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CARVER BANCORP, INC.

2006

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 nearly 60 years ago by visionary community leaders to serve the financial services needs of African- and Caribbean-Americans in New York City. Today, Carver is the largest publicly traded African- and Caribbean-American run financial institution in the United States.

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

LETTER FROM THE CHAIRMAN AND CEO

Dear Carver Stockholder:

These are very exciting times for Carver because of a number of noteworthy accomplishments in fiscal 2006 and the opportunities ahead of us in fiscal 2007.

First, Carver delivered solid results during fiscal 2006, despite significant headwinds in our industry driven by the very challenging interest rate and competitive climate. Our lending and retail departments produced loan portfolio growth of 17% and deposit growth of 11%, respectively. We were therefore able to reduce relatively lower yielding securities and relatively more expensive borrowings, helping to offset substantial pressure on our net interest margin and better position our balance sheet in a continuing effort to improve our margin for the future. Our fee income performance was very strong and we made solid gains in reducing costs.

Second, on April 6th we announced our agreement to acquire Community Capital Bank, a small business lender based in Brooklyn. We are on track to close this transaction on September 30th and look forward to our ability to expand our product base beyond Carver's traditional strength in real estate lending. Our acquisition of Community Capital will help us develop relationships with small business owners and deepen our relationships with non-profits, real estate developers, and landlords. These new business relationships should help us boost our loan yield as well as lower our cost of deposits, while boosting fee income.

Finally, we have had a very encouraging response to our Company's efforts from city, state and federal agencies. The state and city have provided an important bridge for Carver as the communities in which we operate grow their savings and investment potential. This year we were awarded a Banking Development District designation for our 145th Street branch in Harlem, an unprecedented third designation for Carver and part of a successful public effort to provide incentives to the private sector to establish bank branches in underserved neighborhoods. As a result, this branch received deposits of $35 million, of which $10 million was priced 100 basis points below prevailing rates, helping Carver weather the difficult interest rate environment and the cost of ramping up a new branch.

And importantly, the U.S. Treasury Department recently awarded Carver its first New Markets Tax Credit designation of $59 million, part of an initiative designed to support private investment, economic growth and job creation in selected communities. This highly sought after award will generate a 39% credit against Carver's federal tax obligation, a $23 million benefit over the next seven years. These flexible resources will allow Carver to expand its investments in business and real estate loans that benefit our community and its residents as well as Carver's franchise to accelerate growth. These resources will also benefit you, our stockholders, as our franchise grows but also in the near term as our Company's federal taxes are reduced. We will launch a new subsidiary, Carver Community Development Corporation, to manage these activities and provide additional details on this important development in the coming year.

Fiscal 2006 Review

- ***Profitability***

  Carver reported $3.8 million in net income available to common stockholders, or $1.47 diluted earnings per share, compared with $2.5 million and $1.03, respectively, in fiscal 2005. Fiscal 2006's performance compares to fiscal 2005 in which the company incurred previously disclosed costs related to the attempt to acquire Independence Federal Savings Bank in Washington, D.C.

  Return on average assets and return on average equity in fiscal 2006 was 0.60% and 7.93%, compared with 0.45% and 5.80%, respectively, during fiscal 2005.

- ***Net Interest Margin***
The Federal Reserve increased short-term rates on eight occasions during fiscal 2006. At Carver, as with our industry, 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 increase in the cost of liabilities. As a result, the Company's net interest margin decreased in fiscal 2006 to 2.97% from 3.41% in fiscal 2005.

  Carver continues to emphasize growth of re-priceable assets including loans and securities, and remains focused on a disciplined approach to credit risk. 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 2006.

- ***Fee Income***
Non-interest income in fiscal 2006 increased \$1.3 million or 31.1% to \$5.3 million from \$4.1 million in fiscal 2005. Our non-interest income improved compared to fiscal 2005 due largely to the benefits derived from loan prepayments as well as new product and delivery channel additions. We are pleased that fiscal 2006's fee income performance demonstrated improvements derived from the investment in our delivery channels, as results benefited from year-over-year additions from depository fees, ATM usage, debit card income and commissions from wealth management products.

- ***Efficiency Ratio***
In fiscal 2006, the Company's efficiency ratio decreased to 78.96% from 81.77% in fiscal 2005. We are keenly aware that our efficiency ratio exceeds our peers and we are focused on addressing this issue on both ends of the income statement, namely revenue growth and prudent cost reductions. In addition to the scale of our company, our rapid expansion of branches and 24/7 ATM Centers is a primary factor in our expense base, as are increasing costs related to regulatory compliance. However, the three branches opened in the past two fiscal years are moving to break even and are responsible for a significant percentage of the growth in customers and deposits in our franchise, which have positively impacted fee income and margin. We had success in delivering on our promise to you last year to attack our cost structure by aggressively pursuing outsourcing and vendor management expense savings opportunities. While our focus helped us weather the interest rate storm, we expect our product expansion and the pending acquisition of Community Capital Bank, combined with the maturity of the investment in our distribution channels, to be important factors in our continued effort to improve our performance on this important metric.

- ***Asset Quality***
The Company continues to benefit from excellent asset quality. Non-performing loans totaled \$2.8 million, or 0.55% of total loans receivable at March 31, 2006, compared with \$998,000, or 0.23% of total loans receivable at March 31, 2005. The ratio of allowance to non-performing loans at March 31, 2006 was 147.1% compared with 410.7% at March 31, 2005. The ratio of allowance for loan losses to total loans receivable at March 31, 2006 was 0.81% compared with 0.96% at March 31, 2005. While non-performing assets have increased over this period, the level of non-performing assets to total loans remains comparable with our Company's experience and industry norms. The Company reviews its allowance throughout the year and for the fourth consecutive fiscal year did not provide for additional loan loss reserves as the Company considers the current overall allowance for loan losses to be adequate.

- ***Value Creation for Stockholders***
For fiscal 2006, stockholders' equity increased \$2.9 million, or 6.3%, to \$48.7 million at March 31, 2006 from \$45.8 million at March 31, 2005.

During fiscal 2006, in a sign of confidence in Carver's long-term earnings outlook, the Company's Board of Directors declared an $0.08 per share dividend for each quarter, up from the $0.07 per share dividend paid over the prior four quarters of fiscal 2005. Carver's Board significantly expanded the dividend in fiscal 2004, when the Company moved to a $0.05 per share quarterly dividend compared to a prior practice of paying $0.05 in total per fiscal year. Quarterly dividends have increased 60% since fiscal 2004.

Additional returns were delivered to stockholders in the form of stock repurchases during the fiscal year. As of March 31, 2006 the Company purchased 94,474 shares at an average price of $16.90. While we have been limited in completing purchases up to Board authorization of 231,635 shares by regulatory requirements and the limited float in our stock, we remain committed to this valuable tool to return value to stockholders.

Focus on the Year Ahead

The fiscal year ending March 31, 2007 presents a number of exciting opportunities for Carver. It also presents many of the challenges of the year just ended, namely the interest rate and competitive environment noted earlier. Our team is enormously excited about the assets we have worked hard to bring to bear in the year ahead.

