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CARVER BANCORP, INC.

2005

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, PRESIDENT & CEO

Dear Carver Stockholder:

2005 was a year of intensive activity for all of us at Carver, as the Bank undertook a broad range of initiatives designed to lay the groundwork for disciplined growth of our franchise and enhanced long-term value creation.

In certain key areas our efforts yielded solid results, as evidenced by our lending and retail departments, which generated an impressive operating performance in Fiscal 2005. Specifically, core deposits and lending grew substantially, while we expanded our delivery channels by 120% in 18 months and our product lines in both departments. Nevertheless, our investments in our franchise, together with a challenging interest rate environment and our attempt to grow our business through the acquisition of Independence Federal Savings Bank ("IFSB"), contributed to an overall financial performance for the year that was unsatisfactory.

As we survey the progress we have made and the work that still remains, we are excited about Carver's future and are confident that the steps we have taken this fiscal year will position us for significant further success over the long term.

Fiscal 2005 and First Quarter Fiscal 2006 Review

- ***Profitability***

  Carver reported $2.5 million in net income available to common stockholders, or $1.03 diluted earnings per share, compared with $4.6 million and $1.87, respectively, in Fiscal 2004. This financial performance reflects, in part, the unsuccessful IFSB transaction and one-time severance costs that accounted for approximately $2.4 million in expenses during Fiscal 2005. Return on average assets and return on average equity in fiscal year 2005 was 0.45% and 5.80%, compared with 0.93% and 11.40%, respectively, during fiscal year 2004.

  During the first three months of Fiscal 2006, net income available to common stockholders was $840,000 and diluted earnings per share was $0.33, compared with $1.0 million and $0.42, respectively, during Fiscal 2005 first quarter. Employee compensation and benefits expense increased by approximately $523,000 compared with the same period last fiscal year, mostly as a result of staff additions related to the Company's recent branch expansion.

- ***Value Creation for Stockholders***

  For Fiscal 2005, stockholders' equity increased $1.2 million, or 2.6%, to $45.8 million at March 31, 2005 from $44.6 million at March 31, 2004.

  For the first three months of Fiscal 2006, stockholders' equity increased $1.3 million, or 2.8%, to $47.1 million at June 30, 2005. The increase was primarily attributable to net income, capital contributions from treasury stock used to fund benefit plans, and mark-to-market of the Bank's available-for-sale securities.

  In a sign of confidence in Carver's long-term earnings outlook, the Company's Board of Directors declared a $0.08 per share dividend for the quarter ended June 30, 2005. This increase represents a 14% increase over the $0.07 per share dividend paid over the four quarters of fiscal 2005. The enhanced dividend continues the trend of increases begun in Fiscal 2004, when the Company moved to a $0.05 per share quarterly dividend compared to a prior practice of paying $0.05 per fiscal year, and then in Fiscal 2005 raised the quarterly dividend by 40% to $0.07 per quarter from $0.05 per quarter.

- ***Interest Rate Environment***

  After falling to the lowest levels in 45 years during calendar year 2003, short-term interest rates started to climb, yet the yield curve flattened. At Carver, the impact of the current interest rate environment has been an increase in the rates we pay on our borrowings and some deposits and an increase in our yield on earning assets. However, the rate of increase in the yield on earning assets has been slower than the increased cost of liabilities. As a result, the Company's net interest margin decreased in Fiscal 2005 to 3.41% from 3.56% in Fiscal 2004.

The net interest margin compression Carver experienced was somewhat offset by the Company's successful balance sheet management efforts. In particular, the Company continues to emphasize growth of re-priceable assets including loans and securities, and remains focused on a disciplined approach to credit risk. At the same time, the Company's retail efforts are focused on growing deposits generally, and seeking to increase lower-cost core deposits in particular. As a result, our net interest margin compared favorably with our peers in Fiscal 2005.

During the first three months of Fiscal 2006 these trends continued, as the Company's net interest margin fell to 3.17% at June 30, 2005 from 3.41% at March 31, 2005.

- ***Fee Income***
 Non-interest income in Fiscal 2005 decreased to $4.1 million from $5.3 million last year, largely resulting from the $1.5 million loss on IFSB stock recorded in fiscal second quarter and a decrease of $739,000 in loan prepayment fees as pre-payment activity slowed industry wide. However, the strength of our growth in deposits by 21%, including an increase in core deposits of 9%, led to a 67% increase in monthly debit card fees during this period. In addition, our delivery channel expansion helped contribute to an increase in ATM fees of 20%.

 In first quarter Fiscal 2006, non-interest income increased to $1.4 million from $1.1 million compared with the same period last year. Nearly $110,000 of that increase resulted from ATM and debit card fees as well as commissions earned through the sale of wealth management products launched during Fiscal 2005.

- ***Asset Quality***
 The Company is experiencing a historically low ratio of non-performing assets to total loans receivable. For the third fiscal year in a row, the Company did not make additional provisions for loan losses in Fiscal 2005. Non-performing loans totaled $998,000, or 0.23% of total loans receivable at March 31, 2005, compared with $2.1 million, or 0.60% of total loans receivable at March 31, 2004. The ratio of allowance to non-performing loans at March 31, 2005 was 410.7% compared with 194.3% at March 31, 2004. The ratio of allowance for loan losses to total loans receivable at March 31, 2005 was 0.96% compared with 1.16% at March 31, 2004.

 For first quarter Fiscal 2006, the Company again did not make additional provisions for loan loss reserves. At June 30, 2005, non-performing loans totaled $1.6 million, or 0.37% of total loans receivable, resulting in a ratio of allowance to non-performing loans of 261.0%.

- ***Expanded Delivery Channels***
 As we promised you last year, the Company continued its focus on organic growth by investing in additional delivery channels. We opened a full service branch in a Pathmark supermarket in Harlem along with two additional 24/7 ATM Centers, one in Harlem and the second in Bedford-Stuyvesant. The Pathmark location is heavily traveled as the anchor tenant of a new cooperative and retail complex adjacent to dense apartment dwellings and upscale brownstones. Usage at both 24/7 ATM Centers is off to a good start and our customers have been appreciative of the expanding convenience of our delivery channels. These investments are key elements driving the expansion in core deposits.

- ***Expanded Product Offerings***
  The Company expanded its product offerings with a mid-fiscal year kick-off rally to launch our wealth management products, and more recently the rollout of sub-prime and jumbo mortgages (to be sold in the secondary markets). Moreover, the Board of Directors recently approved an overdraft line of credit to be offered to qualified customers. We also recently contracted with a third party vendor to offer lock box services in order to improve our competitiveness in seeking deposits from local landlords.

  To date, wealth management product sales have exceeded our expectations. We have gotten off to a good start with our new sub-prime and jumbo mortgage products as we begin to advertise these products as well as get the word out to local brokers. We have high hopes for this new cadre of products that we believe will help Carver attract and retain more customers and generate additional fee income.

- ***Efficiency Ratio***
  In Fiscal 2005, the Company's efficiency ratio increased to 81.77% from 67.86% last year. During the first three months of Fiscal 2006, the Company's efficiency ratio declined to 78.62%. While each of these ratios significantly exceed our peers, they reflect the dramatic steps we are taking to grow our franchise as part of a broader objective of accelerating our pace along the path to higher earnings. Our focus on this goal stems from our belief that standing still is equivalent to falling behind in the Company's highly competitive inner city markets.

Focus on the Year Ahead

There's a saying: "You can save your way to solvency, but you've got to grow your way to prosperity." That being said, we have begun a rigorous analysis of our cost structure to determine how we can improve our efficiency ratio without harming our growth objectives. For example, as I promised last year, the Company is aggressively pursuing outsourcing of certain operations where cost and productivity improvements can be achieved while preserving the quality of functional performance. This month, we began outsourcing our core processing and ATM technology platforms, where productivity improvements, accounting controls upgrades, business scalability and enhanced customer service can be achieved. On the revenue side of the efficiency ratio, we recognize that product development can be a costly undertaking, notwithstanding the desired end result of higher future revenue generation. Thus, the Company is evaluating opportunities to take advantage of third party providers to launch new products economically and to accelerate rollout, as we have done with our wealth management and sub-prime and jumbo mortgage products.

In addition, we will focus on the following priorities in the year ahead:

- ***Capitalize on Franchise Investments***
  The entire management team is focused on building core deposits and our lending business, particularly in our three new branches. With the additional products we have launched since mid-Fiscal 2005, we are equipped with additional tools to attract new business and achieve this goal.

- ***Invest in People***
  To maximize the returns on our franchise investments, our management team has identified professional development and education programs that will boost our performance as a team. In addition to intensive sales training for our customer-facing staff, we have also put incentives in place to foster higher cross sales between the retail and lending departments. While the benefits of these investments will not materialize overnight, over the long term increased sales should be accompanied by increased job satisfaction and higher retention levels, thereby positioning Carver to reap savings from costs that might otherwise be expended for recruiting and new hire training.

- ***Market our Brand and New Products Effectively***
  Our marketing efforts have been increasing in effectiveness as we have targeted specific products and services, including the "Relationship" and "Free Checking" accounts, as well as our new mortgage products. Our marketing team will continue to launch cost effective, grass roots marketing campaigns together with occasional broader distribution campaigns. We are particularly gratified to hear kind words from our existing customers during our periodic large-scale marketing efforts. These communications tell us that Carver is not just reaching out to new customers, but also enhancing our connection with existing customers. These results are noteworthy -- in no small part because in our competitive industry, retaining customers is critically important to preserving profitability.

- ***Maintain Asset Quality***
  Even as we focus on increasing revenues and profits, we remain committed to the Company's disciplined approach to asset quality. The Company will strictly preserve its loan underwriting and purchase criteria. And, although the Company will evaluate investment security asset classes beyond government backed securities in the search for attractive yields, we will maintain our conservatism as relates to the risk-reward profile for an institution of our size and characteristics.

As we move forward at this exciting time, it is important to acknowledge the contributions of all who have helped to build Carver over the years:

On behalf of the entire Carver team, we express our gratitude to Frederick O. Terrell for his wisdom and business judgment. Fred, who resigned as Carver's Chairman on February 2, 2005, helped to steer Carver through very challenging times with commitment and integrity.

We have a very prestigious and accomplished Board of Directors, each of whom is highly involved and dedicated to helping the Company move forward. We appreciate their sage advice and thank them for their continued trust in the Carver team to manage the operations on behalf of all our stockholders.

In addition, our customers deserve thanks for entrusting us with their precious assets. We look forward to providing continuously improving products and services in the future. Our employees have worked tirelessly to take the Company to levels not yet seen in Carver's history, and I thank them as well for their efforts.

Last but not least, I want to express appreciation to you, the Company's stockholders, for your continued support. I encourage you all to stay tuned as we enter a new fiscal year and continue our work to build Carver to its fullest potential.

Sincerely,

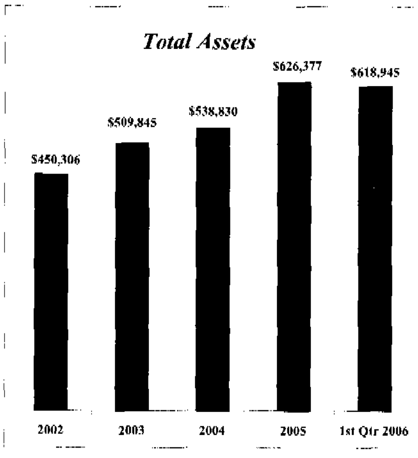
Deborah C. Wright

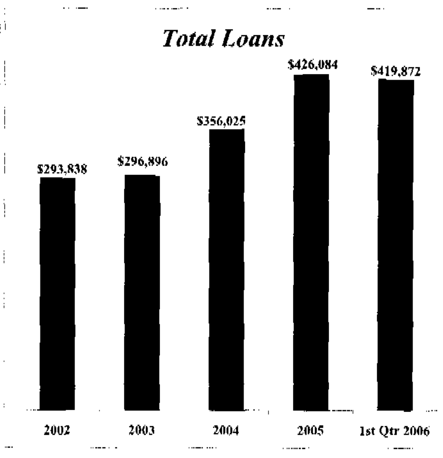
Deborah C. Wright
Chairman, President & Chief Executive Officer

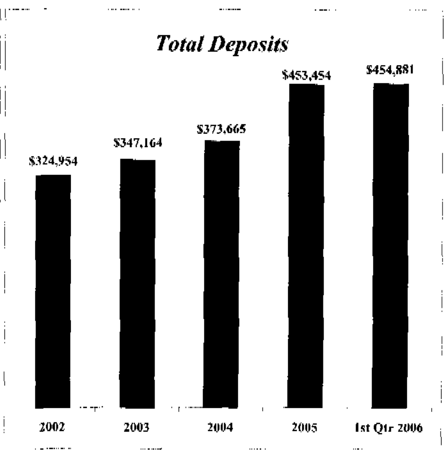
FINANCIAL HIGHLIGHTS

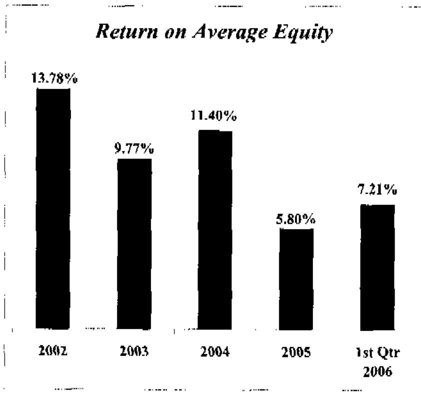
The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding Carver Bancorp, Inc. at the dates and for the periods indicated. The financial information should be read in conjunction with the consoldiated financial statements and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

