**	**($334)**	**($95)**	**32,096**
Comprehensive income:									
Net income	-	-	-	4,714	-	-	-	-	4,714
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	116	-	-	116
Comprehensive income, net of taxes:									4,830
Dividends paid	-	-	-	(313)	-	-	-	-	(313)
Purchase of treasury stock	-	-	(5)	-	(77)	-	-	-	(82)
Allocation of ESOP Stock	-	-	(8)	-	-	-	182	-	174
Purchase of shares for MRP	-	-	-	-	-	-	-	37	37
Balance - March 31, 2002	**1**	**23**	**23,756**	**13,194**	**(138)**	**116**	**(152)**	**(58)**	**36,742**
Comprehensive income :									
Net income	-	-	-	3,831	-	-	-	-	3,831
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	634	-	-	634
Comprehensive income, net of taxes:									4,465
Dividends paid	-	-	-	(313)	-	-	-	-	(313)
Treasury stock activity	-	-	5	-	(52)	-	-	-	(47)
Allocation of ESOP Stock	-	-	20	-	-	-	152	-	172
Purchase of shares for MRP	-	-	-	-	-	-	-	54	54
Balance—March 31, 2003	**1**	**23**	**23,781**	**16,712**	**(190)**	**750**	**-**	**(4)**	**41,073**
Comprehensive income :									
Net income	-	-		4,839	-	-	-	-	4,839
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	(492)	-	-	(492)
Comprehensive income, net of taxes:									4,347
Dividends paid	-	-		(659)	-	-	-	-	(659)
Treasury stock activity	-	-	82	-	(200)	-	-	-	(118)
Allocation of ESOP Stock	-	-	-	-	-	-	-	-	-
Issuance (Purchase) of shares for MRP	-	-	19	-	-	-	-	(17)	2
Balance—March 31, 2004	**$ 1**	**$ 23**	**$ 23,882**	**$ 20,892**	**$ (390)**	**$ 258**	**$ -**	**$ (21)**	**$ 44,645**

See accompanying notes to consolidated financial statements.

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

	Year Ended March 31, 2004	2003	2002
Cash flows from operating activities:			
Net income	$ 4,839	$ 3,831	$ 4,713
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	900
ESOP and MRP expense	33	206	206
Depreciation and amortization expense	1,146	1,224	1,155
Amortization of intangibles	178	213	213
Other amortization	1,848	481	625
Loss from sale of loans	-	-	101
Gain on sale of branches	-	-	(987)
Gain on sale of foreclosed real estate	-	-	(77)
Charge-off of branch improvements and related items, net	-	-	(1,399)
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	857	(542)	(77)
Decrease (increase) in other assets	4,478	(6,112)	(1,451)
Increase (decrease) in other liabilities	3,615	(481)	6,185
(Decrease) increase in accrued interest payable	(39)	134	(606)
Net cash provided by (used in) operating activities	16,955	(1,046)	9,501
Cash flows from investing activities:			
Purchases of securities:			
Available-for-sale	(58,477)	(91,112)	(134,721)
Held-to-maturity	(19,859)	(4,145)	-
Proceeds from principal payments, maturities and calls of securities:			
Available-for-sale	65,060	28,705	79,233
Held-to-maturity	12,693	6,578	6,357
Proceeds from sales of available-for-sale securities	23,871	-	32,676
Disbursements for loan originations	(87,140)	(59,595)	(63,190)
Loans purchased from third parties	(93,694)	(42,260)	(45,881)
Principal collections on loans	111,937	96,432	100,306
Redemption (Purchase) of FHLB-NY stock	864	(1,677)	1,992
Proceeds from loans sold	9,358	2,453	1,260
Proceeds from sale of other real estate owned	-	-	553
Additions to premises and equipment	(2,779)	(1,166)	(1,172)
Net cash used in investing activities	(38,166)	(65,787)	(22,587)
Cash flows from financing activities:			
Net increase in deposits	26,501	22,210	61,900
Repayment of securities repurchase agreements	-	-	(4,930)
Net (repayment of) proceeds from FHLB advances and	-	-	-
other borrowed money	(17,455)	33,345	(25,019)
Issuance of trust preferred securities, net	12,741	-	-
Cash paid for sale of deposits	-	-	(15,383)
Common stock repurchased	(303)	(100)	(77)
Dividends paid	(659)	(313)	(312)
Net cash provided by financing activities	20,825	55,142	16,179
Net (decrease) increase in cash and cash equivalents	(386)	(11,691)	3,093
Cash and cash equivalents at beginning of the period	23,160	34,851	31,758
Cash and cash equivalents at end of the period	$ 22,774	$ 23,160	$ 34,851
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 available-for-sale investments, net	(492)	634	116
Cash paid for-			
Interest	8,739	9,616	12,685
Income taxes	2,825	3,106	473

See accompanying notes to consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Carver Bancorp, Inc. (on a stand-alone basis, the "Holding Company" or "Registrant"), was incorporated in May 1996 and its principal wholly owned subsidiary is Carver Federal Savings Bank (the "Bank" or "Carver Federal"). Carver Statutory Trust I (the "Trust") is another wholly owned subsidiary of the Holding Company. The Trust, which was formed in September 2003, exists for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of subordinated debentures of the Holding Company. CFSB Realty Corp. and CFSB Credit Corp. are wholly owned subsidiaries of the Bank. CFSB Credit Corp. is currently inactive. The Bank owns a majority interest in Carver Asset Corporation, a real estate investment trust formed in the fourth quarter of fiscal 2003. 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 of Notes to the Consolidated Financial Statements. 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."