Our priorities for fiscal year 2007 follow:

- ***Successfully close and integrate the Community Capital Bank acquisition***
  The Community Capital acquisition is an important opportunity to diversify our balance sheet and earnings stream as we move beyond our traditional mortgage lending to enter the commercial lending business by acquiring an existing portfolio of higher yielding commercial loans, commercial lending experience, and the opportunity to develop and cross sell products targeting business customers. The acquisition also presents an opportunity to take costs out of the combined entity through the consolidation of systems and other functions. To our customers who have long asked for expanded business loan products from Carver, we will soon be able to say that "Carver is Open for Business."

  Our management team is keenly focused on ensuring a smooth integration process, and teams from both companies are actively engaged in the planning and processes required to make the transaction a success for our stockholders, customers, and employees. Importantly, while we did not factor revenue synergies into our pricing of the CCB acquisition, we are hard at work determining the balance of cost savings and investments required to generate significant revenue growth for the combined entity. We know that ultimately the true value of this investment of your equity will be derived from revenue growth generated by cross sales of loans, deposits, investments and other fee generating products.

- ***Continuing our focus on the basics***
  We remain committed to achieving high performance returns for you, our stockholders. In this highly competitive period in our industry, we know that we must aggressively focus on delivering greater value from our niche strategy. We will continue to invest in organic growth by competing for profitable and solidly underwritten loans that will withstand good and bad economic and interest rate cycles. Our retail department will continue to focus on growing core deposits, expanding cross sales of lending and investment products. Where possible we will continue to shift our asset/liability mix to improve our margin, as we did in Fiscal 2006. In so doing, we will not lose sight of our search for additional ways to manage our business more efficiently. Finally, we will continue to identify prudent acquisitions and alliances that deepen our reach in the inner city market and fit with our organic growth strategy.

In closing, we are encouraged by the momentum propelling Carver's business forward and enter the new fiscal year with optimism. We are fortunate to have a wise and dedicated Board of Directors and we thank them for their advice and support. We also thank our customers, new and not so new, for entrusting us with their precious assets. Carver's employees continue to focus on continuous improvement in products and services for our customers, and I thank them for their efforts and welcome our Community Capital colleagues to our family.

And, to Carver's stockholders, much appreciation for your continued support as we work towards putting Carver in the best possible position to deliver superior value.

Sincerely,

Deborah C. Wright
Chairman and Chief Executive Officer

July 28, 2006

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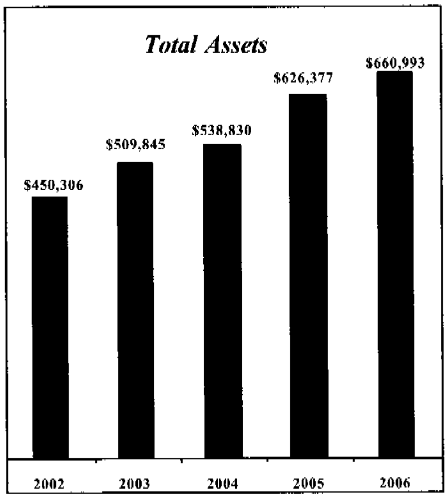
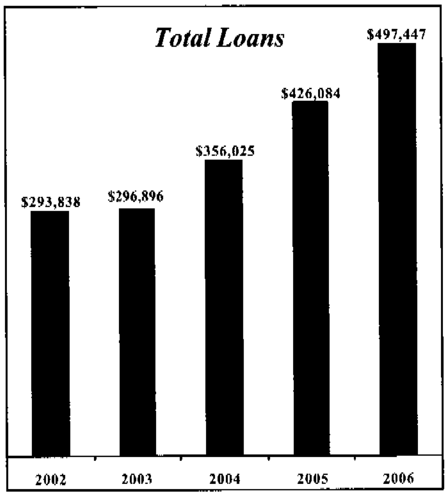
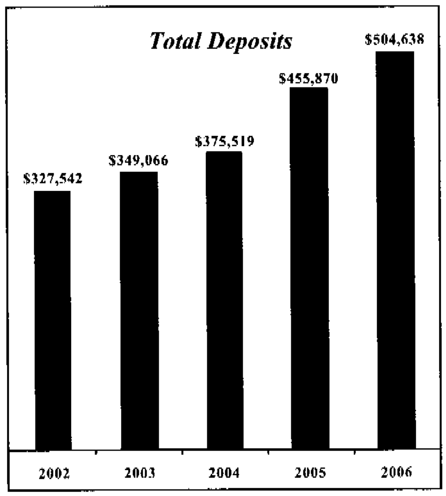
FINANCIAL HIGHLIGHTS

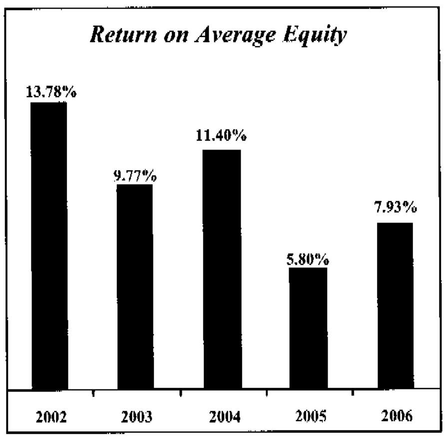
The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding Carver Bancorp, Inc. at the dates and for the periods indicated. The financial information should be read in conjunction with the consolidated financial statements and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

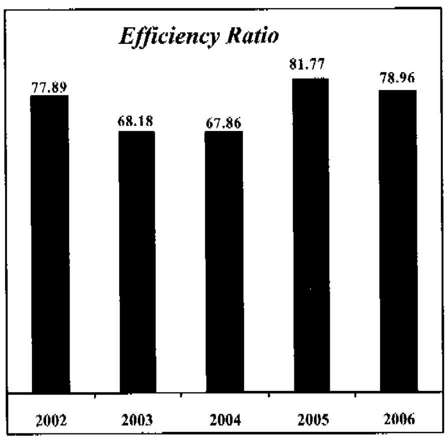
	At or for the Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Selected Financial Condition Data:					
Assets	$ 660,993	$ 626,377	$ 538,830	$ 509,845	$ 450,306
Total loans	497,447	426,084	356,025	296,896	293,838
Securities	108,286	149,335	139,877	165,585	105,464
Cash and cash equivalents	22,904	20,420	22,774	23,160	34,851
Deposits	504,638	455,870	375,519	349,066	327,542
Borrowed funds	93,792	115,299	104,282	108,996	75,651
Stockholders' equity	48,697	45,801	44,645	41,073	36,742
Number of deposit accounts	41,614	40,199	38,578	41,220	41,200
Number of offices	8	8	6	5	5