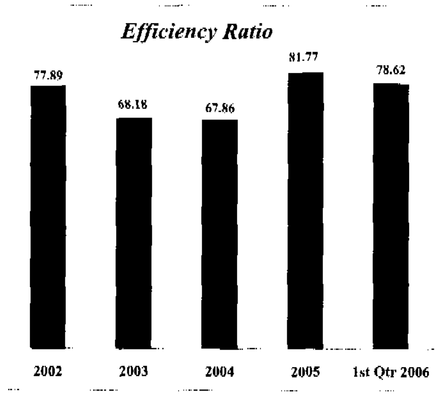
	Three Months Ending June 30,	At or for the Fiscal Year Ended March 31,			
	2005	2005	2004	2003	2002
		(Dollars in thousands)			
Selected Financial Condition Data:					
Assets	$ 618,945	$ 626,377	$ 538,830	$ 509,845	$ 450,306
Total loans	419,872	426,084	356,025	296,896	293,838
Securities	144,906	149,335	139,877	165,585	105,464
Cash and cash equivalents	14,958	20,420	22,774	23,160	34,851
Deposits	454,881	453,454	373,665	347,164	324,954
Borrowed funds	107,307	115,299	104,282	108,996	75,651
Stockholders' equity	47,059	45,801	44,645	41,073	36,742
Number of deposit accounts	40,733	40,199	38,578	41,220	41,200
Number of offices	8	8	6	5	5

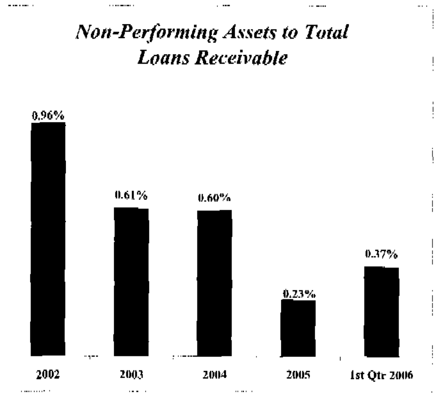






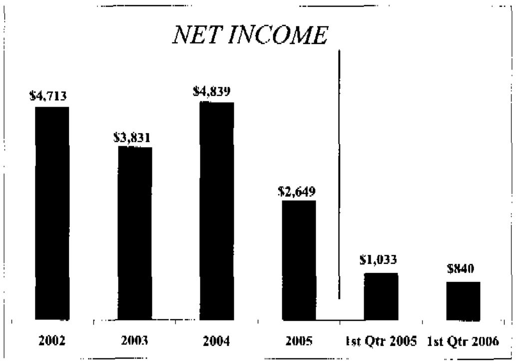


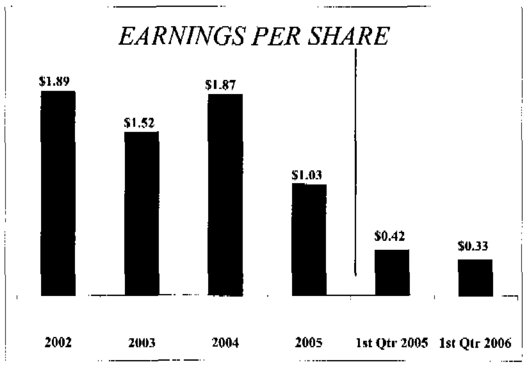




FINANCIAL HIGHLIGHTS (cont.)

	Three Months Ending June 30, 2005	At or for the Fiscal Year Ended March 31, 2005	2004	2003	2002
		(Dollars in thousands, except per share data)			
Selected Operating Data:					
Interest income	$ 7,752	$ 28,546	$ 26,234	$ 27,390	$ 28,395
Interest expense	3,052	9,758	8,700	8,983	12,047
Net interest income	4,700	18,788	17,534	18,407	16,348
Provision for loan losses	-	-	-	-	900
Net interest income after provision for loan losses	4,700	18,788	17,534	18,407	15,448
Non-interest income	1,399	4,075	5,278	3,161	4,485
Non-interest expenses	4,795	18,696	15,480	14,704	14,339
Income before income taxes	1,304	4,167	7,332	6,864	5,594
Income tax	464	1,518	2,493	3,033	881
Net income	$ 840	$ 2,649	$ 4,839	$ 3,831	$ 4,713
Diluted earnings per common share	$ 0.33	$ 1.03	$ 1.87	$ 1.52	$ 1.89





	Three Months Ending June 30, 2005		At or for the Fiscal Year Ended March 31, 2005		2004		2003		2002	
Selected Statistical Data:										
Return on average assets (1)(9)	0.53	%	0.45	%	0.93	%	0.83	%	1.11	%
Return on average equity (2)(9)	7.21		5.80		11.40		9.77		13.78	
Net interest margin (3)	3.17		3.41		3.56		4.26		4.09	
Average interest rate spread (4)	2.99		3.26		3.40		4.08		3.89	
Efficiency ratio (5)	78.62		81.77		67.86		68.18		77.89	
Operating expense to average assets (6)(9)	3.05		3.21		2.97		3.18		3.37	
Equity to total assets at end of period	7.60		7.31		8.29		8.06		8.16	
Average equity to average assets	7.40		7.84		8.13		8.48		8.03	
Dividend payout ratio (7)	20.83		24.64		9.86		3.19		2.55	
Asset Quality Ratios:										
Non-performing assets to total assets (8)	0.25	%	0.16	%	0.39	%	0.36	%	0.63	%
Non-performing assets to total loans receivable (8)	0.37		0.23		0.60		0.61		0.96	
Allowance for loan losses to total loans receivable	0.97		0.96		1.16		1.40		1.41	
Allowance for loan losses to non-performing assets (8)	261.0		410.70		194.34		230.74		146.23	
Net loan charge-offs (recoveries) to average loans outstanding (9)	0.02		0.01		0.01		(0.01)		0.10	

(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) Operating expenses divided by sum of net interest income plus non-interest 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 available to common stockholders.
(8) Non performing assets consist of non-accrual loans, loans accruing 90 days or more past due and real estate owned.
(9) Three month period ending June 30, 2005 annualized.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 which may be identified by the use of such words as "may," "believe," "expect," "anticipate," "should," "plan," "estimate," "predict," "continue," and "potential" or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- the Company's success in implementing its new business initiatives, including expanding its product line, adding new branches and ATM centers and successfully re-branding its image;
- 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; 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.

Any or all of our forward-looking statements in this Annual Report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. We do not intend to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual events.

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 debt 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 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. 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. 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"). On June 1, 2004, Provender sold all 60,000 of its Series B Preferred Stock to Keefe Bruyette & Woods, Inc ("KBW"). On October 15, 2004, both MSDW and KBW elected to convert their Preferred

Shares into shares of the Holding Company's common stock, thus an additional 208,333 shares of common stock were issued to these parties.

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 (718) 230-2900.

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 of New York (the "FHLB-NY"). Carver Federal converted to a federal savings bank in 1986 and changed its name at that time to Carver Federal Savings Bank.

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 eight 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, 2005, 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, 2005, this subsidiary had $219,000 in total capital and a net operating loss of approximately $1,000. At March 31, 2005 there was no foreclosed real estate, however as a result of a property tax redemption, the Bank took fee ownership of a vacant tract of land in Bayshore, NY. See Note 1 of Notes to Consolidated Financial Statements. Carver Federal also owns CFSB Credit Corp., an inactive subsidiary originally formed to undertake the Bank's credit card issuances. 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. As of March 31, 2005 Carver Asset Corporation owned mortgage loans valued at approximately $131 million.

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 loans 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 in fiscal 2005 and stand-alone ATM centers in high-traffic locations ; (4) generating fee income by attracting and retaining core deposit accounts, expansion of its ATM network and providing of wealth management products; and (5) continuing to monitor and control its expenses by efficiently utilizing personnel, branch facilities and alternative delivery channels (telephone banking, online banking, and ATMs) to service its customers. 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 eight 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 and growing its near term profitability. The Bank believes that it can compete with these institutions by offering a competitive range of products and services as well as through personalized service and community involvement.

Carver will continue to evaluate acquisition opportunities as part of its strategic objective for long term growth and may acquire directly or indirectly through Carver Federal.

As of March 31, 2005, Carver Federal had 135 full-time equivalent employees, of whom 47 are officers and 88 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 13, 2005, 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 corporatesecretary@carverbank.com.

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 and borrower workout arrangements, 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 and it'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,				
	2005	2004	2003	2002	2001
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis (1):					
Real estate:					
One- to four-family	$ 149	$ 558	$ 1,113	$ 756	$ 947
Multifamily	167	1,532	-	253	978
Non-residential	665	-	639	1,754	565
Construction	-	23	23	23	23
Consumer and business	17	10	27	37	6
Total non-accrual loans	998	2,123	1,802	2,823	2,519
Accruing loans contractually past due 90 days or more	-	-	-	-	-
Total of non-accrual and accruing 90-day past due loans	$ 998	$ 2,123	$ 1,802	$ 2,823	$ 2,519
Other non-performing assets (2):					
Real estate:					
One- to four-family	-	-	-	-	-
Multifamily	-	-	-	-	27
Non-residential	-	-	-	-	449
Consumer and business	-	-	-	-	-
Total other non-performing assets	-	-	-	-	476
Total non-performing assets (3)	$ 998	$ 2,123	$ 1,802	$ 2,823	$ 2,995
Non-performing loans to total loans	0.23%	0.60%	0.61%	0.96%	1.04%
Non-performing assets to total assets	0.16%	0.39%	0.36%	0.63%	0.71%

(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 fiscal year ended March 31, 2005, gross interest income of $83,000 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, 2005, total non-performing assets decreased by $1.1 million, or 53.0%, to $998,000 compared to $2.1 million at March 31, 2004. All non-performing assets at March 31, 2005 and 2004 relate to loans accounted for on a non-accrual basis. The decrease primarily reflects a decline in non-accruing multifamily and one- to four-family real estate loans partially offset by an increase in non-accruing non-residential real estate loans.

There were no accruing loans contractually past due 90 days or more at March 31, 2005 and March 31, 2004, 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 un-collectible, even if a partial recovery could be expected in the future. The regulations also provide for a "special mention" designation, described as assets that do not currently expose a savings institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require a savings institution to establish general allowances for loan losses. If an asset or portion thereof is classified 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, 2005, Carver Federal had $1.0 million of loans classified as substandard which represented 0.2% of the Bank's total assets. There were no loans classified as doubtful or loss at March 31, 2005.

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.

The Internal Asset Review Committee reviews Carver Federal's 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 of the Board 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, management periodically evaluates the property 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, 2005, the Bank had no foreclosed real estate, however as a result of a property tax redemption, the Bank took fee ownership of a vacant tract of land in Bayshore, NY. 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, 2005	2004	2003	2002	2001
	(Dollars in thousands)				
Balance at beginning of period	$ 4,125	$ 4,158	$ 4,128	$ 3,551	$ 2,935
Loans charged-off:					
Real Estate:					
One- to four-family	8	6	2	-	252
Non-residential	-	55	-	-	194
Consumer and business	65	264	226	500	931
Total Charge-offs	73	325	228	500	1,377
Recoveries:					
One- to four-family	-	107	-	3	-
Multifamily	-	-	-	-	-
Non-residential	-	10	-	-	-
Consumer and business	45	175	258	174	200
Total Recoveries	45	292	258	177	200
Net loans charged-off (recovered)	28	33	(30)	323	1,177
Provision for losses	-	-	-	900	1,793
Balance at end of period	$ 4,097	$ 4,125	$ 4,158	$ 4,128	$ 3,551
Ratio of net charge-offs to loans outstanding	0.01%	0.01%	-0.01%	0.11%	0.42%
Ratio of allowance to total loans	0.96%	1.16%	1.40%	1.41%	1.24%
Ratio of allowance to non-performing assets (1)	411.52%	194.30%	230.74%	146.23%	118.56%

(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, 2005		2004		2003		2002		2001	
	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
	(Dollars in thousands)									
Loans:										
Real Estate										
One- to four-family	$ 528	36.68%	$ 355	27.80%	$ 298	24.20%	$ 429	41.84%	$ 1,198	54.94%
Multifamily	898	23.99%	1,240	33.88%	656	44.45%	1,468	40.39%	748	29.13%
Non-residential	1,129	27.49%	853	28.92%	1,967	26.74%	729	13.66%	353	12.58%
Construction	212	11.44%	158	7.71%	170	3.89%	76	3.32%	290	2.03%
Consumer and business	554	0.40%	487	1.69%	344	0.72%	377	0.79%	962	1.32%
Unallocated	776	N/A	1,032	N/A	723	N/A	1,049	N/A	-	N/A
Total Allowance for loan losses	$ 4,097	100.00%	$ 4,125	100.00%	$ 4,158	100.00%	$ 4,128	100.00%	$ 3,551	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, 2005, there were 2,511,874 shares of the common stock outstanding, held by approximately 990 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 2005				**Fiscal Year 2004**			
June 30, 2004	$ 23.95	$ 19.15	$ 0.05	June 30, 2003	$ 16.59	$ 13.66	$ 0.05
September 30, 2004	$ 20.45	$ 17.95	$ 0.07	September 30, 2003	$ 18.15	$ 16.25	$ 0.05
December 31, 2004	$ 20.82	$ 18.55	$ 0.07	December 31, 2003	$ 26.50	$ 17.60	$ 0.05
March 31, 2005	$ 20.07	$ 18.38	$ 0.07	March 31, 2004	$ 26.00	$ 23.02	$ 0.05

On October 26, 2004, the Holding Company's Board of Directors declared a $0.07 cash dividend to shareholders for the second quarter of fiscal 2005. This represents a $0.02 per share increase from the $0.05 previously paid each quarter subsequent to the Board initially establishing payment of a quarterly dividend on January 9, 2003. In each of the four fiscal years prior to fiscal 2003, the Company paid an annual $0.05 per common share cash dividend.