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 six 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 or majority owned subsidiaries, Carver Asset Corporation, CFSB Realty Corp. and CFSB Credit Corp., and Carver Statutory Trust I, a subsidiary of the Holding Company. 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 Federal had extended mortgages and other credit instruments.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Carver Federal's allowance for loan losses and real estate owned valuations. Such agencies may require Carver Federal 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 less than 90 days past due 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 one- to four-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 City 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 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 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 non-accrual status or have been restructured. Consumer credit non-accrual 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	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 prepare them 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. The Bank had no real estate owned as of March 31, 2004.

Identifiable Intangible Assets

Carver Federal 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 Federal 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 annually evaluates long-lived assets, certain identifiable 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 Federal 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 Federal 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 Federal 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 Federal 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:

	2004	2003	2002
	(Dollars in thousands, except per share data)		
Net income (loss) available to common shareholders:			
As reported	$4,642	$3,634	$4,517
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(158)	(88)	(102)
Pro forma	$ 4,484	$ 3,546	$ 4,415
Basic earnings (loss) per share:			
As reported	$2.03	$1.59	$1.98
Pro forma	1.96	1.55	1.94
Diluted earnings (loss) per share:			
As reported	$1.87	$1.52	$1.89
Pro forma	1.81	1.48	1.85
Weighted average number of shares outstanding	2,283,802	2,290,934	2,276,920

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 2.50%, 2.50% and 4.50%, for the relevant fiscal years ended March 31, 2004, 2003 and 2002 ("fiscal 2004", "fiscal 2003" and "fiscal 2002"), respectively; volatility of 45% for fiscal 2004 and 30% fiscal 2003 and fiscal 2002; expected dividend yield was calculated using annual dividends of $0.20 per share for fiscal 2004 and fiscal 2003 and $0.05 for fiscal 2002; 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 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, 2004:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
		(Dolars in thousands)		
Available-for-Sale:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	$ 55,703	$ 169	$ (360)	$ 55,512
Federal Home Loan Mortgage Corporation	6,753	52	(93)	6,712
Federal National Mortgage Association	12,657	47	(78)	12,626
Total mortgage-backed securities	75,113	268	(531)	74,850
Equity Securities	48	10	-	58
U.S. Government Agency Securities	21,200	296	(1)	21,495
Total available-for-sale	96,361	574	(532)	96,403
Held-to-Maturity:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	1,465	96	-	1,561
Federal Home Loan Mortgage Corporation	21,305	362	(1)	21,666
Federal National Mortgage Association	20,386	94	(234)	20,246
Small Business Administration	318	3	-	321
Total mortgage-backed securities	43,474	555	(235)	43,794
U.S. Government Agency Securities	-	-	-	-
Total held-to-maturity	43,474	555	(235)	43,794
Total securities	$139,835	$ 1,129	$ (767)	$140,197

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 net unrealized gain on available-for-sale securities was $42,000 ($26,000 after taxes) at March 31, 2004 as compared to $902,000 ($750,000 after taxes) at March 31, 2003. 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 $468,000 was recorded as a separate component of stockholders' equity and is being amortized over the remaining lives of the securities as an adjustment to yield. As of March 31, 2004 the carrying value of these securities is $18.1 million and a related unrealized gain of $232,000 (net of amortization) continues to be reported. Changes in unrealized holding gains and losses between fiscal 2004 and fiscal 2003 resulted in an after-tax decrease in stockholders' equity of $492,000. 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 fiscal 2004 and the fiscal year ended March 31, 2002 of $31,000 and $1.4 million, respectively. There were no sales of securities in fiscal 2003.

The following is a summary of the carrying value (amortized cost) and fair value of securities at March 31, 2004, 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
	(In thousands)	
Available-for-sale :		
Less than one year	$ 6,452	$ 6,461
One through five years	15,707	16,058
Five through ten years	-	-
After ten years	74,202	73,884
	$ 96,361	$ 96,403
Held-to-maturity:		
Less than one year	12	12
One through five years	174	183
Five through ten years	-	-
After ten years	43,288	43,599
	$ 43,474	$ 43,794

The unrealized losses and fair value of securities that have been in a continuous unrealized loss position for less than 12 months and 12 months or longer were as follows:

	March 31, 2004					
	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	(In thousands)					
Available-for-Sale:						
Mortgage-backed securities	$ (342)	$ 32,035	$ (189)	$ 15,220	$ (531)	$ 47,255
U.S. Government Agency Securities	(1)	6,394	-	-	(1)	6,394
Total available-for-sale	(343)	38,429	(189)	15,220	(532)	53,649
Held-to-Maturity:						
Mortgage-backed securities	(226)	17,951	(9)	1,379	(235)	19,330
Total securities	$ (569)	$ 56,380	$ (198)	$ 16,599	$ (767)	$ 72,979

NOTE 3. LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

	March 31,			
	2004		2003	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
One- to four-family	$ 98,645	27.80 %	$ 71,735	24.20 %
Multifamily	120,252	33.88	131,749	44.45
Nonresidential	102,641	28.92	79,244	26.74
Construction	27,376	7.71	11,539	3.89
Construction loans in process	-	-	-	-
Consumer and business	6,010	1.69	2,125	0.72
Total gross loans	354,924	100.00 %	296,392	100.00 %
Add:				
Premium on loans	1,264		867	
Less:				
Deferred fees and loan discounts	(163)		(363)	
Allowance for loan Losses	(4,125)		(4,158)	
Total	**$ 351,900**		**$ 292,738**	

At March 31, 2004, 91.0% 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 Fannie Mae are not included in the accompanying consolidated financial statements. The unpaid principal balances of these loans aggregated $11.7 million, $4.1 million and $2.9 million at March 31, 2004, 2003 and 2002, respectively. Custodial escrow balances, maintained in connection with the foregoing loan servicing, were approximately $40,000, $16,000 and $28,000 at March 31, 2004, 2003 and 2002, respectively. During the year ended March 31, 2004 the Bank sold $9.4 million in loans with a gain of $118,000 recognized, as compared to $2.5 million in loans sold during fiscal 2003 and a minimal gain recognized.