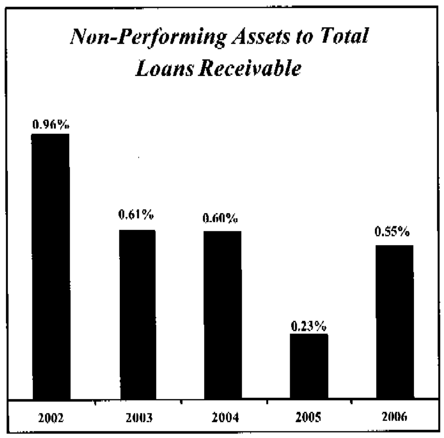






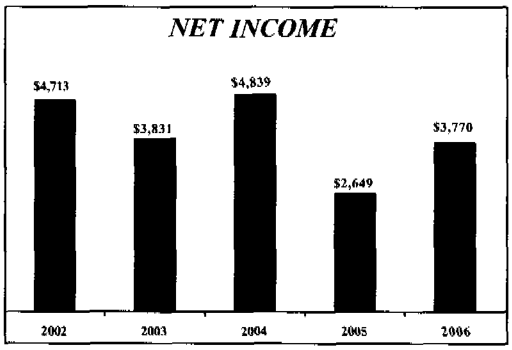


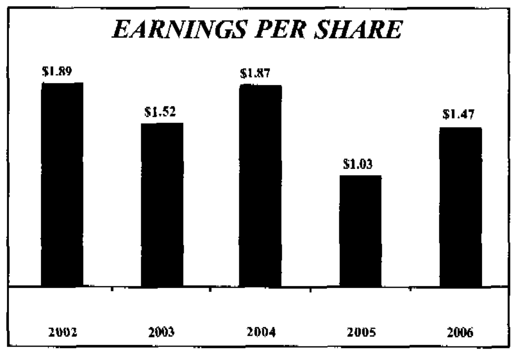




FINANCIAL HIGHLIGHTS (cont.)

	At or for the Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
Selected Operating Data:					
Interest income	$ 32,385	$ 28,546	$ 26,234	$ 27,390	$ 28,395
Interest expense	13,493	9,758	8,700	8,983	12,047
Net interest income	18,892	18,788	17,534	18,407	16,348
Provision for loan losses	-	-	-	-	900
Net interest income after provision for loan losses	18,892	18,788	17,534	18,407	15,448
Non-interest income	5,341	4,075	5,278	3,161	4,485
Non-interest expenses	19,134	18,696	15,480	14,704	14,339
Income before income taxes	5,099	4,167	7,332	6,864	5,594
Income tax	1,329	1,518	2,493	3,033	881
Net income	$ 3,770	$ 2,649	$ 4,839	$ 3,831	$ 4,713
Diluted earnings per common share	$ 1.47	$ 1.03	$ 1.87	$ 1.52	$ 1.89





	At or for the Fiscal Year Ended March 31,				
	2006	2005	2004	2003	2002
Selected Statistical Data:					
Return on average assets (1)	0.60 %	0.45 %	0.93 %	0.83 %	1.11 %
Return on average equity (2)	7.93	5.80	11.40	9.77	13.78
Net interest margin (3)	2.97	3.41	3.56	4.26	4.09
Average interest rate spread (4)	3.18	3.26	3.40	4.08	3.89
Efficiency ratio (5)	78.96	81.77	67.86	68.18	77.89
Operating expense to average assets (6)	3.04	3.21	2.97	3.18	3.37
Average equity to average assets	7.54	7.84	8.13	8.48	8.03
Dividend payout ratio (7)	20.63	24.64	9.86	3.19	2.55
Asset Quality Ratios: S					
Non-performing assets to total assets (8)	0.42 %	0.16 %	0.39 %	0.36 %	0.63 %
Non-performing assets to total loans receivable (8)	0.55	0.23	0.60	0.61	0.96
Allowance for loan losses to total loans receivable	0.81	0.96	1.16	1.40	1.41
Allowance for loan losses to non-performing assets (8)	147.07	410.65	194.30	230.74	146.23
Net loan charge-offs (recoveries) to average loans outstanding	0.02	0.01	0.01	(0.01)	0.11

(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.

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 branch offices and ATM centers and successfully re-building its brand 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;
- success in integrating Community Capital Bank into Carver operations;
- 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 Federal Savings Bank, a wholly owned subsidiary of Carver Bancorp, Inc., is the nation's largest African-American operated savings bank in the nation, with $661 million in assets as of March 31, 2006. Headquartered in the heart of the Harlem community of New York City, Carver Federal Savings Bank has eight branch offices, five stand-alone 24/7 ATM centers, and over 120 employees. Carver Federal Savings Bank's consumer and commercial offerings include an array of deposit and real estate loan products that facilitate investing, savings and borrowing by its customers. Carver Federal Savings Bank also offers wealth management products through a third party provider.

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.

On April 6, 2006, the Company entered into a definitive merger agreement to acquire Community Capital Bank ("CCB" or "Community Capital"), a Brooklyn-based community bank with approximately $162 million in assets, in a cash transaction valued at $11.1 million, or $40.00 per Community Capital share. The agreement has been approved by the Boards of Directors of both companies and, on June 28, 2006, was also approved by the stockholders of Community Capital. The transaction is subject to and is awaiting regulatory approval and is expected to close by September 30, 2006. The acquisition of CCB and its award-winning small business lending platform will expand the Company's ability to capitalize on substantial growth, especially in the small business market.

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 its asset size as of March 31, 2006, 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, 2006, this subsidiary had $218,000 in total capital and a minimal net operating loss. At March 31, 2006 no foreclosed real estate was held by the Company, however as a result of a property tax redemption, the Bank, through its subsidiary Carver Realty Corp., 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, 2006 Carver Asset Corporation owned mortgage loans valued at approximately $131 million. On August 18, 2005 Carver Federal formed Carver Community Development Corp. ("CCDC"), a wholly owned community development entity whose purpose is to make qualified business loans in low-income communities. As of March 31, 2006, CCDC had no assets or results from operations.

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) developing a commercial line of business through the pending acquisition of CCB in the fiscal year ended March 31, 2007 ("fiscal 2007"); (4) generating fee income by attracting and retaining core deposit accounts, and expanding its ATM network and sale 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 currently served by its eight branch offices with an anticipation of two additional offices with the successful acquisition of CCB. Carver Federal considers its primary lending market to include Bronx, Kings, New York and Queens counties, together comprising New York City, and lower Westchester County, New York. See "Item 2--Properties."

Although Carver Federal's branch offices 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 through personalized service and community involvement and by growing the customer base and product suite with the pending acquisition of CCB.

Carver continues 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 June 15, 2006, Carver Federal had 126 full-time equivalent employees, 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, 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 and the date of our annual meeting are posted on our website. 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, commercial mortgage lending (which includes multifamily and non-residential real estate loans) and construction lending, the maintenance of sound credit standards for new loan originations and a strong real estate market, have resulted in the Bank maintaining a low level of non-performing assets.

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

Non-performing Assets. When a borrower fails to make a payment on a mortgage loan, immediate steps are taken by Carver Federal and its 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,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis (1):					
Real estate:					
One- to four-family	$ 1,098	$ 149	$ 558	$ 1,113	$ 756
Multifamily	763	167	1,532	--	253
Non-residential	--	665	--	639	1,754
Construction	865	--	23	23	23
Consumer and business	4	17	10	27	37
Total non-accrual loans	2,730	998	2,123	1,802	2,823
Accruing loans contractually past due 90 days or more	--	--	--	--	--
Total of non-accrual and accruing 90-day past due loans	$2,730	$ 998	$ 2,123	$ 1,802	$ 2,823
Other non-performing assets (2):					
Real estate:					
Land	26	--	--	--	--
Total other non-performing assets	26	--	--	--	--
Total non-performing assets (3)	$2,756	$ 998	$ 2,123	$ 1,802	$ 2,823
Non-performing loans to total loans	0.55%	0.23%	0.60%	0.61%	0.96%
Non-performing assets to total assets	0.42%	0.16%	0.39%	0.36%	0.63%

(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, 2006, gross interest income of $79,000 would have been recorded on non-accrual loans had they been current throughout the year.