Under OTS regulations, 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, 83,584 shares of its common stock have been repurchased in open market transactions at an average price of $17.03 per share. 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 following table details purchases the Holding Company made of its common stock during the fourth quarter of fiscal 2005.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1, 2005 through January 31, 2005	-	-	-	170,085
February 1, 2005 through February 28, 2005	599	18.73	599	169,486
March 1, 2005 through March 31, 2005	21,435	18.39	21,435	148,051
	22,034	18.40	22,034	

SELECTED FINANCIAL DATA

Set forth below are our selected consolidated financial and other data. This financial data is derived in part from, and should be read in conjunction with our consolidated financial statements and related notes.

	At or for the Fiscal Year Ended March 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Assets	$ 626,377	$ 538,830	$ 509,845	$ 450,306	$ 424,500
Loans, net	421,987	351,900	292,738	289,710	283,437
Securities	149,335	139,877	165,585	105,464	87,788
Cash and cash equivalents	20,420	22,774	23,160	34,851	31,758
Deposits	453,454	373,665	347,164	324,954	279,424
Borrowed funds	115,299	104,282	108,996	75,651	105,600
Stockholders' equity	$ 45,801	$ 44,645	$ 41,073	$ 36,742	$ 32,096
Number of deposit accounts	40,199	38,578	41,220	41,200	44,751
Number of offices	8	6	5	5	5
Operating Data:					
Interest income	$ 28,546	$ 26,234	$ 27,390	$ 28,395	$ 28,336
Interest expense	9,758	8,700	8,983	12,047	14,278
Net interest income	18,788	17,534	18,407	16,348	14,058
Provision for loan losses	-	-	-	900	1,793
Net interest income after provision for loan losses	18,788	17,534	18,407	15,448	12,265
Non-interest income	4,075	5,278	3,161	4,485	2,934
Non-interest expenses	18,696	15,480	14,704	14,339	15,490
Income (loss) before income taxes	4,167	7,332	6,864	5,594	(291)
Income tax	1,518	2,493	3,033	881	98
Net income (loss)	$ 2,649	$ 4,839	$ 3,831	$ 4,713	$ (389)
Diluted earnings (loss) per common share	$ 1.03	$ 1.87	$ 1.52	$ 1.89	$ (0.26)
Selected Statistical Data:					
Return on average assets (1)	0.45 %	0.93 %	0.83 %	1.11 %	(0.07) %
Return on average equity (2)	5.80	11.40	9.77	13.78	(0.89)
Net interest margin (3)	3.41	3.56	4.26	4.09	3.61
Average interest rate spread (4)	3.26	3.40	4.08	3.89	3.48
Efficiency ratio (5)	81.77	67.86	68.18	77.89	96.93
Operating expense to average assets (6)	3.21	2.97	3.18	3.37	3.72
Equity to total assets at end of period	7.31	8.29	8.06	8.16	7.56
Average equity to average assets	7.84	8.13	8.48	8.03	7.85
Dividend payout ratio (7)	24.64	9.86	3.19	2.55	(17.24)
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.16 %	0.39 %	0.36 %	0.63 %	0.71 %
Non-performing assets to total loans receivable (8)	0.23	0.60	0.61	0.96	1.04
Allowance for loan losses to total loans receivable	0.96	1.16	1.40	1.41	1.24

(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.

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

Executive Summary

Carver Bancorp Inc., is a bank holding company organized under the laws of the state of Delaware and registered as a "bank holding company" under the Bank Holding Company Act of 1956, as amended. Carver is committed to providing superior customer service while offering a range of banking products and financial services to both our retail and commercial customers. The Holding Company's primary subsidiary is Carver Federal Savings Bank which operates from eight branches in the New York City boroughs of Manhattan, Brooklyn and Queens.

Carver Federal's net income is consistent with the thrift industry, namely that it is dependent primarily on 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.

Carver's net interest income increased year over year based on the growth in average interest-earning assets of $57.9 million to $550.8 million for fiscal 2005 from $493.0 million for fiscal 2004. In fiscal 2005, the Bank experienced strong growth in its core business with increases in net loans receivable and deposits of 19.9% and 21.4%, respectively, compared to March 31, 2004. The resulting increase in net interest income offset net interest margin compression resulting from the interest rate environment and the impact of loan repayments. Net interest margin declined to 3.41% for fiscal 2005 from 3.56% for fiscal 2004 as the Federal Open Market Committee ("FOMC") raised the federal funds rate seven times during fiscal 2005, from June 2004. While short-term U.S. Treasury yields have shown somewhat similar increases since June of 2004, the two and three year U.S. Treasury yields have shown only modest increases and the five, ten and thirty year U.S. Treasury yields decreased during the same period, resulting in a significant flattening of the U.S Treasury yield curve. Additionally, there has been interest rate volatility within the individual quarters of fiscal 2005 which has resulted in volatility in cash flows and refinance activity, although not to the magnitude experienced in fiscal 2004. In addition, repayments on mortgage-backed securities and mortgage loans continued at a similar pace to fiscal 2004, thereby contributing to net interest margin compression as these cash flows were reinvested at lower market yields.

As previously noted, net interest income may be impacted by the Bank's asset quality. Fiscal 2005 was another strong year of performance by the Bank's loan portfolio where asset quality remained excellent. As a result, the Company did not provide for additional loan loss reserves as it considers the current allowance for loan losses to be adequate. To maintain strong asset quality, 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 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 monitored; and (6) developing and applying adequate collection procedures.

Net income for fiscal 2005 was unfavorably impacted by increased expenses to expand the Bank's franchise and by expenses related to the attempted IFSB acquisition. During fiscal 2005, the Bank successfully opened two full service state-of-the-art branches at Atlantic Terminal in Fort Greene, Brooklyn and Bradhurst Court in Harlem. Additionally, in the last 12 months the Bank opened two 24/7 ATM banking centers also in Harlem and Brooklyn. These investments increased operating expenses substantially. In addition, financial results were impacted by an impairment charge deemed other than temporary of $1.5 million, resulting from the decline in the market price of the 150,000 shares of common stock of IFSB that the Company held and merger related expense charges of $847,000 also related to the attempted IFSB acquisition. On May 11, 2005, the Company sold all 150,000 shares of common stock held in IFSB for $10.50 per share for an aggregate price of $1,575,000.

The Bank's strategy to enhance fee income from operations has resulted in year over year increases in depository fees and charges, primarily ATM fees, debit card income and commissions from the sale of investments and insurance. In addition, the Bank benefited from the receipt of a net $1.1 million grant from the Department of the Treasury, as well as high loan prepayment penalty income.

The outlook for fiscal 2006 reflects many of the economic and competitive factors that the Bank faced in fiscal 2005. 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 lower rate environment as asset yields would be expected to decline while deposit costs would be expected to stabilize. Should rates continue 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. Although the U.S. Treasury yield curve is expected to continue to flatten during fiscal 2006, the Bank will continue to focus on growth in its core businesses, namely the expansion of commercial loans and retail deposits. Deposit growth is expected to follow our new business and marketing effort to core customer groups including landlords, churches and other non-profits as residents of the communities we serve. New products designed to increase market share in these customer segments include a new lock-box service for landlords to collect rental payments, a checking overdraft line of credit in an effort to continue building our checking account deposit base and participation in the Certificate of Deposit Account Registry Services program to more efficiently address the collateral needs of large balance depositors. Regarding mortgage lending, the strength of originations and the purchase mortgage market coupled with the anticipated reduced level of loan prepayments should result in continued strong loan portfolio growth in fiscal 2006. Products such as sub-prime and jumbo mortgages for sale in the secondary market will be introduced in fiscal 2006 to address the needs of additional prospective borrowers, thereby fueling fee income growth. A parallel to expanding non-interest income is lowering the Bank's fiscal 2005 efficiency ratio of 81.77% for fiscal 2006, with an emphasis on cost reduction through further outsourcing of operations and additional measures including limiting further branch expansion in fiscal 2006. It is anticipated that if further flattening of the U.S. Treasury yield curve occurs, the Bank may utilize the cash flow of an expansion in its core business to reduce its securities and borrowing portfolios, thereby limiting asset growth.

Merger with Independence Federal Savings Bank

On March 15, 2004, the Company entered into a definitive merger agreement to acquire IFSB in a cash transaction valued at approximately $33 million. The transaction was expected to close before the end of 2004 and was subject to customary closing conditions, including regulatory approvals and the approval of IFSB's shareholders.

On October 15, 2004 Carver was advised by the OTS of its denial of Carver's application to consummate the merger agreement between Carver, the Bank and IFSB. The merger agreement was subject to, among other things, approval by the OTS. As a result, on October 26, 2004, the Company, the Bank and IFSB announced their mutual agreement to terminate the merger agreement and to release each party from all related liabilities.

On May 11, 2005, the Company sold all 150,000 shares of common stock held in IFSB for $10.50 per share for an aggregate price of $1,575,000.

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 are short term in maturity. Since all of the Company's interest-bearing liabilities and virtually all of the Company's interest-earning assets are held by the Bank, most of the Company's IRR exposure is retained by the Bank. As a result, all significant IRR management procedures are performed at the Bank. 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 4.42% of total rate sensitive assets at March 31, 2005. 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, 2005. 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	$ 64,946	$ 143,499	$ 74,730	$ 121,359	$ 55,344	$ 83,983	$ 543,861
Federal Funds Sold	6,800	-	-	-	-	-	6,800
Investment Securities	6,020	2,758	3,922	8,275	-	-	20,975
Total interest-earning assets	77,766	146,257	78,652	129,634	55,344	83,983	571,636
Rate Sensitive Liabilities:							
NOW demand	551	771	7,320	1,568	4,676	9,209	24,095
Savings and clubs	7,424	11,850	15,706	11,939	31,036	59,855	137,810
Money market savings	4,154	3,521	18,621	1,096	4,390	4,512	36,294
Certificates of Deposit	108,651	77,543	21,953	19,933	1,601	3	229,684
Borrowings	8,000	26,840	52,334	15,108	218	-	102,500
Total interest-bearing liabilities	$ 128,780	$ 120,525	$ 115,934	$ 49,644	$ 41,921	$ 73,579	$ 530,383
Interest Sensitivity Gap	$ (51,014)	$ 25,732	$ (37,282)	$ 79,990	$ 13,423	$ 10,404	$ 41,253
Cumulative Interest Sensitivity Gap	$ (51,014)	$ (25,282)	$ (62,564)	$ 17,426	$ 30,849	$ 41,253	-
Ratio of Cumulative Gap to Total Rate Sensitive assets	-8.92%	-4.42%	-10.94%	3.05%	5.40%	7.22%	

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, credit risk may increase as many borrowers may experience an inability to service their debt in the event of a rise in interest rate. 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 risks associated with changing interest rates, management also 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 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, 2005, 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 considers its level of IRR for fiscal 2005, as measured by changes in NPV, to be minimal. 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 similarly reflects an analysis of the Company's IRR.