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

	Year ended March 31,		
	2004	2003	2002
	(Dollars in thousands)		
Balance at beginning of the year	$4,158	$4,128	$3,551
Provision charged to operations	-	-	900
Recoveries of amounts previously charged off	292	258	177
Loans charged-off	(325)	(228)	(500)
Balance at ending of the year	$4,125	$4,158	$4,128

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, 2004, 2003 and 2002 the recorded investment in impaired loans was $2.1 million, $1.8 million and $2.8 million, respectively all of which represented non-accrual loans. The related allowance for credit losses was approximately $317,000 and $195,000 at March 31, 2004 and 2003, respectively. The impaired loan portfolio is primarily collateral dependent. The average recorded investment in impaired loans during the fiscal years ended March 31, 2004, 2003 and 2002 was approximately $2.0 million, $1.8 million and $2.3 million, respectively. For the fiscal years ended March 31, 2004, 2003 and 2002, the Company did not recognize any interest income on these impaired loans. Interest income of $185,000, $173,000 and $288,000, respectively, for the fiscal years ended March 31, 2004, 2003 and 2002 would have been recorded on impaired loans had they performed in accordance with the original contract.

At March 31, 2004 and 2003, there were no loans to officers or directors.

NOTE 4. PREMISES AND EQUIPMENT, NET

The detail of premises and equipment is as follows:

	March 31, 2004	March 31, 2003
	(Dollars in thousands)	
Land	$ 415	$ 415
Building and improvements	8,838	8,477
Leasehold improvements	1,976	975
Furniture and Equipment	6,799	5,383
	18,028	15,250
Less accumulated depreciation and amortization	6,202	5,057
	$ 11,826	$ 10,193

Depreciation and amortization charged to operations for the fiscal years ended March 31, 2004, 2003 and 2002 amounted to $1.1 million, $1.2 million and $1.2 million, respectively.

NOTE 5. ACCRUED INTEREST RECEIVABLE

The detail of accrued interest receivable is as follows:

	March 31, 2004	March 31, 2003
	(Dollars in thousands)	
Loans receivable	$ 1,683	$ 1,984
Mortgage-backed securities	580	716
Investments and other interest bearing assets	226	646
Total accrued interest receivable	$ 2,489	$ 3,346

NOTE 6. IDENTIFIABLE INTANGIBLE ASSETS

The identifiable intangible assets relate to the acquisition of the Bedford-Stuyvesant branch office. Details follow:

	March 31, 2004			March 31, 2003		
	(Dollars in thousands)					
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit premiums	$ 582	$ 582	$ -	$ 582	$ 410	$ 172
Other	22	22	-	22	16	6
	$ 604	$ 604	$ -	$ 604	$ 426	$ 178

NOTE 7. DEPOSITS

Deposit balances and weighted average stated interest rates at March 31 follow:

	2004			2003		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Non-interest -bearing demand	$ 20,966	5.6 %	- %	$ 16,539	4.8 %	- %
NOW demand	22,671	6.0	0.30	18,190	5.2	0.53
Savings and clubs	131,120	35.1	0.60	128,935	37.1	1.06
Money Market savings	30,842	8.3	0.74	20,735	6.0	0.92
Certificates of deposit	168,066	45.0	1.97	162,765	46.9	2.20
Total	$ 373,665	100.0 %	1.18 %	$ 347,164	100.0 %	1.51 %

Scheduled maturities of certificates of deposit follow:

	March 31,	
	2004	2003
	(In thousands)	
Certificates of deposit by remaining term to contractual maturity:		
Within one year	$ 127,739	$ 127,668
After one but within two years	15,817	12,492
After two but within three years	6,573	10,387
After three years	17,937	12,218
Total	$ 168,066	$ 162,765

The aggregate amount of certificates of deposit with minimum denominations of $100,000 or more was approximately $104.3 million at March 31, 2004 compared to $100.1 million at March 31, 2003.

Interest expense on deposits for the years ended March 31 follows:

	2004	2003	2002
		(In thousands)	
NOW demand	$ 85	$ 131	$ 237
Savings and clubs	1,000	1,477	2,342
Money market savings	235	189	302
Certificates of deposit	3,316	3,975	5,263
	4,636	5,772	8,144
Mortgagors deposits	24	-	-
Penalty for early withdrawal of certificates of deposit	(11)	(12)	(17)
Total interest expense	$ 4,649	$ 5,760	$ 8,127

NOTE 8. BORROWED MONEY

Federal Home Loan Bank Advances ("FHLB"). FHLB advances and weighted average interest rates at March 31 follow, by remaining period to maturity:

	2004		2003	
	(Dollars in thousands)			
Maturing Year Ended March 31,	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2004	- %	$ -	1.93 %	$ 18,250
2005	4.05	26,000	4.05	26,000
2006	3.46	32,840	3.46	32,840
2007	4.42	28,134	4.42	28,134
2008	3.49	3,300	3.49	3,300
2009	2.86	1,000	-	-
2012	3.50	242	3.50	265
	3.92 %	$ 91,516	3.59 %	$ 108,789

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 $134.7 million at March 31, 2004. 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 residential mortgage loans and securities) not otherwise pledged. At March 31, 2004 and 2003, advances were secured by pledges of the Bank's investment in the capital stock of the FHLB of New York totaling $4.6 million and $5.4 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, 2004 and 2003 there were no securities sold under agreements to repurchase outstanding.