(2) Other non-performing assets generally represent property acquired by the Bank in settlement of loans (i.e., through foreclosure, repossession or as an in-substance foreclosure). Although the Bank had no foreclosed real estate, as a result of a property tax redemption, the Bank took fee ownership of a vacant tract of land in Bayshore, NY. These assets are recorded at the lower of their fair value or the cost to acquire.

(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, 2006, total non-performing assets increased by $1.8 million to $2.8 million compared to $998,000 at March 31, 2005. At March 31, 2006 other non-performing assets of $26,000 relates to one parcel of land that Carver Federal acquired as a result of a property tax redemption. The increase in total non-performing assets for fiscal 2006 primarily reflects three additional one-to four-family residential real estate loans. Increases in non-performing asset levels are consistent with the growth the Bank experienced in its loan portfolio during the fiscal year. Management believes the Bank's current level of non-performing assets to total loans remains within the range of its peers.

There were no accruing loans contractually past due 90 days or more at March 31, 2006 and March 31, 2005, 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, 2006, Carver Federal had $2.2 million of loans classified as substandard which represented 0.3% of the Bank's total assets. As of March 31, 2005 the Bank had $1.0 million as loans classified as substandard, representing 0.2% of the Bank's total assets. There were no loans classified as doubtful or loss at March 31, 2006 and 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 reviews of the Bank's loans on at least a quarterly basis 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.

Additionally, 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, 2006, 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,				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Balance at beginning of year	$ 4,097	$ 4,125	$ 4,158	$ 4,128	$ 3,551
Loans charged-off:					
Real Estate:					
One- to four-family	17	8	6	2	-
Non-residential	-	-	55	-	-
Consumer and business	100	65	264	226	500
Total Charge-offs	117	73	325	228	500
Recoveries:					
One- to four-family	5	-	107	-	3
Non-residential	-	-	10	-	-
Consumer and business	30	45	175	258	174
Total Recoveries	35	45	292	258	177
Net loans charged-off (recovered)	82	28	33	(30)	323
Provision for losses	-	-	-	-	900
Balance at end of year	$ 4,015	$ 4,097	$ 4,125	$ 4,158	$ 4,128
Ratio of net charge-offs to average loans outstanding	0.02%	0.01%	0.01%	-0.01%	0.11%
Ratio of allowance to total loans	0.81%	0.96%	1.16%	1.40%	1.41%
Ratio of allowance to non-performing assets (1)	147.07%	410.65%	194.30%	230.74%	146.23%

(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,									
	2006		2005		2004		2003		2002	
	Amount	% of Loans In Each Category to Total Gross Loans	Amount	% of Loans In Each Category to Total Gross Loans	Amount	% of Loans In Each Category to Total Gross Loans	Amount	% of Loans In Each Category to Total Gross Loans	Amount	% of Loans In Each Category to Total Gross Loans
Loans:	(dollars in thousands)									
Real Estate										
One- to four-family	$ 565	28.91%	$ 528	36.69%	$ 355	27.80%	$ 298	24.20%	429	41.84%
Multifamily	1,084	21.11%	898	23.99%	1,240	33.88%	656	44.45%	1,468	40.39%
Non-residential	960	31.05%	1,129	27.49%	853	28.92%	1,967	26.74%	729	13.66%
Construction	303	18.64%	212	11.43%	158	7.71%	170	3.89%	76	3.32%
Consumer and business	442	0.29%	554	0.40%	487	1.69%	344	0.72%	377	0.79%
Unallocated	661	N/A	776	N/A	1,032	N/A	723	N/A	1,049	N/A
Total Allowance for loan losses	$ 4,015	100.00%	$ 4,097	100.00%	$ 4,125	100.00%	$ 4,158	100.00%	$ 4,128	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 June 15, 2006, there were 2,502,247 shares of the common stock outstanding, held by approximately 1,079 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 2006				**Fiscal Year 2005**			
June 30, 2005	$18.75	$16.90	$0.08	June 30, 2004	$23.95	$19.15	$0.05
September 30, 2005	$17.35	$16.30	$0.08	September 30, 2004	$20.45	$17.95	$0.07
December 31, 2005	$16.70	$15.00	$0.08	December 31, 2004	$20.82	$18.55	$0.07
March 31, 2006	$17.32	$15.00	$0.08	March 31, 2005	$20.07	$18.38	$0.07

The Board initially established the payment of a quarterly dividend to common shareholders on January 9, 2003. Subsequently, each quarter the Board meets to decide on the amount per share to be declared. On May 9, 2006, the Holding Company's Board of Directors declared a $0.08 cash dividend to shareholders for the fourth quarter of fiscal 2006, this represents a $0.03 per share increase from the $0.05 paid at inception of the Board establishing payment of a quarterly 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 repurchase up to 231,635 shares of its outstanding common stock. To date, 94,474 shares of its common stock have been repurchased in open market transactions at an average price of $16.90 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 2006.

	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, 2006 through January 31, 2006	300	15.44	300	140,361
February 1, 2006 through February 28, 2006	-	-	-	140,361
March 1, 2006 through March 31, 2006	-	-	-	140,361
	-	15.44	-	

Carver has three equity compensation plans: (1) The Management Recognition Plan ("MRP") which provides for automatic grants of restricted stock to certain employees as of the date the plan became effective in June of 1995. Additionally, the MRP makes provision for added discretionary grants of restricted stock to those employees so selected by the Compensation Committee of the Board who administers the plan. (2) The Incentive Compensation Plan ("ICP") provides for grants of cash bonuses, restricted stock and stock options to the employees selected by the Compensation Committee. (3) The Option Plan provides for automatic option grants to certain employees as of the date the plan became effective in June of 1995, and like the MRP, also makes provision for added discretionary option grants to those employees so selected by the Compensation Committee. Additional information regarding Carver's equity compensation plans is incorporated by reference from the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" in the Proxy Statement.