	Net Portfolio Value			**NPV as a % of PV of Assets**	
Change in Rate	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**Change**
			(Dollars in thousands)		
+300 bp	63,884	(21,049)	-25%	10.28%	-275 bp
+200 bp	72,273	(12,660)	-15%	11.42%	-161 bp
+100 bp	79,480	(5,453)	-6%	12.36%	-67 bp
0 bp	84,933	-	-	13.03%	-
-100 bp	88,049	3,116	4%	13.38%	+35 bp
-200 bp	89,358	4,425	5%	13.49%	+45 bp

	March 31, 2004
Risk Measures: +200 BP Rate Shock	
Pre-Shock NPV Ratio: NPV as % of PV of Assets	13.03%
Post-Shock NPV Ratio	11.42%
Sensitivity Measure; Decline in NPV Ratio	161 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 may 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. These 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 material differences 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, 2005		Year Ended March 31, 2005		
	Average Balance	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
		(Dollars in thousands)			
Interest-earning Assets:					
Loans (1)	$ 408,966	5.70%	$ 384,916	$ 22,940	5.96%
Investment securities (2)	28,046	3.02%	29,547	827	2.80%
Mortgage-backed securities	129,006	3.95%	125,643	4,605	3.67%
Federal funds	20,696	2.62%	10,724	174	1.62%
Total interest-earning assets	586,714	5.08%	550,830	28,546	5.18%
Non-interest-earning assets	36,073		31,677		
Total assets	$ 622,787		$ 582,507		
Interest-bearing Liabilities:					
Deposits:					
NOW demand	$ 24,620	0.29%	$ 22,933	$ 69	0.30%
Savings and clubs	136,695	0.61%	133,621	801	0.60%
Money market savings	35,407	1.36%	30,116	302	1.00%
Certificates of deposit	229,420	2.26%	208,584	4,258	2.04%
Total deposits	426,142	1.54%	395,254	5,430	1.37%
Mortgagors deposits	2,322	1.52%	2,217	25	1.15%
Borrowed money	115,294	4.10%	109,787	4,303	3.92%
Total deposits and interest-bearing liabilities	543,758	2.09%	507,258	9,758	1.92%
Non-interest-bearing liabilities:					
Demand	26,973		22,857		
Other liabilities	5,728		6,724		
Total liabilities	576,459		536,839		
Stockholders' equity	46,328		45,668		
Total liabilities and stockholders' equity	$ 622,787		$ 582,507		
Net interest income				$ 18,788	
Average interest rate spread		2.99%			3.26%
Net interest margin		3.05%			3.41%
Ratio of average interest-earning assets to interest-bearing liabilities		107.90%			108.59%

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

	Year Ended March 31,					
	2004			2003		
Interest Earning Assets:	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
			(Dollars in thousands)			
Loans (1)	$ 314,297	$ 20,117	6.40%	$ 282,439	$ 21,194	7.50%
Investment securities (2)	29,708	1,161	3.91%	36,660	1,614	4.40%
Mortgage-backed securities	126,764	4,789	3.78%	93,002	4,282	4.60%
Fed funds sold	22,194	167	0.75%	19,744	300	1.52%
Total interest earning assets	492,963	26,234	5.32%	431,845	27,390	6.34%
Non-interest earning assets	28,423			30,414		
Total assets	$ 521,386			$ 462,259		
Interest Bearing Liabilities:						
Deposits						
NOW demand	$ 23,286	$ 85	0.37%	$ 18,138	$ 130	0.72%
Savings and clubs	130,509	1,001	0.77%	127,004	1,477	1.16%
Money market savings	27,662	235	0.85%	16,747	189	1.13%
Certificates of deposit	163,382	3,304	2.02%	155,187	3,964	2.55%
Total deposits	344,839	4,625	1.34%	317,076	5,760	1.82%
Mortgagers deposits	1,643	24	1.46%	-	-	-
Borrowed money	106,350	4,051	3.81%	80,861	3,223	3.99%
Total interest bearing liabilities	452,832	8,700	1.92%	397,937	8,983	2.26%
Non-interest-bearing liabilities:						
Demand	19,408			15,234		
Other liabilities	6,746			9,880		
Total liabilities	478,986			423,051		
Stockholders' equity	42,400			39,208		
Total liabilities and stockholders' equity	$ 521,386			$ 462,259		
Net interest income		$ 17,534			$ 18,407	
Average interest rate spread			3.40%			4.08%
Net interest margin			3.56%			4.26%
Ratio of avgcrage interest-earning assets to interest-bearing liabilities			108.86%			108.52%

(1) Includes non-accrual loans.
(2) Includes FHLB-NY 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,					
	2005 vs. 2004 Increase (Decrease) due to			2004 vs. 2003 Increase (Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest Earning Assets:						
Loans	$ 4,209	$ (1,386)	$ 2,823	$ 2,039	$ (3,116)	$ (1,077)
Investment securities	(5)	(329)	(334)	(273)	(180)	(453)
Mortgage-backed securities	(41)	(143)	(184)	1,270	(763)	507
Fed funds	(186)	193	7	18	(151)	(133)
Total interest earning assets	3,977	(1,665)	2,312	3,054	(4,210)	(1,156)
Interest Bearing Liabilities:						
Deposits						
NOW demand	1	15	16	19	(64)	(45)
Savings and clubs	(19)	219	200	27	(503)	(476)
Money market savings	(25)	(43)	(68)	93	(47)	46
Certificates of deposit	(923)	(31)	(954)	165	(801)	(636)
Total deposits	(966)	160	(806)	304	(1,415)	(1,111)
Borrowed money	(142)	(110)	(252)	1,024	(196)	828
Total deposits and interest bearing liabilities	(1,108)	50	(1,058)	1,328	(1,611)	(283)
Net change in interest income	$ 2,869	$ (1,615)	$ 1,254	$ 1,726	$ (2,599)	$ (873)

Comparison of Financial Condition at March 31, 2005 and 2004

At March 31, 2005, total assets increased by $87.5 million, or 16.3%, to $626.4 million compared to $538.8 million at March 31, 2004. The increase in total assets was primarily attributable to increases in loans receivable, total securities, premises and equipment and other assets.

Loans receivable, net, increased by $70.1 million, or 19.9%, to $422.0 million as of March 31, 2005 compared to $351.9 million one year ago. The net loan growth during fiscal 2005 reflects loan originations of $85.8 million and loan purchases of $104.7 million, offset by principal repayments of $112.6 million and loans sold to FNMA of $8.1 million. One- to four-family mortgage loans increased by $57.2 million, or 57.9%, to $155.8 million at March 31, 2005 compared to $98.6 million at March 31, 2004. The increase in one- to four-family loans is primarily due to additional loan purchases of $81.9 million and to, a lesser extent, loan originations of $15.4 million. Multifamily real estate loans decreased by $18.4 million, or 15.3%, to $101.9 million at March 31, 2005 compared to $120.3 million at March 31, 2004 as repayments exceeded total additions. Non-residential real estate loans increased by $14.1 million, or 13.8%, to $116.8 million at March 31, 2005 compared to $102.6 million at March 31, 2004 primarily as a result of originations of $30.8 million and purchases of $6.4 million during the year. Construction loans increased by $21.2 million, or 77.5%, to $48.6 million at March 31, 2005 compared to $27.4 million at March 31, 2004 primarily due to purchases. The Bank continues to grow its balance sheet through focusing on the origination of real estate loans in the markets it serves and will augment these originations with loan purchases. Consumer and business loans decreased by $4.3 million, or 71.8%, to $1.7 million at March 31, 2005 compared to $6.0 million at March 31, 2004 reflecting the payoff of four secured business loans in the amount of $1.0 million each which were originated during fiscal 2004.

Total securities at March 31, 2005 increased $9.5 million to $149.3 million from $139.9 million at March 31, 2004, reflecting a $21.6 million increase in available-for-sale securities and a $12.1 million decrease in held-to-maturity securities. The increase in available-for-sale securities primarily reflects purchases of $83.2 million partially offset by $51.4 million in principal repayments, maturities and calls, $7.3 million in proceeds from sales of securities, and an $2.4 million decrease in the market value of the portfolio of which $1.5 million was a permanent impairment charge on IFSB stock held in portfolio. The decrease in held-to-maturity securities reflects principal payments and maturities of $12.0 million. Available-for-sale securities represented 79.0% of the total securities portfolio at March 31, 2005 compared to 68.9% at March 31, 2004. The Bank invests in securities to help diversify its asset portfolio and satisfy collateral requirements for certain deposits.

At March 31, 2005, total liabilities increased $86.4 million, or 17.5%, to $580.6 million compared to $494.2 million at March 31, 2004. Deposits increased $79.8 million, or 21.4%, to $453.5 million at March 31, 2005 from $373.7 million at March 31, 2004. The increase in deposits was primarily attributable to increases of $61.7 million in certificates of deposit, $6.6 million in regular savings and club accounts, $6.0 million in demand accounts and $5.5 million in money market accounts. Deposit increases reflects $50 million in new certificates of deposit from the City and the State under New York State's Banking Development District program and new money from the Bank's increased retail depositors from the new branches. These additional funds from deposit growth were used to fund loan originations and purchases. Total FHLB-NY borrowings increased $11.0 million, or 10.6%, to $115.3 million at March 31, 2005 from $104.3 million at March 31, 2004 as a result of net additional advances.

At March 31, 2005, stockholders' equity increased $1.2 million, or 2.6%, to $45.8 million compared to $44.6 million at March 31, 2004. The increase in stockholders' equity was primarily attributable to net income of $2.6 million partially offset by a decrease of $493,000 in accumulated other comprehensive income related to the mark-to-market of the Bank's available-for-sale securities and net repurchases of the Company's common stock of $263,000 and dividends declared of $793,000. The Bank's capital levels meet regulatory requirements of a well capitalized financial institution.

Comparison of Operating Results for the Years Ended March 31, 2005 and 2004

Net Income

The Bank reported net income for fiscal 2005 of $2.6 million compared to $4.8 million for the prior fiscal year. Net income available to common stockholders for fiscal 2005 was $2.5 million, or $1.03 per diluted common share compared to $4.6 million, or $1.87 per diluted common share, for fiscal 2004. The decrease in net income was primarily due to an increase in non-interest expense of $3.2 million and a decrease in non-interest income of $1.2 million partially offset by an increase in net interest income of $1.3 million and a $975,000 reduction in income tax expense.

Interest Income

Interest income increased for fiscal 2005 by $2.3 million, or 8.8% to $28.5 million, from the prior fiscal year. The average balance of interest-earning assets increased to $550.8 million for fiscal 2005 from $493.0 million for the prior fiscal year. This increase was partially offset by a decline in the average yield on interest-earning assets to 5.08% for fiscal 2005 compared to 5.32% for fiscal 2004.

Interest income on loans increased by $2.8 million, or 14.0%, to $22.9 million for fiscal 2005 compared to $20.1 million for the prior fiscal year. The increase in interest income from loans was primarily the result of a $70.6 million increase in average loan balances to $384.9 million for fiscal 2005 compared to $314.3 million for fiscal 2004, the effects of which were partially offset by a 44 basis point decrease in the average rate earned on loans to 5.96% for fiscal 2005 from 6.40% for the prior fiscal year. 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 most of fiscal 2005, see "Item 7. Management Discussion and Analysis Liquidity and Capital Resources."

Interest income on mortgage-backed securities decreased by $184,000, or 3.8%, to $4.6 million for fiscal 2005 compared to $4.8 million for the prior fiscal year, reflecting the combined effects an 11 basis point decrease in the average rate earned on mortgage-backed securities to 3.67% for fiscal 2005 from 3.78% for the prior fiscal year, and a decrease of $1.1 million in the average balance of mortgage-backed securities to $125.6 million for fiscal 2005 compared to $126.8 million for fiscal 2004. The decrease in the average balance of such securities demonstrates Management's commitment to invest proceeds received from increased borrowings and deposits into higher yielding assets.

Interest income on investment securities decreased by approximately $334,000, or 28.8%, to $827,000 for fiscal 2005 compared to $1.2 million for the prior fiscal year. The decrease in interest income on investment securities reflects a 111 basis point decrease in the average rate earned on investment securities to 2.80% for fiscal 2005 from 3.91% for the prior fiscal year and a decrease of $161,000 in the average balance of investment securities to $29.5 million for fiscal 2005 compared to $29.7 million for fiscal 2004.

Interest income on federal funds increased $7,000, or 4.2%, to $174,000 for fiscal 2005 compared to $167,000 for the prior fiscal year. The increase is primarily attributable to an 87 basis point increase in the average rate earned on federal funds, partially offset by a $11.5 million decrease in the average balance of federal funds year over year. This large increase in the returns on federal funds was realized as the FRB continually increased the federal funds rate during the entire fiscal year.

Interest Expense

Interest expense increased by $1.1 million, or 12.2%, to $9.8 million for fiscal 2005 compared to $8.7 million for the prior fiscal year. The increase in interest expense reflects an increase of $54.4 million in the average balance of interest-bearing liabilities to $507.2 million in fiscal 2005 from $452.8 million in fiscal 2004 as the total cost of interest-bearing liabilities remained unchanged at 1.92% from year to year. The increase in the average balance of interest-bearing liabilities in fiscal 2005 compared to fiscal 2004 was due to increases in both the average balance of interest-bearing deposits and the average balance of borrowed money.

Interest expense on deposits increased $806,000, or 17.3%, to $5.5 million for fiscal 2005 compared to $4.6 million for the prior fiscal year. This increase is attributable to a $50.4 million, or 14.6%, increase in the average balance of interest-bearing deposits to $395.3 million for fiscal 2005 compared to $344.8 million for fiscal 2004 and, to a much lesser extent, a 3 basis point increase year over year in the cost of average deposits. 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 $45.2 million, or 27.7%, an increase in the average balance of savings and club accounts of $3.1 million, or 2.4%, and an increase in the average balance of money market accounts of $2.5 million, or 8.92%. The increase in average interest-bearing deposits was achieved largely through deposits generated by the two new branches and two new ATM centers in fiscal 2005. The slight increase in the average rate paid on deposits was principally due to the ascend in the interest rate environment towards the end of fiscal 2005.

Interest expense on borrowed money increased by $252,000 or 6.2%, to $4.3 million for fiscal 2005 compared to $4.1 million for the prior fiscal year. The increase in interest expense on borrowed money for fiscal 2005 reflects a $8.9 million, or 8.4%, increase in the average balance of borrowed money reflecting the effects of the trust preferred debt securities being outstanding for twelve months in fiscal 2005 as compared to six months in fiscal 2004, the year they were issued. Also contributing to the increase in interest expense is a rise of 11 basis points in the average cost of borrowed money primarily the result of increases in the indexed rate of the trust preferred debt securities which adjust quarterly and has increased in the current interest rate environment.