Subordinated Debt Securities. On September 17, 2003, Carver Statutory Trust I, issued 13,000 shares, liquidation amount $1,000 per share, of floating rate capital securities. Gross proceeds from the sale of these trust preferred securities were $13.0 million, and, together with the proceeds from the sale of the trust's common securities, were used to purchase approximately $13.4 million aggregate principal amount of the Holding Company's floating rate junior subordinated debt securities due 2033. The trust preferred securities are redeemable quarterly at the option of the Company beginning on or after July 7, 2007 and have a mandatory redemption date of September 17, 2033. Cash distributions on the trust preferred securities are cumulative and payable at a floating rate per annum (reset quarterly) equal to 3.05% over three-month LIBOR, with a current rate of 4.16%.

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

	At or for the Year Ended March 31,	
	2004	2003
	(Dollars in thousands)	
Amounts outstanding at the end of period:		
FHLB advances	$ 91,516	$ 108,789
Guaranteed preferred beneficial interest in junior subordinated debentures	12,741	-
Loan for employee stock ownership plan	25	207
Weighted average rate paid at period end:		
FHLB advances	3.92%	3.59%
Guaranteed preferred beneficial interest in junior subordinated debentures	4.20%	-
Loan for employee stock ownership plan	4.00%	4.00%
Maximum amount of borrowing outstanding at any month end:		
FHLB advances	$ 112,030	$ 108,789
Guaranteed preferred beneficial interest in junior subordinated debentures	12,742	-
Loan for employee stock ownership plan	207	389
Approximate average amounts outstanding for period:		
FHLB advances	$ 99,359	$ 80,541
Guaranteed preferred beneficial interest in junior subordinated debentures	6,854	-
Loan for employee stock ownership plan	137	320
Approximate weighted average rate paid during period (1):		
FHLB advances	3.74%	3.99%
Guaranteed preferred beneficial interest in junior subordinated debentures	4.78%	-
Loan for employee stock ownership plan	4.07%	4.24%

(1) The approximate weighted average rate paid during the period was computed by dividing the average amounts outstanding into the related interest expense for the period.

NOTE 9. INCOME TAXES

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

	2004	2003	2002
		(In thousands)	
Federal income tax expense (benefit):			
Current	$ 1,634	$ 4,200	$ 569
Deferred	427	(1,626)	1,792
	2,061	2,574	2,361
State and local income tax expense (benefit):			
Current	342	1,104	913
Deferred	90	(645)	46
	432	459	959
Valuation allowance	-	-	(2,439)
Total provision for income tax	$ 2,493	$ 3,033	$ 881

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

	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Statutory Federal income tax	$ 2,493	34.0 %	$ 2,334	34.0 %	$ 1,902	34.0 %
State and local income taxes, net of Federal tax benefit	285	3.9	303	4.4	632	11.3
Change in valuation allowance	-	-	-	-	(2,439)	(43.6)
Other	(285)	(3.9)	396	5.8	786	14.0
Total income tax expense	$ 2,493	34.0 %	$ 3,033	44.2 %	$ 881	15.7 %

Carver Federal's stockholders' equity includes approximately $2.8 million at each of March 31, 2004, 2003 and 2002, 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.

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 follow:

	2004	2003
	(In thousands)	
Deferred tax assets		
Income from affiliate	$ 1,943	$ 2,050
Allowance for loan losses	1,414	1,414
Deferred loan fees	52	287
Compensation and benefit plans	100	281
Reserves for losses on other assets	20	22
Non-accrual loan interest	242	194
Contributions carryforward	-	1
Total deferred tax assets before valuation allowance	3,771	4,249
Valuation allowance	-	-
Total deferred tax assets	3,771	4,249
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	159	616
Identifiable Intangibles	-	71
Depreciation	393	283
Total deferred tax liabilities	552	970
Net deferred tax assets	$ 3,219	$ 3,279

A valuation allowance against the deferred tax assets at March 31, 2004 and 2003 was not established since it is more likely than not that the results of future operations will generate sufficient future taxable income to realize the deferred tax asset.

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,		
	2004	2003	2002
		(In thousands)	
Net income	$ 4,839	$ 3,831	$ 4,713
Preferred stock dividends	(197)	(197)	(197)
Net income - basic	4,642	3,634	4,516
Impact of potential conversion of convertible preferred stock to common stock	197	197	197
Net income – diluted	$ 4,839	$ 3,831	$ 4,713
Weighted average common shares outstanding – basic	2,284	2,291	2,277
Effect of dilutive securities convertible preferred stock and options	305	235	218
Weighted average common shares outstanding – diluted	2,589	2,526	2,495

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 $2.1 million (unaudited) at March 31, 2004 and 2003, 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 Federal 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. On June 1, 2004, Provender sold all 60,000 of its Series B Preferred Stock to Keefe Bruyette & Woods, Inc.

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 Federal'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 Federal, 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, 2004 unpaid accrued dividends related to the Preferred Stock amounted to $58,000.