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,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data:					
Assets	$ 660,993	$ 626,377	$ 538,830	$ 509,845	$ 450,306
Loans, net	493,432	421,987	351,900	292,738	289,710
Securities	108,286	149,335	139,877	165,585	105,464
Cash and cash equivalents	22,904	20,420	22,774	23,160	34,851
Deposits	504,638	455,870	375,519	349,066	327,542
Borrowed funds	93,792	115,299	104,282	108,996	75,651
Long-term Obligations	48,153	84,129	80,506	91,762	60,749
Stockholders' equity	48,697	45,801	44,645	41,073	36,742
Number of deposit accounts	41,614	40,199	38,578	41,220	41,200
Number of offices	8	8	6	5	5
Operating Data:					
Interest income	$ 32,385	$ 28,546	$ 26,234	$ 27,390	$ 28,395
Interest expense	13,493	9,758	8,700	8,983	12,047
Net interest income	18,892	18,788	17,534	18,407	16,348
Provision for loan losses	--	--	--	--	900
Net interest income after provision for loan losses	18,892	18,788	17,534	18,407	15,448
Non-interest income	5,341	4,075	5,278	3,161	4,485
Non-interest expenses	19,134	18,696	15,480	14,704	14,339
Income before income taxes	5,099	4,167	7,332	6,864	5,594
Income taxes	1,329	1,518	2,493	3,033	881
Net income	$ 3,770	$ 2,649	$ 4,839	$ 3,831	$ 4,713
Basic earnings per common share	$ 1.50	$ 1.06	$ 2.03	$ 1.59	$ 1.98
Diluted earnings per common share	$ 1.47	$ 1.03	$ 1.87	$ 1.52	$ 1.89
Cash dividends per common share	$ 0.32	$ 0.26	$ 0.20	$ 0.10	$ 0.05
Selected Statistical Data:					
Return on average assets (1)	0.60%	0.45%	0.93%	0.83%	1.11%
Return on average equity (2)	7.93	5.80	11.40	9.77	13.78
Net interest margin (3)	2.97	3.41	3.56	4.26	4.09
Average interest rate spread (4)	3.18	3.26	3.40	4.08	3.89
Efficiency ratio (5)	78.96	81.77	67.86	68.18	77.89
Operating expense to average assets (6)	3.04	3.21	2.97	3.18	3.37
Average equity to average assets	7.54	7.84	8.13	8.48	8.03
Common Dividend payout ratio (7)	20.63	24.64	9.86	3.19	2.55
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.42%	0.16%	0.39%	0.36%	0.63%
Non-performing assets to total loans receivable (8)	0.55	0.23	0.60	0.61	0.96
Allowance for loan losses to total loans receivable	0.81	0.96	1.16	1.40	1.41

(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 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 our retail and commercial customers. The Holding Company's primary subsidiary is Carver Federal Savings Bank, which operates from eight branch offices in the New York City boroughs of Manhattan, Brooklyn and Queens.

Consistent with the thrift industry, Carver Federal's net income 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. The interest rate climate in 2006 was a challenging one for the industry and therefore Carver, as net interest margin declined following interest rate policy by the Federal Reserve over the last two years, which had the effect of substantially reducing the margin between earning assets and liabilities. Carver's core strategy continues to emphasize increasing assets, namely commercial real estate loans, and liabilities, primarily core deposits, sourced through our branch offices. In addition, the company is aggressively working to reduce costs, to improve its efficiency ratio, following investments in new branch offices and ATM locations, to increase the Bank's presence in its core marketplace.

Merger with Community Capital Bank

In addition to these and other steps to grow organically, Carver is actively pursuing acquisition opportunities to expand its presence in markets consistent with its urban niche, which are designed to increase assets and/or fee income. As a result, on April 5, 2006, the Bank entered into a definitive agreement to acquire Community Capital Bank ("CCB"), a leader in providing loans to small businesses in New York City's urban marketplace, in a cash transaction valued at approximately $11.1 million. The acquisition was approved by CCB shareholders on June 28, 2006 and is expected to close by September 30, 2006, subject to customary closing conditions including regulatory approvals.

By providing Carver with a commercial banking platform, the transaction with CCB will better position the Bank to capitalize on one of the fastest growing and affluent urban consumer and small business markets in the country. Small business lending, which is typically a higher margin lending platform than real estate lending, will enable Carver to increase core deposits and loan balances, thereby increasing net interest margin and fee income. Efficiencies are also expected from an in-market merger of an institution with two branch offices in Brooklyn, New York and approximately $162 million in assets.

Fiscal 2006

Throughout fiscal 2006 the interest rate environment continued to negatively impact the Bank's net interest margin. To stem margin loss, the Bank successfully implemented a strategy to increase assets when accretive while replacing securities with higher yielding mortgage loans. Additionally, higher costing borrowings were replaced with lower costing deposits. The growth in assets and deposits followed investments in new branch and ATM locations, new product offerings, and marketing efforts. However, these investments and others increased the Bank's operating expenses. With diligent cost cutting efforts and outsourcing strategies the growth in expenses was limited and resulted in modest improvements to the Bank's efficiency ratio.

In fiscal 2006, the Bank experienced strong growth in its core business with increases in net loans receivable and deposits, compared to March 31, 2005. During fiscal 2006, the national and local real estate markets remained strong and continued to support Carver's lending abilities increasing the loan portfolio despite the fact that loan repayments remained high, at fiscal 2005 levels. Deposits rose through growth in our checking, money market and certificate of deposit accounts. Both the securities and borrowings portfolios were reduced, consistent with our strategy to use normal cash flows from the repayment of mortgage-backed securities as well as the increase in deposits to fund higher yielding loans and repay borrowings.

The FOMC raised the federal funds rate eight times resulting in an increase of 200 basis points during the fiscal year. While short term U.S. treasury yields have risen, yields on the longer end of the treasury yield curve have not risen to the same degree as short term yields resulting in a significant flattening of the U.S. Treasury yield curve. Additionally, there was interest rate volatility within individual quarters, which resulted in volatility in cash flows and refinance activity. As a result of this rate environment and despite the growth in our balance sheet, Carver's net interest income remained relatively flat while net interest margin declined year over year.

As previously noted, fiscal 2006 reflected strong growth in the Bank's loan portfolio while maintaining solid asset quality. 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.

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 improvements in loan fees and service charges, primarily loan prepayment penalty income.

Net income for fiscal 2006 was impacted by increased expenses resulting from the full year effect of expanding the Bank's franchise in fiscal 2005. During fiscal 2005, the Bank successfully opened two full service state-of-the-art branch offices, one in Brooklyn and the other in Harlem. Additionally, the Bank opened two 24/7 ATM banking centers in Harlem and Brooklyn in fiscal 2005 and stand alone ATMs in Brooklyn in fiscal 2006. These investments increased operating expenses substantially. During fiscal 2006, in an effort to control expenses, Carver implemented company-wide cost cutting initiatives including the outsourcing of several technology functions as well as a number of corporate administrative functions. These efforts helped hold expenses to a modest increase in expenses year over year.

Fiscal 2007

The outlook for fiscal 2007 reflects many of the economic and competitive factors that the Bank and the banking industry faced in fiscal 2006. As a result, we expect the operating environment to remain challenging with short-term interest rates continuing to rise while medium- and long term interest rates remain stable or rise moderately, which could have the effect of exerting further pressure on the Bank's net interest margin. 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.

In this challenging climate, the Bank will continue to focus on growth in its core businesses, namely the expansion of commercial real estate loans and retail deposits. With the acquisition of CCB, we expect to begin to capitalize on additional new business opportunities noted above. In addition, based on our success in substantially increasing loans in our urban markets in the last several fiscal years, Carver Federal has been consistently successful in competing for attractive resources from the public sector to extend our reach.

Notably, on June 1, 2006, Carver Federal was selected by the U.S. Department of Treasury to receive an allocation of $59 million in New Markets Tax Credits ("NMTC") to provide loans to business willing to invest in low-income communities, including small business and certain real estate loans and other investments. The allocation was awarded to Carver Community Development Corporation, a for profit Community Development Entity ("CDE") created by the Bank. Tax credits awarded by the government through the NMTC program enable loans to be made with advantaged terms including, in some cases, below market interest rates, thereby increasing capital to underserved communities. The NMTC program provides a credit to Carver Federal against federal income taxes when the Bank makes an equity investment in its CDE, which in turn uses this investment to make qualified loans in low-income communities, consistent with Carver's marketplace. The allocations are expected to be made available during calendar year 2007, and annually thereafter over a seven year period. During this period, the Bank will be able to receive 39% of the award or approximately $23 million in tax credits to be claimed over a seven year period, consistent with the CDE's ability to make loans meeting the Treasury Department's guidelines. A substantial portion of this benefit will be utilized for revitalization of our community, pursuant to the goals of the NMTC program. However, executing this program well is expected to increase our lending in our marketplace and improve shareholder value by reducing the Bank's taxes. Carver is gratified to have been selected upon its first application in a highly competitive selection process.