Net Interest Income

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

Net interest income before the provision for loan losses increased $1.3 million, or 7.2%, to $18.8 million for fiscal 2005 compared to $17.5 million for the prior fiscal year. This increase was achieved despite a decline in the return on average interest-earning assets of 14 basis points in fiscal 2005 from fiscal 2004 while the cost of interest-bearing liabilities used to fund interest-earning assets remained unchanged from year to year. The result was a 14 basis point decrease in the interest rate spread to 3.26% for fiscal 2005 compared to 3.40% for the prior fiscal year. The net interest margin also decreased to 3.41% for fiscal 2005 compared to 3.56% for fiscal 2004.

Provision for Loan Losses

During fiscal 2005 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 2005, the Bank had net charge-offs of $28,000 compared to $33,000 for fiscal 2004. At March 31, 2005, non-performing loans totaled $998,000 or 0.2% of total loans compared to $2.1 million, or 0.6% of total loans, at March 31, 2004. At March 31, 2005, the Bank's allowance for loan losses was $4.1 million, substantially unchanged from the allowance at March 31, 2004, resulting in a ratio of the allowance to non-performing loans of 410.7% at March 31, 2005 compared to 194.3% at March 31, 2004, and a ratio of allowance for possible loan losses to total loans of 0.96% and 1.16% at March 31, 2005 and March 31, 2004, respectively. The Bank believes its reported allowance for loan loss at March 31, 2005 is 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, fee income from banking services and charges, gains or losses from the sale of securities, loans and other assets and certain other miscellaneous non-interest income. Non-interest income decreased $1.2 million, or 22.8%, to $4.1 million for fiscal 2005 compared to $5.3 million for fiscal 2004. The decrease is primarily due a $1.5 million impairment charge taken on the IFSB stock held in our available for sale portfolio. Additionally, with the slow down in loan refinancing activity, lower loan prepayment penalty income resulted in a decline in loan fees and service charges of $739,000. Further, other non-interest income declined $373,000 when compared to the same period last fiscal year when a recovery of $558,000 was recorded as income in recognition of previously unrecognized mortgage loan income. Offsetting these reductions to non-interest income are income from the receipt of a net $1.1 million Community Development Financial Institutions grant from the Department of Treasury, an increase of $287,000 in depository fees and charges from additional depositors of our new branches and ATMs, and a $63,000 gain from securities sale.

Non-Interest Expense

Non-interest expense increased by $3.2 million, or 20.8%, to $18.7 million for fiscal 2005 compared to $15.5 million for the prior fiscal year. The increase in non-interest expense was primarily attributable to increases of $1.9 million in salaries and employee benefits as a result of additions to staff from the branch expansion, severance and related costs of $355,000 and increased costs of benefits plans. Net occupancy and equipment expenses increased $514,000 and $122,000, respectively, mainly as a result of opening the new branches and ATMs. Additionally, this fiscal year recorded a charge of $847,000 for merger and acquisition expenses related to the attempted acquisition of IFSB. These increases in non-interest expenses were slightly offset by a year over year $141,000 decrease in other non-interest expense primarily the net result of lower consulting, FDIC deposit assessment and loan related expenses Offset by higher advertising, telephone and retail related expenses.

Income Tax Expense

Income tax expense was approximately $1.5 million for fiscal 2005, a decline of $975,000 or 39.1%, decrease from $2.5 million for fiscal 2004 due to a reduction in the Company's net income before taxes. The effective tax rate in fiscal 2005 was 36.4%, compared to 34.0% for fiscal 2004.

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 debt 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 as management considered that the allowance for loan losses was an appropriate level to absorb probable losses inherent in the existing loan portfolio.

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 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.

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, principal and interest payments on loans, mortgage-backed securities and investment securities and fee income. 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, 2005.

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, 2005 and 2004, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $30.2 million and $28.7 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 to 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 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 remained unchanged. In fiscal 2005 the federal funds rate increased seven separate times resulting in a total increase in the federal funds rate of 175 basis points. While the Bank experienced increases in loan and securities repayments over the last two fiscal years primarily as a result of the increase in mortgage loan refinancing activity caused by the lower interest rate environment, fiscal 2005 recognized a leveling of these prepayments as rates begin to climb.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal 2005, cash and cash equivalents decreased by $2.4 million. Net cash used in operating activities was $5.0 million, representing primarily cash used for other assets and the satisfaction of other liabilities offset by cash from operations. Net cash used in investing activities was $86.3 million, which was primarily the result of purchases of loans and securities, originations of loans and purchase of equipment partially offset by repayments and maturities of loans and securities and loan sales. Net cash provided by financing activities was $88.9 million, reflecting primarily net increases in deposits and borrowings from the FHLB-NY partially offset by repurchases of Carver common stock and stock dividend payments.

Off Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with accounting principles generally accepted in the United States of America ("GAAP"), these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending commitments.

Lending commitments include commitments to originate mortgage and consumer loans and commitments to fund unused lines of credit. The Bank also has contractual obligations related to operating leases. Additionally, the Bank has a contingent liability related to a standby letter of credit. The Bank has outstanding commitments and contractual obligations as follows:

	March 31,	
	2005	2004
	(In thousands)	
Commitments to originate mortgage loans	$44,129	$71,114
Commitments to originate commercial and consumer loans	515	2,844
Letters of credit	1,908	1,908
Total	$46,552	$ 75,866

The following table presents the Bank's contractual obligations at March 31, 2005.

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	$ 102,500	$ 34,840	$ 52,334	$ 15,107	$ 219
Guaranteed preferred beneficial interest in junior subordinated debentures	12,799			12,799	
Total long term debt obligations	115,299	34,840	52,334	27,906	219
Operating lease obligations:					
Lease obligations for rental properties	4,300	630	1,092	1,167	1,411
Total contractual obligations	$ 119,599	$ 35,470	$ 53,426	$ 29,073	$ 1,630

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, 2005, the Bank had tangible, core, and total risk-based capital ratios of 9.2%, 9.2% and 15.6%, respectively and was considered well capitalized.

The following table reconciles the Bank's stockholders' equity at March 31, 2005 under GAAP to regulatory capital requirements.

	Regulatory Capital Requirements			
	GAAP Capital	Tangible Capital	Leverage Capital	Risk-Based Capital
		(in thousands)		
Stockholders' Equity at March 31, 2005 (1)	$ 57,449	$ 57,449	$ 57,449	$ 57,449
Add:				
General valuation allowances		-	-	4,097
Deduct:				
Unrealized loss on securities available-for-sale, net		235	235	235
Goodwill and qualifying intangible assets		-	-	-
Regulatory Capital		57,684	57,684	61,781
Minimum Capital requirement		9,404	25,078	31,670
Regulatory Capital Excess		$ 48,280	$ 32,606	$ 30,111

(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, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2005. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
New York, New York
June 24, 2005

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

	March 31, 2005	March 31, 2004
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 13,020	$ 11,574
Federal Funds sold	6,800	8,200
Interest Earning Deposits	600	3,000
Total cash and cash equivalents	20,420	22,774
Securities:		
Available-for-sale, at fair value (including pledged as collateral of $112,503 at March 31, 2005 and $82,325 at March 31, 2004)	118,033	96,403
Held-to-maturity, at amortized cost (including pledged as collateral of $30,900 at March 31, 2005 and $42,189 at March 31, 2004; fair value of $31,310 at March 31, 2005 and $43,794 at March 31, 2004)	31,302	43,474
Total securities	149,335	139,877
Loans receivable:		
Real estate mortgage loans	424,387	350,015
Consumer and commercial business loans	1,697	6,010
Allowance for loan losses	(4,097)	(4,125)
Total loans receivable, net	421,987	351,900
Office properties and equipment, net	13,658	11,682
Federal Home Loan Bank of New York stock, at cost	5,125	4,576
Accrued interest receivable	2,702	2,489
Other assets	13,150	5,532
Total assets	$ 626,377	$ 538,830
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 453,454	$ 373,665
Advances from the Federal Home Loan Bank of New York and other borrowed money	115,299	104,282
Other liabilities	11,823	16,238
Total liabilities	580,576	494,185
Stockholders' equity:		
Preferred stock (par value $0.01 per share; 1,000,000 shares authorized; 0 issued and outstanding at March 31, 2005 and 100,000 issued and outstanding at March 31, 2004)	-	1
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 2,524,691 and 2,316,358 shares issued at March 31, 2005 and March 31, 2004, respectively; 2,501,338 and 2,285,267 outstanding at March 31, 2005 and March 31, 2004, respectively)	25	23
Additional paid-in capital	23,937	23,882
Retained earnings	22,748	20,892
Unamortized awards of common stock under ESOP and management recognition plan ("MRP")	(254)	(21)
Treasury stock, at cost (23,353 shares at March 31, 2005 and 31,091 at March 31, 2004)	(420)	(390)
Accumulated other comprehensive (loss) income	(235)	258
Total stockholders' equity	45,801	44,645
Total liabilities and stockholders' equity	$ 626,377	$ 538,830

See accompanying notes to consolidated financial statements.

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

	For the Year Ended March 31,		
	2005	2004	2003
Interest income:			
Loans	$ 22,940	$ 20,117	$ 21,194
Mortgage-backed securities	4,605	4,789	4,282
Investment securities	827	1,161	1,614
Federal funds sold	174	167	300
Total interest income	28,546	26,234	27,390
Interest expense:			
Deposits	5,455	4,649	5,760
Advances and other borrowed money	4,303	4,051	3,223
Total interest expense	9,758	8,700	8,983
Net interest income	18,788	17,534	18,407
Provision for loan losses	-	-	-
Net interest income after provision for loan losses	18,788	17,534	18,407
Non-interest income:			
Depository fees and charges	2,212	1,925	1,813
Loan fees and service charges	1,868	2,607	1,341
Gain on sale of investment securities	94	31	-
Impairment of securities	(1,547)	-	-
Gain on sale of loans	84	116	-
Gain on sale of fixed assets	-	2	-
Grant income	1,140	-	-
Other	224	597	7
Total non-interest income	4,075	5,278	3,161
Non-interest expense:			
Compensation and benefits	9,461	7,587	6,774
Net occupancy expense	1,957	1,443	1,261
Equipment	1,608	1,486	1,610
Other	5,670	4,964	5,059
Total non-interest expense	18,696	15,480	14,704
Income before income taxes	4,167	7,332	6,864
Income taxes	1,518	2,493	3,033
Net income	$ 2,649	$ 4,839	$ 3,831
Dividends applicable to preferred stock	$ 114	$ 197	$ 197
Net income available to common stockholders	$ 2,535	$ 4,642	$ 3,634
Earnings per common share:			
Basic	$ 1.06	$ 2.03	$ 1.59
Diluted	$ 1.03	$ 1.87	$ 1.52

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 (LOSS)	COMMON STOCK ACQUIRED BY ESOP	COMMON STOCK ACQUIRED BY MRP	TOTAL STOCK-HOLDERS' EQUITY
Balance - March 31, 2002	**$1**	**$23**	**$23,756**	**$13,194**	**($138)**	**$ 116**	**($152)**	**($58)**	**36,742**
Comprehensive income:									
Net income	-	-	-	3,831	-	-	-	-	3,831
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	634	-	-	634
Comprehensive income, net of taxes:									4,465
Dividends paid	-	-	-	(313)	-	-	-	-	(313)
Purchase of treasury stock	-	-	5	-	(52)	-	-	-	(47)
Allocation of ESOP Stock	-	-	20	-	-	-	152	-	172
Purchase of shares for MRP	-	-	-	-	-	-	-	54	54
Balance - March 31, 2003	**1**	**23**	**23,781**	**16,712**	**(190)**	**750**	**-**	**(4)**	**41,073**
Comprehensive income :									
Net income	-	-	-	4,839	-	-	-	-	4,839
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	(492)	-	-	(492)
Comprehensive income, net of taxes:									4,347
Dividends paid	-	-	-	(659)	-	-	-	-	(659)
Treasury stock activity	-	-	82	-	(200)	-	-	-	(118)
Allocation of ESOP Stock	-	-	-	-	-	-	-	-	-
Purchase of shares for MRP	-	-	19	-	-	-	-	(17)	2
Balance—March 31, 2004	**1**	**23**	**23,882**	**20,892**	**(390)**	**258**	**-**	**(21)**	**44,645**
Comprehensive income :									
Net income	-	-		2,649	-	-	-	-	2,649
Change in net unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	(493)	-	-	(493)
Comprehensive income, net of taxes:									2,156
Dividends paid	-	-	-	(793)	-	-	-	-	(793)
Preferred stock redemption	(1)	2	-						1
Treasury stock activity	-	-	55	-	(30)	-	-	-	25
Purchase of shares for ESOP	-	-	-	-	-	-	(126)	-	(126)
Purchase of shares for MRP	-	-	-	-	-	-	-	(107)	(107)
Balance—March 31, 2005	**$ -**	**$ 25**	**$ 23,937**	**$ 22,748**	**$ (420)**	**$ (235)**	**$ (126)**	**$ (128)**	**$ 45,801**

See accompanying notes to consolidated financial statements.