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 2.0% 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, 2004 and 2003, 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, 2004 and 2003 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, 2004						
Tangible capital	$ 57,191	10.6 %	$ 10,776	2.0 %	N/A	N/A %
Leverage capital	57,191	10.6	21,553	4.0	26,941	5.0
Risk-based capital:						
Tier 1	$ 57,191	16.5	$ 13,863	4.0	$ 20,794	6.0
Total	61,316	17.7	27,726	8.0	34,657	10.0
March 31, 2003						
Tangible capital	$ 39,725	7.8 %	$ 10,170	2.0 %	N/A	N/A %
Leverage capital	39,725	7.8	20,341	4.0	25,426	5.0
Risk-based capital:						
Tier 1	$ 39,725	12.8	$ 12,422	4.0	$ 18,633	6.0
Total	43,610	14.0	24,844	8.0	31,055	10.0

The following table reconciles the Bank's stockholders' equity at March 31, 2004, 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, 2004 (1)	$ 57,442	$ 57,442	$ 57,442	$ 57,442
Add:				
General valuation allowances		-	-	4,125
Deduct:				
Unrealized loss on securities available-for-sale, net		(251)	(251)	(251)
Goodwill and qualifying intangible assets		-	-	-
Regulatory Capital		57,191	57,191	61,316
Minimum Capital requirement		10,776	21,553	27,726
Regulatory Capital Excess		$ 46,415	$ 35,638	$ 33,590

(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 2004 and 2003 in the consolidated statements of changes in stockholders' equity and comprehensive income. Carver Federal's other comprehensive income or loss (other than net income), which is attributable to unrealized gains and losses on securities, for the year ended March 31, 2004 and 2003 were $258,000 and $750,000, respectively. Included in the amounts at March 31, 2004 and 2003 was $232,000 and $255,000, respectively, 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.

NOTE 12. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

Pension Plan. Carver Federal has a non-contributory defined benefit pension plan covering all eligible employees. The benefits are based on each employee's term of service. Carver Federal'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, 2001.

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

	2004	2003
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at the beginning of year	$ 2,752	$ 2,623
Interest cost	172	178
Actuarial loss	43	182
Benefits paid	(231)	(231)
Projected benefit obligation at end of year	$ 2,736	$ 2,752
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ 2,907	$ 3,369
Actual return on plan assets	392	(231)
Benefits paid	(231)	(231)
Fair value of plan assets at end of year	$ 3,068	$ 2,907
Funded status	$ 332	$ 155
Unrecognized (gain) / loss	(33)	93
Accrued pension cost	$ 299	$ 248

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

	2004	2003	2002
		(In thousands)	
Interest cost	$ 172	$ 178	$ 182
Expected return on plan assets	(223)	(260)	(279)
Amortization of:			
Unrecognized (gain)	–	(19)	(56)
Net periodic pension (benefit)	$ (51)	$ (101)	$ (153)

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

	2004	2003	2002
Annual salary increase (1)	N/A	N/A	N/A
Expected Long-term return on assets	8.00%	8.00%	8.00%
Discount rate used in measurement of benefit obligations	6.50%	6.50%	7.00%

(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. Pursuant to the plan, Carver may make an annual non-elective contribution to the 401(k) plan on behalf of each eligible employee up to 2% of the employee's annual pay, subject to IRS limitations. This non-elective Carver contribution may be made regardless of whether or not the employee makes a contribution to the 401(k) plan. To be eligible for the non-elective 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, December 31. In addition, Carver matches contributions to the plan equal to 100% of pre-tax contributions made by each employee up to a maximum of 4% of their pay, subject to IRS limitations. 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 non-elective Carver contribution, if awarded, vests over a five-year period. Total savings incentive plan expenses for the years ended March 31, 2004, 2003 and 2002 were $95,000, $127,000 and $60,000, respectively.

Directors' Retirement Plan. Concurrent with the conversion to the stock form of ownership, Carver Federal 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 Federal's consolidated financial statements at March 31:

	2004	2003
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at beginning of year	$ 200	$ 264
Interest cost	12	17
Actuarial (gain)	–	(38)
Benefits paid	(43)	(43)
Projected benefit obligation at end of year	$ 169	$ 200
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	43	43
Benefits paid	(43)	(43)
Fair value of plan assets at end of year	$ –	$ –
Funded Status	$ (169)	$ (200)
Unrecognized (gain)	(17)	(17)
Accrued pension cost	$ (186)	$ (217)

Net periodic pension cost for the years ended March 31, 2004, 2003 and 2002 included the following:

	2004	2003	2002
		(In thousands)	
Interest cost	$ 12	$ 17	$ 19
Net periodic pension cost	$ 12	$ 17	$ 19

The actuarial assumptions used in determining plan benefits include a discount rate of 6.5%, 6.5% and 7.25% for the years ended March 31, 2004, 2003 and 2002, respectively.

Management Recognition Plan ("MRP"). 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. On September 23, 2003, the MRP was amended to increase the number of shares available to 119,431. Pursuant to the MRP, the Bank recognized $128,000, $79,000 and $119,000 as expense for the years ended March 31, 2004, 2003 and 2002, 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, initially 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 $0, $172,000 and $174,000 for the years ended March 31, 2004, 2003 and 2002, respectively.