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 were offered to increase market share in these customer segments during fiscal 2006 including a 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 2007. Products such as sub-prime and jumbo mortgages for sale in the secondary market were introduced in fiscal 2006 to address the needs of additional prospective borrowers. Added emphasis to promote these products will be provided in fiscal 2007 in an effort to further fuel fee income growth. Planned net income growth in fiscal 2007 will be achieved by expanding non-interest income and emphasizing cost containment measures in fiscal 2007 thereby lowering the Bank's efficiency ratio. 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.

The retail and lending teams of Carver and CCB are developing a strategy to onboard CCB customers and increase products to deepen those relationships, in addition to new business activities designed to capitalize on Carver's larger footprint. In addition we are evaluating strategies to increase efficiencies and maximize the combination of the Company's balance sheets.

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 policies including those 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 25.48% of total rate sensitive assets at March 31, 2006. 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, 2006. 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.

Rate Sensitive Assets:	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)				
Loans and mortgage-backed securities	$ 95,862	$ 34,878	$ 96,802	$ 56,499	$ 150,598	$ 155,001	$ 589,640
Federal funds sold and interest earning deposits	9,300	--	--	--	--	--	9,300
Investment securities	969	3,839	7,847	4,038	11	--	16,704
Total interest-earning assets	106,131	38,717	104,649	60,537	150,609	155,001	615,644
Rate Sensitive Liabilities:							
NOW demand	4,539	5,236	12,564	10,652	14,085	11,914	58,990
Savings and clubs	9,561	9,647	19,159	12,126	29,483	59,747	139,723
Money market savings	2,437	1,360	8,668	19,895	3,018	4,667	40,045
Certificates of deposit	40,617	176,961	30,680	14,883	818	3	263,962
Borrowings	18,867	32,484	44,165	--	194	--	95,710
Total interest-bearing liabilities	$ 76,021	$ 225,688	$ 115,236	$ 57,556	$ 47,598	$ 76,331	$ 598,430
Interest Sensitivity Gap	$ 30,110	$ (186,971)	$ (10,587)	$ 2,981	$ 103,011	$ 78,670	$ 17,214
Cumulative Interest Sensitivity Gap	$ 30,110	$ (156,861)	$ (167,448)	$(164,467)	$ (61,456)	$ 17,214	--
Ratio of Cumulative Gap to Total Rate Sensitive assets	4.89%	-25.48%	-27.20%	-26.71%	-9.98%	2.80%	

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, 2006, 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 2006, 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	69,337	(18,204)	-21%	10.55%	-226bp
+200 bp	76,222	(11,319)	-13%	11.43%	-138bp
+100 bp	82,270	(5,271)	-6%	12.18%	-63bp
0 bp	87,541	--	--	12.81%	--
-100 bp	91,875	4,334	5%	13.31%	+50bp
-200 bp	95,524	7,983	9%	13.71%	+90bp

	March 31, 2006
Risk Measures: +200 bp Rate Shock	
Pre-Shock NPV Ratio: NPV as % of PV of Assets	12.81%
Post-Shock NPV Ratio	11.43%
Sensitivity Measure; Decline in NPV Ratio	138 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, 2006		Year Ended March 31, 2006		
	Average Balance	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
			(Dollars in thousands)		
Interest-earning Assets:					
Loans (1)	$ 487,937	6.77%	$ 443,461	$ 26,563	5.99%
Investment securities (2)	18,105	3.84%	25,698	971	3.78%
Mortgage-backed securities	98,366	4.22%	113,574	4,439	3.91%
Federal funds	5,929	4.37%	12,166	412	3.39%
Total interest-earning assets	610,337	6.25%	594,899	32,385	5.44%
Non-interest-earning assets	34,387		35,198		
Total assets	$ 644,724		$ 630,097		
Interest-bearing Liabilities:					
Deposits:					
NOW demand	$ 25,640	0.30%	$ 24,397	$ 74	0.30%
Savings and clubs	139,304	0.68%	137,934	919	0.67%
Money market savings	33,806	2.01%	36,583	601	1.64%
Certificates of deposit	259,378	3.76%	237,992	7,297	3.07%
Total deposits	458,128	2.50%	436,906	8,891	2.03%
Mortgagors deposits	1,789	1.46%	2,044	30	1.47%
Borrowed money	98,407	4.56%	107,551	4,572	4.25%
Total deposits and interest-bearing liabilities	558,324	2.86%	546,501	13,493	2.47%
Non-interest-bearing liabilities:					
Demand	30,940		29,079		
Other liabilities	6,413		6,980		
Total liabilities	595,677		582,560		
Stockholders' equity	49,047		47,537		
Total liabilities and stockholders' equity	$ 644,724		$ 630,097		
Net interest income				$ 18,892	
Average interest rate spread		3.39%			2.97%
Net interest margin		3.52%			3.18%
Ratio of average interest-earning assets to interest-bearing liabilities		109.32%			108.86%

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

	Year Ended March 31,					
	2005			2004		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Interest-Earning Assets:						
Loans (1)	$384,916	$ 22,940	5.96%	$ 314,297	$ 20,117	6.40%
Investment securities (2)	29,547	827	2.80%	29,708	1,161	3.91%
Mortgage-backed securities	125,643	4,605	3.67%	126,764	4,789	3.78%
Fed funds sold	10,724	174	1.62%	22,194	167	0.75%
Total interest earning assets	550,830	28,546	5.18%	492,963	26,234	5.32%
Non-interest earning assets	31,677			28,423		
Total assets	$582,507			$ 521,386		
Interest Bearing Liabilities:						
Deposits						
NOW demand	$ 22,933	$ 69	0.30%	$ 23,286	$ 85	0.37%
Savings and clubs	133,621	801	0.60%	130,509	1,001	0.77%
Money market savings	30,116	302	1.00%	27,662	235	0.85%
Certificates of deposit	208,584	4,258	2.04%	163,382	3,304	2.02%
Total deposits	395,254	5,430	1.37%	344,839	4,625	1.34%
Mortgagers deposits	2,217	25	1.15%	1,643	24	1.46%
Borrowed money	109,787	4,303	3.92%	106,350	4,051	3.81%
Total interest bearing liabilities	507,258	9,758	1.92%	452,832	8,700	1.92%
Non-interest-bearing liabilities:						
Demand	22,857			19,408		
Other liabilities	6,724			6,746		
Total liabilities	536,839			478,986		
Stockholders' equity	45,668			42,400		
Total liabilities and stockholders' equity	$582,507			$ 521,386		
Net interest income		$ 18,788			$ 17,534	
Average interest rate spread			3.26%			3.40%
Net interest margin			3.41%			3.56%
Ratio of average interest-earning assets to interest-bearing liabilities			108.59%			108.86%