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

	Year Ended March 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 2,649	$ 4,839	$ 3,831
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	-
ESOP and MRP expense	358	128	251
Depreciation and amortization expense	1,423	1,146	1,224
Amortization of intangibles	-	178	213
Other amortization	1,502	1,848	481
Impairment charge on securities	1,547	-	-
Gain from sale of securities	(94)	(31)	-
Gain on sale of loans	(84)	(116)	-
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(213)	857	(542)
(Increase) decrease in other assets	(7,618)	4,478	(6,112)
(Decrease) increase in other liabilities	(4,452)	3,481	(392)
Net cash (used in) provided by operating activities	(4,982)	16,808	(1,046)
Cash flows from investing activities:			
Purchases of securities:			
Available-for-sale	(83,219)	(58,477)	(91,112)
Held-to-maturity	-	(19,859)	(4,145)
Proceeds from principal payments, maturities and calls of securities			
Available-for-sale	51,383	65,060	28,705
Held-to-maturity	11,996	12,693	6,578
Proceeds from sales of available-for-sale securities	7,288	23,902	-
Disbursements for loan originations	(85,801)	(87,140)	(59,595)
Loans purchased from third parties	(104,734)	(93,694)	(42,260)
Principal collections on loans	112,602	111,937	96,432
(Purchase) Redemption of FHLB-NY stock	(549)	864	(1,677)
Proceeds from loans sold	8,127	9,474	2,453
Additions to premises and equipment	(3,399)	(2,779)	(1,166)
Net cash used in investing activities	(86,306)	(38,019)	(65,787)
Cash flows from financing activities:			
Net increase in deposits	79,789	26,501	22,210
Net proceeds from (repayment of) FHLB advances and other borrowed money	10,959	(17,455)	33,345
Issuance of trust preferred securities, net	-	12,741	-
Common stock repurchased	(1,021)	(303)	(100)
Dividends paid	(793)	(659)	(313)
Net cash provided by financing activities	88,934	20,825	55,142
Net (decrease) in cash and cash equivalents	(2,354)	(386)	(11,691)
Cash and cash equivalents at beginning of the period	22,774	23,160	34,851
Cash and cash equivalents at end of the period	$ 20,420	$ 22,774	$ 23,160
Supplemental information:			
Noncash Transfers-			
Securities transferred from available-for-sale to held-to-maturity	$ -	$ -	$ 22,811
Change in unrealized gain on valuation of available-for-sale investments, net	(493)	(492)	634
Cash paid for-			
Interest	$ 9,718	$ 8,739	$ 9,616
Income taxes	2,395	2,825	3,106

See accompanying notes to consolidated financial statements

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 debt 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 February 2004. 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. On January 11, 2000, the Holding Company sold in a private placement, pursuant to a Securities Purchase Agreement dated January 11, 2000, 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"). On June 1, 2004, Provender sold all 60,000 of its Series B Preferred Stock to Keefe Bruyette & Woods, Inc ("KBW"). On October 15, 2004, both MSDW and KBW elected to convert their Preferred Shares into shares of Holding Company's common stock, thus an additional 208,333 shares of common stock were issued to these parties. 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 eight 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, Carver Statutory Trust I, the Bank and the Bank's wholly owned or majority owned subsidiaries, Carver Asset Corporation, CFSB Realty Corp. and CFSB Credit Corp. 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 and mortgage loans, the determination of the allowance for loan losses and, if applicable, the valuation of real estate owned. Actual results could differ significantly from those estimates.

Management believes that prepayment assumptions on mortgage-backed securities and mortgage loans are appropriate and the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, 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, the Office of Thrift supervision ("OTS") our regulator, as an integral part of its examination process, periodically reviews Carver Federal's allowance for loan losses and, if applicable, real estate owned valuations. The OTS 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 which are generally sold for one-day periods. The amounts due from depository institutions include a non-interest bearing account held at the Federal Reserve Bank ("FRB") where any additional cash reserve required on demand deposits would be maintained. Currently, this reserve requirement is zero since the Bank's vault cash satisfies cash reserve requirements for deposits.

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 securities available-for-sale portfolio. Securities should be classified held-to-maturity and carried at amortized cost only if the Bank has a positive intent and ability to hold such securities to maturity. If not classified as held-to-maturity, such securities are classified as securities available-for-sale demonstrating management's ability to sell in response to actual or anticipated changes in interest rates and resulting prepayment risk or any other factors. 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 (loss) income, a component of Stockholders' Equity. Any impairment in the available-for-sale securities deemed other-than-temporary, is written down against the cost basis and charged to earnings. During the twelve month period ended March 31, 2005, Carver recorded a $1.5 million charge to earnings for impairment in available-for-sale securities deemed other-than-temporary on the 150,000 shares of Independence Federal Savings Bank common stock ("IFSB") that it held in portfolio.

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 and certain deferred direct loan origination costs, 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 expected 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, adjusted for prepayments when applicable, 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.

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.

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, giving effect to historical loss experience over several years and linked to cyclical trends, 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 loans and also include consumer and

business loans.

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 based on several years of loss experience to the outstanding balances in each loan category. 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

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 real estate 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 25 years
Furnishings and equipment	3 to 5 years
Leasehold improvements	Lesser of useful life or remaining term of lease

Maintenance, repairs and minor improvements are charged to non-interest expense in the period incurred.

Bank Owned Life Insurance

Bank Owned Life Insurance ("BOLI") is carried at its cash surrender value on the balance sheet and is classified as a non-interest-earning asset. Returns on the BOLI assets are added to the carrying value and included as non-interest income in the consolidated statement of operations. Any receipt of benefit proceeds is recorded as a reduction to the carrying value of the BOLI asset.

Mortgage Servicing Rights (MSR)

Mortgage servicing rights ("MSR") on mortgage loans are recognized at the sale of mortgage loans where servicing rights are retained. At recognition, this asset is recorded onto the balance sheet as a non-interest-earning asset. The initial recognition of MSR is based on the fair value of total estimated income from the servicing of these loans. The asset is then amortized over the estimated life of the serviced loans.

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. At March 31, 2005, the Bank had no foreclosed real estate, however as a result of a property tax redemption, the Bank took fee ownership of a vacant tract of land in Bayshore, NY.

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.

At March 31, 2005 Carver had no goodwill or identifiable intangible assets on its books.

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 was no impairment on these assets 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.

The Holding Company's management recognition and retention plan ("MRP") is also accounted for in accordance with APB 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.

Carver Federal applies APB 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). The following table illustrates net income and earnings per common share pro forma results with the application of SFAS 123 for Carver's Stock Option Plan, for the years ended March 31:

	2005	2004	2003
	(Dollars in thousands, except per share data)		
Net income (loss) available to common shareholders:			
As reported	$2,535	$4,642	$3,634
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(124)	(158)	(88)
Pro forma	$ 2,411	$ 4,484	$ 3,546
Basic earnings (loss) per share:			
As reported	$1.06	$2.03	$1.59
Pro forma	1.01	1.96	1.55
Diluted earnings (loss) per share:			
As reported	$1.03	$1.87	$1.52
Pro forma	0.98	1.81	1.48
Weighted average number of shares outstanding	2,381,980	2,283,802	2,290,934

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 3.50%, 2.50% and 2.50%, for the relevant fiscal years ended March 31, 2005, 2004 and 2003 ("fiscal 2005", "fiscal 2004" and "fiscal 2003"), respectively; volatility of 35% for fiscal 2005 and 45% fiscal 2004 and 40% fiscal 2003; expected dividend yield was calculated using annual dividends of $0.28 per share for fiscal 2005 and $0.20 for fiscal 2004 and fiscal 2003; and an expected life of seven years for employees and directors option grants.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised) "*Accounting for Stock Based Compensation, Share Based Payment*", ("SFAS 123R") which replaces the guidance prescribed in SFAS 123. SFAS 123R requires that compensation cost relating to share–based payment transactions be recognized in the financial statements. The associated costs will be measured based on the fair value of the equity or liability instruments issued. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R is effective as of the first interim or annual reporting period beginning after June 15, 2005. Carver Federal will adopt SFAS 123R as of April 1, 2006. SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased or cancelled after that date. Additionally, beginning on the required effective date, public entities will recognize compensation cost for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grants-date fair value of those awards calculated under SFAS 123 for either recognition or pro forma disclosures. The cumulative effect of initially applying SFAS 123R, if any, is recognized as of the required effective date. For period before the required effective date, public entities may elect, although they are not required, to retroactively restate financial statements for prior periods to recognize compensation cost on a basis consistent with the pro forma disclosures required for those periods by SFAS 123. Management has not yet made a determination on the transition method that will be applied upon adoption of SFAS 123R. However, the impact of adoption regardless of the transition method chosen is expected to be a reduction in net income comparable to that shown in the previous table disclosing 2005 pro forma effects of SFAS 123.

Reclassifications

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

NOTE 2. SECURITIES

The following is a summary of securities at March 31, 2005:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
		(In thousands)		
Available-for-Sale:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	$ 83,861	$ 98	$ (534)	$ 83,425
Federal Home Loan Mortgage Corporation	3,922	14	(28)	3,908
Federal National Mortgage Association	8,247	17	(115)	8,149
Total mortgage-backed securities	96,030	129	(677)	95,482
Equity Securities	1,575	-	-	1,575
U.S. Government Agency Securities	21,144	-	(168)	20,976
Total available-for-sale	118,749	129	(845)	118,033
Held-to-Maturity:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	1,070	59	-	1,129
Federal Home Loan Mortgage Corporation	18,779	32	(71)	18,740
Federal National Mortgage Association	11,116	110	(120)	11,106
Small Business Administration	337	-	(2)	335
Total mortgage-backed securities	31,302	201	(193)	31,310
U.S. Government Agency Securities	-	-	-	-
Total held-to-maturity	31,302	201	(193)	31,310
Total securities	$ 150,051	$ 330	$ (1,038)	$149,343

The following is a summary of securities at March 31, 2004:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(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 net unrealized loss on available-for-sale securities was $716,000 ($444,000 after taxes) at March 31, 2005 as compared to an unrealized gain of $42,000 ($26,000 after taxes) at March 31, 2004. 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, 2005 the carrying value of these securities is $17.3 million and a related net unrealized gain of $209,000 (net of amortization) continues to be reported. Changes in unrealized holding gains and losses between fiscal 2005 and fiscal 2004 resulted in an after-tax decrease in stockholders' equity of $493,000. 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 2005 and fiscal 2004 of $94,000 and $31,000, respectively. There were no sales of securities in fiscal 2003.

At March 31, 2005 the Bank pledged securities of $34.1 million as collateral for advances from the Federal Home Loan Bank of New York ("FHLB-NY").

The following is a summary of the carrying value (amortized cost) and fair value of securities at March 31, 2005, 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.

	Amortized Cost	Fair Value
	(In thousands)	
Available-for-sale :		
Less than one year	$ 10,369	$ 10,354
One through five years	12,927	12,793
Five through ten years	1,839	1,827
After ten years	93,614	93,059
	$ 118,749	$ 118,033
Held-to-maturity:		
Less than one year	-	-
One through five years	99	102
Five through ten years	-	-
After ten years	31,203	31,208
	$ 31,302	$ 31,310

The unrealized losses and fair value of securities in an unrealized loss position at March 31, 2005 for less than 12 months and 12 months or longer were as follows:

	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	$ (225)	$ 42,625	$ (452)	$ 27,522	$ (677)	$ 70,147
U.S. Government Agency Securities	(168)	20,976	-	-	(168)	20,976
Total available-for-sale	(393)	63,601	(452)	27,522	(845)	91,123
Held-to-Maturity:						
Mortgage-backed securities	(3)	1,186	(190)	10,475	(193)	11,661
Total securities	$ (396)	$ 64,787	$ (642)	$ 37,997	$ (1,038)	$ 102,784

The unrealized losses and fair value of securities in an unrealized loss position at March 31, 2004 for less than 12 months and 12 months or longer were as follows:

	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

A total of 33 securities had an unrealized loss at March 31, 2005. Based on estimated fair value, all the securities in an unrealized loss position were United States government agency-backed securities, which represents 68.8% and 52.1% of total securities at March 31, 2005 and 2004, respectively. The cause of the temporary impairment is directly related to the change in interest rates. In general, as interest rates rise, the fair value of securities will decline, and conversely as interest rates decline, the fair value of securities will increase. Management considers fluctuations in fair value as a result of interest rate changes to be temporary, which is consistent with the Bank's experience. The impairments are deemed temporary based on the direct relationship of the decline in fair value to movements in interest rates, the life of the investments and their high credit quality.

NOTE 3. LOANS RECEIVABLE, NET

A summary of loans receivable, net follows:

	March 31,			
	2005		2004	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
One- to four-family	$ 155,797	36.69 %	$ 98,645	27.80 %
Multifamily	101,899	23.99	120,252	33.88
Nonresidential	116,769	27.49	102,641	28.92
Construction	48,579	11.43	27,376	7.71
Consumer and business	1,697	0.40	6,010	1.69
Total gross loans	424,741	100.00 %	354,924	100.00 %
Add:				
Premium on loans	1,743		1,264	
Less:				
Deferred fees and loan discounts	(400)		(163)	
Allowance for loan Losses	(4,097)		(4,125)	
Total	**$ 421,987**		**$ 351,900**	

At March 31, 2005, 78.6% of the Company's real estate loans receivable were principally secured by properties located in the State of New York.

The mortgage loan portfolios serviced for Federal National Mortgage Association ("FNMA") are not included in the accompanying consolidated financial statements. The unpaid principal balances of these loans aggregated $17.9 million, $11.7 million and $4.1 million at March 31, 2005, 2004 and 2003, respectively. Custodial escrow balances, maintained in connection with the above-mentioned loan servicing, were approximately $56,000, $40,000 and $16,000 at March 31, 2005, 2004 and 2003, respectively. During the year ended March 31, 2005 the Bank sold $8.0 million in loans with a recognized gain of $84,000, as compared to $9.4 million in loans sold during fiscal 2004 with a $116,000 gain recognized.