The ESOP shares at March 31 follow:

	2004	2003
	(In thousands)	
Allocated shares	177	163
Unreleased shares	5	19
Total ESOP shares	182	182
Fair value of unreleased shares	$ 117	$ 261

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 stock options to 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, 2004, there were 229,636 options outstanding and 108,925 were exercisable. Options are granted at the fair market value of Carver Federal 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:

	2004		2003		2002	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	192,176	$ 10.07	134,767	$ 9.10	112,963	$ 9.17
Granted	43,638	16.35	65,142	12.05	59,767	9.86
Exercised	(77)	12.06	(333)	9.93	(2,500)	6.75
Forfeited	(6,101)	10.39	(7,400)	10.14	(35,463)	10.61
Outstanding, end of year	229,636	11.25	192,176	10.07	134,767	9.10
Exercisable at year end	108,925	–	106,020	–	65,600	–

Information regarding stock options at March 31, 2004 follows:

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	6 years	$ 8.24	50,000	$ 8.26
9.00	9.99	46,560	7 years	9.86	32,369	9.83
10.00	10.99	7,000	7 years	10.53	4,600	10.54
11.00	11.99	2,500	9 years	11.28	833.00	11.28
12.00	12.99	61,176	8 years	12.08	20,123	12.08
13.00	13.99	1,000	4 years	13.81	1,000	13.81
15.00	15.99	10,000	9 years	15.96		–
16.00	16.99	33,019	9 years	16.41		–
21.00	21.99	381	10 years	21.76	–	–
Total		229,636			108,925	

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 commitments as follows:

	March 31,	
	2004	2003
	(In thousands)	
Commitments to originate mortgage loans	$ 71,114	$ 10,643
Commitments to originate consumer loans	2,844	2,464
Letters of Credit	1,908	1,908
Total	$ 75,866	$ 15,015

At March 31, 2004, of the $71.1 million in outstanding commitments to originate mortgage loans, $58.8 million represented commitments to originate non-residential mortgage loans at variable rates within a range of 5.45% to 7.25%, $5.9 million represented the balance of all other real estate loans at fixed rates between 4.50% to 6.50% and $6.4 million represented construction loans at an average rate of 4.79%.

At March 31, 2004, undisbursed funds from approved consumer lines of credit, primarily credit cards, totaled $2.4 million. Such lines consist of unsecured and secured lines of credit of $2.1 million and $281,000 respectively. All such lines carry adjustable rates. At March 31, 2004, undisbursed funds from approved unsecured commercial lines of credit totaled $45,000. At March 31, 2004, 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 $245,000, $186,000, and $142,000 for the years ended March 31, 2004, 2003 and 2002, respectively. As of March 31, 2004, minimum rental commitments under all noncancellable leases with initial or remaining terms of more than one year and expiring through 2012 follow:

Year Ending March 31,	Minimum Rental
	(In Thousands)
2005	$ 370
2006	374
2007	291
2008	281
2009	299
Thereafter	1,004
	$ 2,619

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 Carver Federal 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, 2004, 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"), a former Carver Federal employee, filed suit against Carver Federal in the Supreme Court of the State of New York, County of New York (the "St. Rose Action"). 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 breach of contract, promissory estoppel, and fraudulent misrepresentation related to the Agreement and St. Rose's separation from Carver Federal. St. Rose sought damages in an amount not less than $50,000 with respect to the breach of contract cause of action and sought undisclosed damages with respect to the promissory estoppel claim. Carver Federal had unasserted counterclaims against St. Rose for, among other claims, payment of certain financial obligations to Carver Federal. The parties reached a final settlement during the fourth quarter of fiscal 2004, which settlement will not have a material impact on the Bank's financial condition or results of operations.

Carver Federal was a defendant in two actions brought by Ralph Williams ("Williams Action I" and "Williams Action II") and an action brought by Janice Pressley (the "Pressley Action") both of which arose 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 former treasurer of Northeastern. Northeastern was a federal credit union, and it maintained accounts with Carver Federal and other banks in the New York metropolitan area (collectively, the "Bank Defendants"). Plaintiffs alleged that the National Credit Union Administration ("NCUA") acted improperly when it placed Northeastern into conservatorship and subsequent liquidation. In or about July 1998, Williams commenced Williams Action I in the United States District Court, District of Columbia, seeking to restrain the NCUA from executing on the conservatorship order and an order directing the Bank Defendants to "restore [their] accounts to their original status." The Bank Defendants were not served with the pleadings in Williams Action I, and the court entered judgment against them on default. After the Bank Defendants learned of this case, they made a motion in September 2001 to vacate the default judgment. In January 2004, Williams Action I was dismissed without prejudice.

On or about November 22, 2000, Williams filed Williams Action II in the United States District Court, District of Columbia, against the NCUA and the Bank Defendants seeking damages in the amount of $1 million plus certain additional unspecified amounts for the allegedly "unauthorized" or "invalid" actions of the NCUA Board of Directors in taking control of Northeastern as well as damages for discrimination and civil rights violations. Plaintiff Pressley filed the Pressley Action in the same court against the same defendants seeking unspecified compensatory and punitive damages based on identical allegations as Williams, except that she also alleged certain claims of employment discrimination. The Bank Defendants filed a joint motion to dismiss Williams Action II, which motion was granted by the District Court and appealed by Williams. The Bank Defendants collectively filed a motion for summary affirmance of the District Court's decision on October 9, 2003, which motion was granted on April 1, 2004, resolving Williams Action I and Williams Action II in the Bank Defendants' favor. The Bank Defendants also made a joint motion to dismiss the Pressley Action. After grant of the motion and appeal by Pressley, the Court of Appeals dismissed the appeal in August 2003 and, in October 2003 with the consent of Pressley's counsel, the District Court ordered the dismissal of Pressley's case against the Bank Defendants, resolving the Pressley Action in its entirety.