(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,					
	2006 vs. 2005 Increase (Decrease) due to			2005 vs. 2004 Increase (Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest Earning Assets:						
Loans	$ 3,489	$ 134	$ 3,623	$ 4,209	$ (1,386)	$ 2,823
Investment securities	(1)	145	144	(5)	(329)	(334)
Mortgage-backed securities	(560)	394	(166)	(41)	(143)	(184)
Fed funds	23	215	238	(186)	193	7
Total interest earning assets	2,951	888	3,839	3,977	(1,665)	2,312
Interest Bearing Liabilities:						
Deposits						
NOW demand	(4)	(1)	(5)	1	15	16
Savings and clubs	(26)	(83)	(109)	(19)	219	200
Money market savings	(65)	(234)	(299)	(25)	(43)	(68)
Certificates of deposit	(600)	(2,448)	(3,048)	(923)	(31)	(954)
Total deposits	(695)	(2,766)	(3,461)	(966)	160	(806)
Mortgagers deposits	2	(7)	(5)	7	(8)	(1)
Borrowed money	83	(352)	(269)	(149)	(102)	(251)
Total deposits and interest bearing liabilities	(610)	(3,125)	(3,735)	(1,108)	50	(1,058)
Net change in interest income	$ 2,341	$ (2,237)	$ 104	$ 2,869	$ (1,615)	$ 1,254

Comparison of Financial Condition at March 31, 2006 and 2005

At March 31, 2006, total assets increased by $34.6 million, or 5.5%, to $661.0 million compared to $626.4 million at March 31, 2005. The increase in total assets was primarily attributable to an increase in loans receivable partially offset by a reduction in total securities.

Loans receivable, net, increased by $71.4 million, or 16.9%, to $493.4 million as of March 31, 2006 compared to $422.0 million one year ago. The net loan growth during fiscal 2006 reflects loan originations of $111.3 million and loan purchases of $96.1 million, offset by principal repayments of $113.5 million and loans sold to various third party purchasers of $22.5 million. One- to four-family mortgage loans decreased by $12.4 million, or 7.9%, to $143.4 million at March 31, 2006 compared to $155.8 million at March 31, 2005. The decrease in one- to four-family loans is primarily due to repayments and loan sales of $36.9 and $22.5 million, respectively, partially offset by loan originations and purchases of $15.1 and $32.2 million, respectively. Multifamily real estate loans increased by $2.8 million, or 2.8%, to $104.7 million at March 31, 2006 compared to $101.9 million at March 31, 2005 as originations and purchases of $18.1 and $9.5 million, respectively, exceeded repayments of $24.8 million. Non-residential real estate loans increased by $37.3 million, or 31.9%, to $154.0 million at March 31, 2006 compared to $116.8 million at March 31, 2005 primarily as a result of originations and purchases of $33.6 and $27.3 million, respectively, partially offset by repayments of $23.6 million during the year. Construction loans increased by $43.9 million, or 90.4%, to $92.5 million at March 31, 2006 compared to $48.6 million at March 31, 2005 primarily due to originations and purchases of $44.0 and $27.1 million, respectively, partially offset by repayments of $27.2 million. The Bank continues to grow its balance sheet through focusing on the origination of real estate loans in the markets it serves and will continue to augment these originations with loan purchases. Consumer and business loans decreased by $244,000, or 14.4%, to $1.5 million at March 31, 2006 compared to $1.7 million at March 31, 2005 reflecting repayments of $776,000 partially offset by new originations of $532,000.

Total securities at March 31, 2006 decreased $41.0 million to $108.3 million from $149.3 million at March 31, 2005, reflecting a decline of $36.2 million in available-for-sale securities and a $4.9 million decrease in held-to-maturity securities. The decrease in available-for-sale securities primarily reflects $60.6 million of principal repayments and maturities, $1.6 million in proceeds from sales of securities partially offset by purchases of new available-for-sale securities of $26.8 million. The $4.9 million decrease in held-to-maturity securities reflects principal payments and maturities. Available-for-sale securities represented 75.6% of the total securities portfolio at March 31, 2006 compared to 79.0% at March 31, 2005. The current strategy is to reduce the investment portfolio through normal cash flows and reinvest the proceeds into higher yielding loans. However, the Bank may invest in securities from time to time to help diversify its asset portfolio and satisfy collateral requirements for certain deposits.

At March 31, 2006, total liabilities increased $31.7 million, or 5.5%, to $612.3 million compared to $580.6 million at March 31, 2005. Deposits increased $48.8 million, or 10.7%, to $504.6 million at March 31, 2006 from $455.9 million at March 31, 2005. The increase in deposits was primarily attributable to increases of $34.3 million in certificates of deposit, $9.3 million in demand accounts, $3.8 million in money market accounts and $1.9 million in regular savings and club accounts. Deposit increases reflects $35.0 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 new branch offices. These additional funds from deposit growth were used to fund loan originations/purchases and repay borrowings. Total FHLB-NY borrowings decreased $21.6 million, or 21.0%, to $80.9 million at March 31, 2006 from $102.5 million at March 31, 2005 as a result of net repayments of maturing advances.

At March 31, 2006, stockholders' equity increased $2.9 million, or 6.3%, to $48.7 million compared to $45.8 million at March 31, 2005. The increase in stockholders' equity was primarily attributable to additional retained earnings of $3.0 million and net stock transactions of $349,000 partially offset by $439,000 additional accumulated other comprehensive loss. The change in accumulated other comprehensive loss consists of a net loss of $158,000 related to the mark-to-market of the Bank's available-for-sale securities and a net reserve of $281,000 for the Company's unfunded employee pension liability. The Bank's capital levels meet regulatory requirements of a well capitalized financial institution.

Comparison of Operating Results for the Years Ended March 31, 2006 and 2005

Net Income

The Bank reported net income for fiscal 2006 of $3.8 million compared to $2.6 million for the prior fiscal year. Net income available to common stockholders for fiscal 2006 was $3.8 million, or $1.47 per diluted common share compared to $2.5 million, or $1.03 per diluted common share, for fiscal 2005. The increase in net income was primarily due to higher non-interest income of $1.3 million, a decline in income tax expense of $189,000 and an increase in net interest income of $104,000 partially offset by an increase in non-interest expense of $438,000.

Interest Income

Interest income increased in fiscal 2006 by $3.8 million, or 13.5% to $32.4 million, from the prior fiscal year. The average balance of interest-earning assets increased to $594.9 million for fiscal 2006 from $550.8 million for the prior fiscal year. Adding to the increase was a rise in the average yield on interest-earning assets to 5.44% for fiscal 2006 compared to 5.18% for fiscal 2005.

Interest income on loans increased by $3.6 million, or 15.8%, to $26.6 million for fiscal 2006 compared to $22.9 million for the prior fiscal year. The increase in interest income from loans was primarily the result of a $58.5 million increase in average loan balances to $443.5 million for fiscal 2006 compared to $384.9 million for fiscal 2005, coupled with the effects of a 3 basis point increase in the average rate earned on loans to 5.99% for fiscal 2006 from 5.96% for the prior fiscal year. The increase in the average balance of loans reflects originations and purchases in excess of principal collections. The minimal increase in the average rate earned on loans was principally due to the repricing of certain construction loans that are tied to short term rates that have increased with the rise in the overnight federal funds rate, see "Item 7. Management Discussion and Analysis--Liquidity and Capital Resources."