At March 31, 2005 the Bank pledged $144.3 million in total mortgage loans as collateral for borrowings from the FHLB-NY.

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

	Year ended March 31,		
	2005	2004	2003
Balance at beginning of the year	$ 4,125	$ 4,158	$ 4,128
Provision charged to operations	-	-	-
Recoveries of amounts previously charged-off	45	292	258
Charge-offs of loans	(73)	(325)	(228)
Balance at ending of the year	$ 4,097	$ 4,125	$ 4,158

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, 2005, 2004 and 2003 the recorded investment in impaired loans was $998,000, $2.1 million and $1.8 million, respectively, all of which represented non-accrual loans. The related allowance for credit losses was approximately $160,000, $317,000 and $195,000 at March 31, 2005, 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, 2005, 2004 and 2003 was approximately $1.6 million, $2.0 million and $1.8 million, respectively. For the fiscal years ended March 31, 2005, 2004 and 2003, the Company did not recognize any interest income on these impaired loans. Interest income of $83,000, $185,000 and $173,000, respectively, for the fiscal years ended March 31, 2005, 2004 and 2003 would have been recorded on impaired loans had they performed in accordance with their original contract.

At March 31, 2005, 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, 2005	March 31, 2004
	(In thousands)	
Land	$ 415	$ 415
Building and improvements	9,195	8,838
Leasehold improvements	3,939	1,976
Furniture and Equipment	7,734	6,655
	21,283	17,884
Less accumulated depreciation and amortization	7,625	6,202
	$ 13,658	$ 11,682

Depreciation and amortization charged to operations for the fiscal years ended March 31, 2005, 2004 and 2003 amounted to $1.4 million, $1.1 million and $1.2 million, respectively.

NOTE 5. ACCRUED INTEREST RECEIVABLE

The detail of accrued interest receivable is as follows:

	March 31, 2005	March 31, 2004
	(In thousands)	
Loans receivable	$ 1,895	$ 1,683
Mortgage-backed securities	576	580
Investments and other interest bearing assets	231	226
Total accrued interest receivable	$ 2,702	$ 2,489

NOTE 6. DEPOSITS

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

	2005			2004		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Non-interest -bearing demand	$ 25,570	5.6 %	- %	$ 20,966	5.6 %	- %
NOW demand	24,095	5.3	0.30	22,671	6.0	0.30
Savings and clubs	137,810	30.4	0.62	131,120	35.1	0.60
Money Market savings	36,294	8.0	1.34	30,842	8.3	0.74
Certificates of deposit	229,685	50.7	2.30	168,066	45.0	1.97
Total	$ 453,454	100.0 %	1.48 %	$ 373,665	100.0 %	1.18 %

Scheduled maturities of certificates of deposit follow:

	March 31, 2005	March 31, 2004
	(In thousands)	
Certificates of deposit by remaining term to contractual maturity:		
Within one year	$ 186,585	$ 127,739
After one but within two years	13,412	15,817
After two but within three years	8,512	6,573
After three years	21,176	17,937
Total	$ 229,685	$ 168,066

The aggregate amount of certificates of deposit with minimum denominations of $100,000 or more was approximately $161.7 million at March 31, 2005 compared to $104.3 million at March 31, 2004.

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

	2005	2004	2003
		(In thousands)	
NOW demand	$ 69	$ 85	$ 131
Savings and clubs	811	1,000	1,477
Money market savings	302	235	189
Certificates of deposit	4,258	3,316	3,975
	5,440	4,636	5,772
Mortgagors deposits	25	24	-
Penalty for early withdrawal of certificates of deposit	(10)	(11)	(12)
Total interest expense	$ 5,455	$ 4,649	$ 5,760

NOTE 7. BORROWED MONEY

Federal Home Loan Bank Advances. FHLB-NY advances and weighted average interest rates by remaining period to maturity at March 31 follow:

	2005		2004	
	(Dollars in thousands)			
Maturing Year Ended March 31,	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2005	- %	$ -	4.05 %	$ 26,000
2006	3.41	34,840	3.46	32,840
2007	4.21	36,134	4.42	28,134
2008	3.65	16,200	3.49	3,300
2009	3.78	15,107	2.86	1,000
2012	3.50	219	3.50	242
	3.78 %	$102,500	3.92 %	$ 91,516

As a member of the FHLB-NY, the Bank may have outstanding FHLB-NY borrowings in a combination of term advances and overnight funds of up to 25% of its total assets, or approximately $156.6 million at March 31, 2005. Borrowings are secured by the Bank's investment in FHLB-NY stock and by a blanket security agreement. This agreement requires the Bank to maintain as collateral certain qualifying assets (principally mortgage loans and securities) not otherwise pledged. At March 31, 2005, advances were secured by pledges of the Bank's investment in the capital stock of the FHLB-NY totaling $5.1 million and a blanket assignment of the Bank's unpledged qualifying mortgage loans of $144.3 million and mortgage-backed and investment securities of $34.1 million. Included in the total assets held at the FHLB-NY as collateral for borrowings is excess borrowing capacity of $60.9 million.

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-NY, 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, 2005 and 2004 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 debt 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 debt 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 debt securities are cumulative and payable at a floating rate per annum resetting quarterly with a margin of 3.05% over the three-month LIBOR. At March 31, 2005 and 2004 the rate paid on these trust preferred debt securities was 6.08% and 4.16%, respectively.

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,	
	2005	**2004**
	(Dollars in thousands)	
Amounts outstanding at the end of period:		
FHLB-NY advances	$ 102,500	$ 91,516
Guaranteed preferred beneficial interest in junior subordinated debentures	12,799	12,741
Loan for employee stock ownership plan	-	25
Rate paid at period end:		
FHLB-NY advances	3.78%	3.92%
Guaranteed preferred beneficial interest in junior subordinated debentures	6.08%	4.16%
Loan for employee stock ownership plan	-	4.00%
Maximum amount of borrowing outstanding at any month end:		
FHLB-NY advances	$ 112,506	$ 112,030
Guaranteed preferred beneficial interest in junior subordinated debentures	12,799	12,742
Loan for employee stock ownership plan	25	207
Approximate average amounts outstanding for period:		
FHLB-NY advances	$ 97,013	$ 99,359
Guaranteed preferred beneficial interest in junior subordinated debentures	12,768	6,854
Loan for employee stock ownership plan	6	137
Approximate weighted average rate paid during period (1):		
FHLB-NY advances	3.71%	3.74%
Guaranteed preferred beneficial interest in junior subordinated debentures	5.49%	4.78%
Loan for employee stock ownership plan	3.86%	4.07%

(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 8. INCOME TAXES

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

	2005	2004	2003
		(In thousands)	
Federal income tax expense (benefit):			
Current	$ 1,978	$ 1,634	$ 4,200
Deferred	(782)	427	(1,626)
	1,196	2,061	2,574
State and local income tax expense (benefit):			
Current	418	342	1,104
Deferred	(96)	90	(645)
	322	432	459
Valuation allowance	-	-	-
Total provision for income tax	$ 1,518	$ 2,493	$ 3,033

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

	2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
			(In thousands)			
Statutory Federal income tax	$ 1,417	34.0 %	$ 2,493	34.0 %	$ 2,334	34.0 %
State and local income taxes, net of Federal tax benefit	213	5.1	285	3.9	303	4.4
Change in valuation allowance	-	-	-	-	-	-
Other	(112)	(2.7)	(285)	(3.9)	396	5.8
Total income tax expense	$ 1,518	36.4 %	$ 2,493	34.0 %	$ 3,033	44.2 %

Carver Federal's stockholders' equity includes approximately $2.8 million at each of March 31, 2005, 2004 and 2003, 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:

	2005	2004
	(In thousands)	
Deferred tax assets		
Income from affiliate	$ 1,873	$ 1,943
Allowance for loan losses	1,393	1,414
Deferred loan fees	137	52
Compensation and benefit plans	384	100
Reserves for losses on other assets	32	20
Non-accrual loan interest	274	242
Investment securities impairment	588	-
Total deferred tax assets before valuation allowance	4,681	3,771
Valuation allowance	-	-
Total deferred tax assets	4,681	3,771
Deferred tax liabilities		
Unrealized (loss) gain on available-for-sale securities	(144)	159
Depreciation	428	393
Total deferred tax liabilities	284	552
Net deferred tax assets	$ 4,397	$ 3,219

A valuation allowance against the deferred tax assets at March 31, 2005 and 2004 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 9. 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,		
	2005	2004	2003
		(In thousands)	
Net income	$ 2,649	$ 4,839	$ 3,831
Preferred stock dividends	(114)	(197)	(197)
Net income – basic	2,535	4,642	3,634
Impact of conversion/potential conversion of convertible preferred stock to common stock	114	197	197
Net income – diluted	$ 2,649	$ 4,839	$ 3,831
Weighted average common shares outstanding – basic	2,382	2,284	2,291
Effect of dilutive securities convertible preferred stock and options	197	305	235
Weighted average common shares outstanding – diluted	2,579	2,589	2,526

NOTE 10. 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) at both March 31, 2005 and 2004, 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 issued in exchange for each outstanding share of Bank common stock. 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 in a private placement, pursuant to a Securities Purchase Agreement, dated January 11, 2000, 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") accrued annual dividends at $1.97 per share. Dividends were paid semi-annually on June 15 and December 15 of each year. Each share of Preferred Stock was 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 had the option to 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 would be entitled to receive $25 per share of Preferred Stock plus all dividends accrued and unpaid thereon. Each share of Preferred Stock would be entitled to one vote for each share of Common Stock into which the Preferred Stock would be converted. On September 15, 2004, the Holding Company issued a press release and mailed a Notice of Redemption and a related Letter of Transmittal to the holders of the Preferred Stock, stating that it would redeem all 40,000 outstanding shares of its Series A Convertible Preferred Stock and all 60,000 outstanding shares of its Series B Convertible Preferred Stock. The Preferred Stock shares were to be redeemed on October 15, 2004 ("Redemption Date") at a redemption price of $26.97 per share plus $0.65 in accrued and unpaid dividends to, but excluding, the Redemption Date for an aggregate redemption price of $27.62 per Preferred Share. Dividends on the Preferred Shares would have ceased to accrue on the Redemption Date. On October 15, 2004 the holders of all 40,000 outstanding shares of its Series A Convertible Preferred Stock and all 60,000 outstanding shares of its Series B Convertible Preferred Stock, elected, prior to the Redemption Date, pursuant to the Certificate of Designations, Preferences and Rights of the Preferred Shares, to convert their Preferred Shares into shares of Carver's common stock, par value $0.01 (the "Common Stock"). Upon conversion of their Preferred Shares, the holders were issued an aggregate of 208,333 shares of Common Stock.

Subsequent to the conversion of the Preferred Stock, the Holding Company has a recorded 2,524,691 shares of common stock issued.

Regulatory Capital. The operations and profitability of the Bank are significantly affected by legislation and the policies of the various regulatory agencies. The OTS has promulgated capital requirements for financial institutions consisting of minimum tangible and core capital ratios of 1.5% and 3.0%, respectively, of the institution's adjusted total assets and a minimum risk-based capital ratio of 8.0% of the institution's risk weighted assets. Although the minimum core capital ratio is 3.0%, the Federal Deposit Insurance Corporation Improvement Act, as amended ("FDICIA"), stipulates that an institution with less than 4.0% core capital is deemed undercapitalized. At March 31, 2005 and 2004, 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, 2005 and 2004 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
March 31, 2005	(Dollars in thousands)					
Tangible capital	$ 57,684	9.2 %	$ 9,404	1.5 %	N/A	N/A %
Leverage capital	57,684	9.2	25,078	4.0	31,348	5.0
Risk-based capital:						
Tier 1	$ 57,684	14.6	$ 15,877	4.0	$ 23,753	6.0
Total	61,781	15.6	31,670	8.0	39,587	10.0
March 31, 2004						
Tangible capital	$ 57,191	10.6 %	$ 8,082	1.5 %	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

The following table reconciles the Bank's stockholders' equity at March 31, 2005, 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, 2005 (1)	$ 57,449	$ 57,449	$ 57,449	$ 57,449
Add:				
General valuation allowances		-	-	4,097
Deduct:				
Unrealized loss on securities available-for-sale, net		235	235	235
Regulatory Capital		57,684	57,684	61,781
Minimum Capital requirement		9,404	25,078	31,670
Regulatory Capital Excess		$ 48,280	$ 32,606	$ 30,111

(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 2005 and 2004 in the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income. Carver Federal's other comprehensive income or loss (other than net income or loss) is attributable to unrealized gains and losses on securities which were at March 31, 2005 an unrealized loss of $235,000 and at March 31, 2004 an unrealized gain of $258,000. Included in the amounts at March 31, 2005 and 2004 were unrealized gains of $209,000 and $232,000, respectively, relating to 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 11. 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:

	2005	2004
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at the beginning of year	$ 2,736	$ 2,752
Interest cost	167	172
Actuarial loss	136	43
Benefits paid	(254)	(231)
Projected benefit obligation at end of year	$ 2,785	$ 2,736
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ 3,068	$ 2,907
Actual return on plan assets	136	392
Benefits paid	(254)	(231)
Fair value of plan assets at end of year	$ 2,950	$ 3,068
Funded status	$ 165	$ 332
Unrecognized loss / (gain)	203	(33)
Accrued pension cost	$ 368	$ 299

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

	2005	2004	2003
		(In thousands)	
Interest cost	$ 167	$ 172	$ 178
Expected return on plan assets	(236)	(223)	(260)
Amortization of:			
Unrecognized (gain)	–	–	(19)
Net periodic pension (benefit)	$ (69)	$ (51)	$ (101)

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

	2005	2004	2003
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	6.38%	6.50%	6.50%

(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 be 21 years of age, 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, 2005, 2004 and 2003 were $174,000, $95,000 and $127,000, 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:

	2005	2004
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at beginning of year	$ 169	$ 200
Interest cost	9	12
Actuarial (gain)	1	–
Benefits paid	(43)	(43)
Projected benefit obligation at end of year	$ 136	$ 169
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	$ (136)	$ (169)
Unrecognized (gain)	(16)	(17)
Accrued pension cost	$ (152)	$ (186)

Net periodic pension cost for the years ended March 31, 2005, 2004 and 2003 included the following:

	2005	2004	2003
		(In thousands)	
Interest cost	$ 9	$ 12	$ 17
Net periodic pension cost	$ 9	$ 12	$ 17

The actuarial assumptions used in determining plan benefits include a discount rate of 6.1%, 6.4% and 6.5% for the years ended March 31, 2005, 2004 and 2003, respectively.