In or about January 2004, Michael Lee & Company, former accountants for Hale House Center, Inc. ("Michael Lee"), filed an action against Carver Federal in New York County Supreme Court, asserting a single claim for contribution against Carver Federal. The complaint alleges that Carver Federal should be liable to Michael Lee in the event that Michael Lee is found liable to non-parties Hale House Center, Inc. and its affiliated corporations ("Hale House plaintiffs") in a separate action that the Hale House plaintiffs have filed against Michael Lee. The Hale House plaintiffs have asserted claims of professional malpractice and breach of contract against Michael Lee for providing deficient accounting services to Hale House. The basis of Michael Lee's contribution claim against Carver Federal is that Carver Federal allegedly breached a legal duty it owed Hale House by improperly opening and maintaining a checking account on behalf of one of the Hale House affiliates. Michael Lee seeks contribution from Carver Federal in the amount of at least $8.5 million or the amount of any money judgment entered against Michael Lee in favor of the Hale House plaintiffs. On February 4, 2004 Carver Federal filed a motion to dismiss the complaint in its entirety and, on February 11, 2004, Michael Lee served a cross-motion for summary judgment against Carver Federal. In May 2004, the court ruled in favor of Carver Federal and judgment was entered in Carver Federal's favor on June 14, 2004. Michael Lee's time to appeal will run until July 20, 2004.

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, 2004 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, 2004 and 2003 follow:

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 22,774	$ 22,774	$ 23,160	$ 23,160
Investment securities available-for-sale	21,248	21,553	38,187	38,772
Mortgage backed securities held-to-maturity	43,474	43,794	36,530	37,543
Mortgage backed securities available-for-sale	75,113	74,850	89,966	90,283
Loans receivable	351,900	362,684	292,738	316,073
Accrued interest receivable	2,489	2,489	3,346	3,346
Financial Liabilities:				
Deposits	$ 373,665	$ 375,294	$ 347,164	$ 349,317
Advances from FHLB of New York	91,516	94,469	108,789	112,443
Other borrowed money	12,766	13,027	207	215

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 fiscal years ended March 31, 2004 and 2003:

	Three Months Ended			
	June 30	**September 30**	**December 31**	**March 31**
	(Dollars in thousands, except per share data)			
Fiscal 2004				
Interest income	$6,516	$6,602	$6,483	$6,633
Interest expense	(2,230)	(2,109)	(2,217)	(2,144)
Net interest income	4,286	4,493	4,266	4,489
Provision for loan losses	-	-	-	-
Non-interest income	1,140	1,574	1,577	984
Non-interest expense	(3,780)	(3,890)	(3,971)	(3,836)
Income tax expense	(559)	(751)	(636)	(547)
Net income	$1,087	$1,426	$1,236	$1,090
Earnings per common share				
Basic	$0.45	$0.60	$0.52	$0.46
Diluted	$0.42	$0.55	$0.47	$0.42
Fiscal 2003				
Interest income	$6,768	$6,759	$6,761	$7,101
Interest expense	(2,338)	(2,210)	(2,218)	(2,216)
Net interest income	4,430	4,549	4,543	4,885
Provision for loan losses	-	-	-	-
Non-interest income	953	716	750	741
Non-interest expense	(3,795)	(3,533)	(3,539)	(3,837)
Income taxes (expense) benefit	(714)	(797)	(807)	(715)
Net income (loss)	$874	$935	$947	$1,074
Earnings (loss) per common share				
Basic	$0.36	$0.39	$0.39	$0.45
Diluted	$0.35	$0.37	$0.38	$0.42

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

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	As of March 31, 2004	As of March 31, 2003
	(In thousands)	
ASSETS		
Cash on deposit with the Bank	$ 93	$ 87
Investment Securities	59	-
Investment in the Subsidiaries	57,846	41,055
Other Assets	12	-
Total assets	$ 58,010	$ 41,142
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Borrowings	$ 13,144	$ -
Accounts payable to Subsidiaries	22	1
Other liabilities	199	68
Total liabilities	$ 13,365	$ 69
Stockholders' equity	44,645	41,073
Total liabilities and stockholders' equity	$ 58,010	$ 41,142

CONDENSED STATEMENTS OF INCOME

	Year Ended March 31, 2004	2003	2002
		(In thousands)	
INCOME			
Equity in net income from Subsidiaries	$ 8,328	$ 7,320	$ 6,247
Interest income from deposit with the Bank	9	6	33
Other income	9	-	-
Total income	8,346	7,326	6,280
EXPENSES			
Interest Expense on Borrowings	337	-	-
Salaries and employee benefits	169	52	82
Legal expense	-	102	236
Shareholder expense	458	248	296
Other	50	60	72
Total expense	1,014	462	686
Income before income taxes	7,332	6,864	5,594
Income tax expense	2,493	3,033	881
Net income	$ 4,839	$ 3,831	$ 4,713

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2004	2003	2002
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,839	$ 3,831	$ 4,713
Adjustments to reconcile net loss to net cash provided by operating activities:			
Equity in net income of Subsidiaries	(8,328)	(7,320)	(6,247)
Income Taxes from the Bank	2,493	3,033	-
Increase (decrease) in accounts payable to Bank	21	(13)	(104)
Increase (decrease) in other liabilities	131	(1,182)	976
Allocation of ESOP Stock	-	-	206
Other, net	1,772	1,664	(844)
Net cash provided by (used in) operating activities	928	13	(1,300)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additional Investment in Bank	(13,153)	-	-
Purchase of Investment Securities	(59)	-	-
Net cash (used in) provided by investing activities	(13,212)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Sub Debt	13,144	-	-
Purchase of treasury stock, net	(200)	(52)	(77)
Dividends paid	(654)	(313)	(312)
Net cash (used in) provided by financing activities	12,290	(365)	(389)
Net increase in cash	6	(352)	(1,689)
Cash and cash equivalents - beginning	87	439	2,128
Cash and cash equivalents - ending	$ 93	$ 87	$ 439

NOTE 17. RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING AND DISCLOSURE REQUIREMENT RELATED TO THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003

In January 2004, the Financial Accounting Standards Board ("FASB") issued Staff position No. 106-1 *"Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act of 2003"* ("Medicare Act") for annual financial statements of fiscal years ending after December 7, 2003. The Medicare Act introduced both a Medicare prescription-drug benefit and federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. Carver Federal is not affected by the Medicare Act since it does not provide retiree health-care benefits.

EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFIT

In December 2003, the FASB issued a revised SFAS No. 132, *"Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements Nos. 87, 88 and 106"* (SFAS No. 132(R)). SFAS No. 132 (R) requires additional disclosures to those in the original statement about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined postretirement plans. SFAS No. 132 (R) also amends Accounting Principles Board ("APB") Opinion No. 28, *"Interim Financial Reporting,"* to require interim disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other postretirement benefit plans. SFAS No. 132 (R) is effective for financial statements for fiscal years ending after December 15, 2003, except for disclosure of estimated future benefit payments, which is effective for fiscal years ending after June 15, 2004. As the provisions of SFAS No. 132 (R) are disclosure related, the adoption of SFAS No. 132 (R) had no impact on Carver Federal's financial condition or results of operations.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In December 2003, the FASB issued Interpretation No. 46 (revised), *"Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,"* ("FIN 46R"). Fin 46R addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and, accordingly, should consolidate the variable interest entity ("VIE"). FIN 46R replaces FIN46 that was issued in January 2003. All public companies, such as Carver Federal, are required to fully implement FIN 46R no later than the end of the first reporting period ending after March 15, 2004. The adoption of FIN 46R resulted in the deconsolidation of the Trust, which did not have a material impact on Carver Federal's financial condition or results of operations.

ACCOUNTING FOR CERTAIN LOANS OR DEBT SECURITIES ACQUIRED IN A TRANSFER

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, "*Accounting For Certain Loans Or Debt Securities Acquired In A Transfer*" (SOP No. 03-3). SOP No. 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP No. 03-3 prohibits "carry over" or creation of valuation allowances in the initial accounting of all loans acquired in transfers within the scope of SOP No. 03-3, which includes loans acquired in a business combination. SOP No. 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The adoption of SOP No. 03-3 is not expected to have an impact on Carver Federal's financial condition or results of operations.

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

In May 2003, the FASB issued Statement No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"*("SFAS No. 150"). The SFAS No. 150 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. The adoption of SFAS No. 150 did not have a material impact on the Company's earnings or financial position.

AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In April 2003, the FASB issued SFAS No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities,"* which amends and clarifies financial accounting and reporting of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities."* SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003, and should generally be applied prospectively. The provisions of SFAS No. 149 that relate to SFAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, the provisions of SFAS No. 149 which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on Carver Federal's financial condition or results of operations.

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

In November 2002, FASB issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness 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, 2004. As of March 31, 2004 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.

NOTE 18. PENDING ACQUISITION

On March 15, 2004, the Company entered into a definitive merger agreement to acquire Independence in a cash transaction valued at approximately $33 million. Under the terms of the merger agreement, Independence's stockholders will receive $21.00 in cash for each share of their common stock. The merger agreement has been approved by the directors of Independence, the Company and the Bank. The transaction, which is expected to close before the end of 2004, is subject to customary closing conditions, including regulatory approvals and the approval of Independence's shareholders. The merger agreement requires the Independence to pay the Company a termination fee of $1.6 million if the merger agreement is terminated under certain circumstances following Independence's receipt of a superior acquisition proposal or $325,000 if the merger is not approved by Independence's shareholders.

The Holding Company has made an Amended Share Voting Stipulation and Undertaking in favor of the OTS and entered into a Trust Agreement with American Stock Transfer & Trust Company pursuant to which it has placed 72,400 of the common shares of Independence owned by the Holding Company, representing approximately 4.7% of the outstanding common shares of Independence, in a non-voting trust. The shares held in the trust are shares of Independence owned by the Holding Company in excess of the 5% limit set forth in Section 10(e)(1)(A)(iii) of HOLA prior to the OTS approving the Holding Company's H-(e)3 Application to acquire Independence. Section 10(e)(1)(A)(iii) provides that a savings and loan holding company may not acquire or retain more than 5% of the outstanding voting shares of a savings association that is not a subsidiary without the prior approval of the OTS. The Trust Agreement will terminate, and the Independence common shares held in the trust will be transferred back to the Holding Company, upon the receipt by the Holding Company of the approval of the OTS to retain more than 5% of Independence's outstanding voting stock.

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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
Chief Compliance Officer
TIAA-CREF

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
Time Warner, Inc.

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

Offices

75 West 125th Street
New York, NY

142 Malcolm X Boulevard
New York, NY

1009 Nostrand Avenue
Brooklyn, NY

1281 Fulton Street
Brooklyn, NY

4 Hanson Place
Brooklyn, NY

115-02 Merrick Boulevard
St. Albans, NY

158-45 Archer Avenue
Jamaica, Queens

General Information

INDEPENDENT AUDITORS
KPMG LLP
757 Third Avenue
New York, NY 10017

EXTERNAL COUNSEL
Thacher Proffitt & Wood
Two World Financial Center
New York, NY 10281

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ANNUAL MEETING
The 2004 Annual Meeting of Stockholders will be held on September 21, 2004 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, 2004 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 Evan Jalazo, Vice President and Controller, Carver Bancorp, Inc., 75 West 125th Street, New York, NY 10027, or telephoning (212) 876-4747.

CREDITS
Thanks to: *Patane Press, Inc.*

CARVER BANCORP, INC.

Corporate Headquarters:
75 West 125th Street
New York, NY 10027

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