BOLI. The Bank owns one BOLI plan which was formed to offset future employee benefit costs and provide additional benefits due to its tax exempt nature. Only officer level employees are covered under this program.

An initial investment of $8.0 million was made to the BOLI program on September 21, 2004. At March 31, 2005 the Consolidated Statement of Conditions reflects a net cash surrender value of $8.2 million. The related income is reflected in the Consolidated Statement of Operations as a component of other non-interest income.

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. On March 28, 2005 the plan was amended for all future awards. The MRP provides for additional discretionary grants of restricted stock to those employees selected by the committee established to administer the MRP. Awards granted prior to March 28, 2005, 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. Under the amended plan awards granted after March 28, 2005 vest based on a five-year performance-accelerated vesting schedule. Ten percent of the awarded shares vest in each of the first four years and the remainder in the fifth year. Using a performance-accelerated vesting schedule, with return on assets ("ROA") as the performance measure, the vesting period can be accelerated in years three and four if the Bank meets or exceeds the three-year average ROA for its peer group. 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 $158,00, $128,000 and $79,000 as expense for the years ended March 31, 2005, 2004 and 2003, 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 was payable over forty equal quarterly installments through September 2004. Interest on the term loan was payable quarterly, initially at a rate of 3.0% over the average federal funds rate. On May 20, 2002, the term loan was modified to provide for interest at a fixed rate of 4.0% per annum. Each year until the loan paid off in June of 2004, the Bank made discretionary contributions to the ESOP, which were 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. Currently, shares are purchased in the open market in accordance with Carver's common stock repurchase program 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 $200,000, $0 and $172,000 for the years ended March 31, 2005, 2004 and 2003, respectively.

The ESOP shares at March 31 follow:

	2005	2004
	(In thousands)	
Allocated shares	78	177
Unreleased shares	-	5
Unallocated shares	5	-
Total ESOP shares	83	182
Fair value of unreleased/unallocated shares	$ 95	$ 117

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, 2005, there were 225,292 options outstanding and 151,846 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 option grants generally vest on an annual basis ratably over either three or five years, commencing after one year of service and, in some instances, portions of option grants vest at the time of the grant. On March 28, 2005, the plan was amended and vesting of future awards is based on a five-year performance-accelerated vesting schedule. Ten percent of the awarded options vest in each of the first four years and the remainder in the fifth year. Using a performance-accelerated vesting schedule, ROA as the performance measure, the vesting period can be accelerated in years three and four if the Bank meets or exceeds the three-year average ROA for its peer group. 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:

	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	229,636	$ 11.25	192,176	$ 10.07	134,767	$ 9.10
Granted	39,347	19.65	43,638	16.35	65,142	12.05
Exercised	(35,954)	12.75	(77)	12.06	(333)	9.93
Forfeited	(7,737)	14.38	(6,101)	10.39	(7,400)	10.14
Outstanding, end of year	225,292	12.37	229,636	11.25	192,176	10.07
Exercisable at year end	151,846		108,925		106,020	

Information regarding stock options at March 31, 2005 follows:

Range of Exercise Prices		Options Outstanding Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Options Exercisable Shares	Weighted Average Exercise Price
$ 8.00	$ 8.99	68,000	5 years	$ 8.24	68,000	$ 8.24
9.00	9.99	38,560	6 years	9.92	38,560	9.92
10.00	10.99	7,000	6 years	10.53	6,400	10.54
12.00	12.99	43,076	7 years	12.10	28,182	12.09
13.00	13.99	1,000	3 years	13.81	1,000	13.81
16.00	16.99	29,128	8 years	16.41	9,704	16.41
19.00	19.99	37,418	9 years	19.64	–	–
20.00	20.99	729	10 years	20.00	–	–
21.00	21.99	381	9 years	21.76	–	–
Total		225,292			151,846	

NOTE 12. COMMITMENTS AND CONTINGENCIES

Credit Related Commitments. 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, 2005	March 31, 2004
	(In thousands)	
Commitments to originate mortgage loans	$ 44,129	$ 71,114
Commitments to originate commercial & consumer loans	515	2,844
Letters of Credit	1,908	1,908
Total	$ 46,552	$ 75,866

At March 31, 2005, of the $44.1 million in outstanding commitments to originate mortgage loans, $37.4 million represented construction loans at an average rate of 5.70%, $3.4 million represented commitments to originate non-residential mortgage loans at rates within a range of 6.00% to 7.75% and $3.3 million represented the balance of one-four and multi-family residential loans at rates between 5.88% to 6.75%.

The balance of commitments on business and consumer loans at March 31, 2005 is primarily undisbursed funds from approved unsecured commercial lines of credit. All such lines carry adjustable rates mainly tied to prime. At March 31, 2005, 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.

Lease Commitments. Rentals, including real estate taxes, under long-term operating leases for certain branch offices aggregated approximately $479,000, $245,000, and $186,000 for the years ended March 31, 2005, 2004 and 2003, respectively. As of March 31, 2005, minimum rental commitments under all noncancellable leases with initial or remaining terms of more than one year and expiring through 2018 follow:

Year Ending March 31,	**Minimum Rental**
	(In Thousands)
2006	630
2007	549
2008	543
2009	575
2010	592
Thereafter	1,411
	$ 4,300

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, 2005, 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.

In January 2004, Michael Lee & Company ("Michael Lee"), former accountants for Hale House Center, Inc., 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 asserting claims of professional malpractice and breach of contract due to Michael Lee's alleged provision of 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 has appealed the judgment. Carver Federal opposed the appeal as untimely but it was found to be timely filed. Michael Lee's appeal is pending. Carver Federal intends to defend itself vigorously. In the opinion of management, after consultation with legal counsel, the lawsuit is without merit and the ultimate outcome of this matter is not expected to have a material adverse effect on the Company's results of operations, business operations or consolidated financial condition.

NOTE 13. 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.

Mortgage servicing rights

The fair value of mortgage servicing rights is estimated by discount 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, 2005 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, 2005 and 2004 follow:

	At March 31,			
	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 20,420	$ 20,420	$ 22,774	$ 22,774
Investment securities available-for-sale	22,551	22,551	21,553	21,553
Mortgage backed securities available-for-sale	95,482	95,482	74,850	74,850
Mortgage backed securities held-to-maturity	31,302	31,310	43,474	43,794
Loans receivable	421,987	424,886	351,900	362,684
Accrued interest receivable	2,702	2,702	2,489	2,489
Mortgage Servicing Rights			-	-
Financial Liabilities:				
Deposits	$ 453,454	$ 451,752	$ 373,665	$ 375,294
Advances from FHLB of New York	102,500	101,651	91,516	94,469
Other borrowed money	12,799	12,799	12,766	13,027

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 14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of unaudited quarterly financial data for fiscal years ended March 31, 2005 and 2004:

	Three Months Ended			
	June 30	**September 30**	**December 31**	**March 31**
	(Dollars in thousands, except per share data)			
Fiscal 2005				
Interest income	$6,712	$7,013	$7,223	$7,597
Interest expense	(2,168)	(2,368)	(2,485)	(2,737)
Net interest income	4,544	4,645	4,738	4,860
Provision for loan losses	-	-	-	-
Non-interest income	1,139	1,198	1,203	901
Non-interest expense	(3,938)	(5,069)	(4,507)	(5,179)
Income tax expense	(663)	(291)	(514)	(190)
Net income	$1,082	$483	$920	$392
Earnings per common share				
Basic	$0.45	$0.09	$0.37	$0.16
Diluted	$0.42	$0.09	$0.36	$0.15
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 taxes (expense) benefit	(559)	(751)	(636)	(547)
Net income (loss)	$1,087	$1,426	$1,236	$1,090
Earnings (loss) per common share				
Basic	$0.45	$0.60	$0.52	$0.46
Diluted	$0.42	$0.55	$0.47	$0.42

NOTE 15. CARVER BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	As of March 31,	
	2005	2004
	(In thousands)	
Assets		
Cash on deposit with the Bank	$ 289	$ 93
Investment Securities	1,575	59
Investment in the Subsidiaries	57,851	57,846
Other Assets	140	12
Total Assets	$ 59,855	$ 58,010
Liabilities and Stockholders' Equity		
Borrowings	$ 13,202	$ 13,144
Accounts payable to Subsidiaries	667	22
Other liabilities	185	199
Total liabilities	$ 14,054	$ 13,365
Stockholders' equity	45,801	44,645
Total Liabilities and Stockholders' Equity	$ 59,855	$ 58,010

CONDENSED STATEMENTS OF OPERATIONS

	YEAR ENDED MARCH 31,		
	2005	2004	2003
		(In thousands)	
Income			
Equity in net income from Subsidiaries	$ 7,119	$ 8,328	$ 7,320
Interest income from deposit with the Bank	7	9	6
Other income	23	9	-
Total income	7,149	8,346	7,326
Expenses			
Interest Expense on Borrowings	721	337	-
Salaries and employee benefits	225	169	52
Legal expense	-	-	102
Shareholder expense	488	458	248
Other	1,548	50	60
Total expense	2,982	1,014	462
Income before income taxes	4,167	7,332	6,864
Income tax expense	1,518	2,493	3,033
Net Income	$ 2,649	$ 4,839	$ 3,831

CONDENSED STATEMENTS OF CASH FLOWS

	YEAR ENDED MARCH 31,		
	2005	2004	2003
		(In thousands)	
Cash Flows From Operating Activities			
Net income	$ 2,649	$ 4,839	$ 3,831
Adjustments to reconcile net loss to net cash provided by operating activities:			
Equity in net income of Subsidiaries	(7,119)	(8,328)	(7,320)
Income taxes from the Bank	1,518	2,493	3,033
Increase (decrease) in accounts payable to Bank	645	21	(13)
(Decrease) increase in other liabilities	(14)	131	(1,182)
Other, net	2,534	1,772	1,664
Net cash provided by operating activities	213	928	13
Cash Flows From Investing Activities			
Dividends Received from Bank	4,866	-	-
Additional Investment in Bank & other subsidiaries	-	(13,153)	-
Purchase of investment securities	(3,074)	(59)	-
Net cash (used in) provided by investing activities	1,792	(13,212)	-
Cash Flows From Financing Activities			
Issuance of Sub Debt	-	13,144	-
Purchase of treasury stock, net	(1,021)	(200)	(52)
Dividends paid	(788)	(654)	(313)
Net cash (used in) provided by financing activities	(1,809)	12,290	(365)
Net increase in cash	196	6	(352)
Cash and cash equivalents – beginning	93	87	439
Cash and cash equivalents - ending	$ 289	$ 93	$ 87

NOTE 16. RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR STOCK BASED COMPENSATION

In December 2004, the FASB issued SFAS 123R *"Accounting for Stock Based Compensation, Share Based Payment"*, which replaces the guidance prescribed in SFAS 123. SFAS 123R requires that compensation cost relating to share- based payment transactions be recognized in the financial statements. The associated costs will be measured based on the fair value of the equity or liability instruments issued. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R is effective as of the first interim or annual reporting period beginning after June 15, 2005. Adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial conditions or results.

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

In January 2004, 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.

CORPORATE INFORMATION

Board of Directors

Deborah C. Wright
Chairman, 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.
General Partner
Williams Capital Partners

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

James Bason
Senior Vice President and
Chief Lending Officer

Frank Deaton
Senior Vice President of Operations

William Gray
Senior Vice President and
Chief Financial Officer

David Hargraves
Senior Vice President and
Chief Retail Officer

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

Other Senior Officers

Evan Jalazo
Vice President and Controller

Roy Swan
Senior Vice President, Corporate Secretary
and Chief of Staff

Offices

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Brooklyn, NY

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St. Albans, NY

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Two World Financial Center
New York, NY 10281

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ANNUAL MEETING
The 2005 Annual Meeting of Stockholders will be held on September 13, 2005 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, 2005 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.*

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