Interest income on mortgage-backed securities decreased by $166,000, or 3.6%, to $4.4 million for fiscal 2006 compared to $4.6 million for the prior fiscal year, reflecting a decrease of $12.1 million in the average balance of mortgage-backed securities to $113.6 million for fiscal 2006 compared to $125.6 million for fiscal 2005. Partially offsetting the decline was an 24 basis point increase in the average rate earned on mortgage-backed securities to 3.91% for fiscal 2006 from 3.67% for the prior fiscal year. The decrease in the average balance of such securities demonstrates Management's commitment to invest proceeds received from increased deposits and the cash flows from the repayment of investments into higher yielding assets.

Interest income on investment securities increased by approximately $144,000, or 17.4%, to $971,000 for fiscal 2006 compared to $827,000 for the prior fiscal year. The increase in interest income on investment securities reflects a 98 basis point increase in the average rate earned on investment securities to 3.78% for fiscal 2006 from 2.80% for the prior fiscal year partially offset by a decrease of $3.8 million in the average balance of investment securities to $25.7 million for fiscal 2006 compared to $29.5 million for fiscal 2005.

Interest income on federal funds increased $238,000, or 136.8%, to $412,000 for fiscal 2006 compared to $174,000 for the prior fiscal year. The increase is primarily attributable to a 177 basis point increase in the average rate earned on federal funds coupled with a $1.4 million increase 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 raised the federal funds rate over the course of the entire fiscal year.

Interest Expense

Interest expense increased by $3.7 million, or 38.3%, to $13.5 million for fiscal 2006 compared to $9.8 million for the prior fiscal year. The increase in interest expense reflects an increase of $39.2 million in the average balance of interest-bearing liabilities to $546.5 million in fiscal 2006 from $507.3 million in fiscal 2005. Additionally, the total cost of interest-bearing liabilities increased 55 basis points to 2.47% in fiscal 2006 compared to 1.92% in the prior year. The increase in the average balance of interest-bearing liabilities in fiscal 2006 compared to fiscal 2005 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 $3.5 million, or 63.5%, to $8.9 million for fiscal 2006 compared to $5.5 million for the prior fiscal year. This increase is attributable to a $41.7 million, or 10.5%, increase in the average balance of interest-bearing deposits to $436.9 million for fiscal 2006 compared to $395.3 million for fiscal 2005 coupled with a 66 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 $29.4 million, or 14.1%, an increase in the average balance of money market accounts of $6.5 million, or 21.5%, an increase in the average balance of savings and club accounts of $4.3 million, or 3.2%, and an increase in the average balance of checking accounts of $1.5 million, or 6.4%. The increase in the average rate paid on deposits was principally due to the rise in the interest rate environment throughout fiscal 2006.

Interest expense on borrowed money increased by $269,000 or 6.3%, to $4.6 million for fiscal 2006 compared to $4.3 million for the prior fiscal year. The increase in interest expense on borrowed money for fiscal 2006 reflects a rise of 33 basis points in the average cost of borrowed money, primarily the result of increases in the indexed rate of trust preferred debt securities which adjust quarterly and have increased in the current interest rate environment. Partially offsetting the increase was a $2.2 million decline in the average balance of borrowed money reflecting management's strategy of using deposit growth and cash flows from the repayment of mortgage-backed securities to repay FHLB-NY advances.

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 $104,000, or 0.6%, to $18.9 million for fiscal 2006 compared to $18.8 million for the prior fiscal year. This modest increase was achieved as a result of an increase in both the average balance and the return on average interest-earning assets of $44.1 million and 26 basis points, respectively. Mainly offsetting the increase in net interest income was an increase in the average balance and cost of interest-bearing liabilities of $39.2 million and 55 basis points, respectively. The result was a 29 basis point decrease in the interest rate spread to 2.97% for fiscal 2006 compared to 3.26% for the prior fiscal year. The net interest margin also decreased to 3.18% for fiscal 2006 compared to 3.41% for fiscal 2005.

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 2006, the Bank had net charge-offs of $82,000 compared to $28,000 for fiscal 2005. At March 31, 2006, non-performing loans totaled $2.8 million or 0.55% of total loans compared to $998,000, or 0.23% of total loans, at March 31, 2005. At March 31, 2006, the Bank's allowance for loan losses was $4.0 million compared to $4.1 million at March 31, 2005, resulting in a ratio of the allowance to non-performing loans of 147.1% at March 31, 2006 compared to 410.7% at March 31, 2005, and a ratio of allowance for possible loan losses to total loans of 0.81% and 0.96% at March 31, 2006 and March 31, 2005, respectively. The Bank believes its reported allowance for loan loss at March 31, 2006 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 increased $1.3 million, or 31.1%, to $5.3 million for fiscal 2006 compared to $4.1 million for fiscal 2005. The rise in non-interest income was comprised of an increase of $363,000 in loan fees and service charges, primarily greater loan prepayment penalty income and late charge fees. Additional depository fees and charges of $246,000 were achieved primarily from higher ATM usage, growth in debit card income and commissions earned on the sale of investments and life insurance. Further contributing to the rise in non-interest income was additional gains on the sale of loans of $267,000, predominantly from the bulk sale of $10.7 million of residential one-to four family mortgage loans. An increase of $77,000 in other income was also achieved primarily as a result of additional income earned on the Bank's investment in a bank owned life insurance program. Further contributing to the increase in non-interest income year over year was the Company's recognition of a $1.5 million impairment charge deemed other than temporary in the second quarter of fiscal 2005, resulting from the decline in market price of 150,000 shares of IFSB stock that the Company previously held. Partially offsetting that impairment charge in fiscal 2005 was the receipt of a net $1.1 million Community Development Financial Institutions grant from the Department of the Treasury and a $94,000 gain from the sale of securities.

Non-Interest Expense

Non-interest expense increased by $438,000, or 2.3%, to $19.1 million for fiscal 2006 compared to $18.7 million for the prior fiscal year. The increase in non-interest expense was primarily attributable to increases in net occupancy and equipment expenses of $327,000 and $331,000, respectively, resulting from the full year effect in fiscal 2006 of the new branch office and ATM center openings in fiscal 2005. Also contributing to the rise in non-interest expense were increases in retail banking chargeoffs, legal fees and insurance costs of $196,000, $160,000 and $112,000, respectively. Partially offsetting the increase in non-interest expense was a charge of $847,000 in fiscal 2005 for merger and acquisition expenses related to the attempted acquisition of IFSB. Much of the increase in the Bank's operating expenses was a result of the investment made in fiscal 2004 and 2005 to grow the franchise. During fiscal 2006, in an effort to reduce non-interest expenses, the Bank implemented cost cutting strategies by outsourcing our ATM driving technology as well as a number of corporate administrative functions.

Income Tax Expense

Income tax expense was $1.3 million for fiscal 2006, a decline of $189,000 or 12.5%, from $1.5 million for fiscal 2005 as a result of a $500,000 recovery of income tax expense in fiscal 2006 attributable to the release of contingency reserves for closed tax examination years. As a result the effective tax rate in fiscal 2006 was 26.1%, compared to 36.4% for fiscal 2005. It is anticipated that the effective tax rate for fiscal 2007 will be more comparative to that of fiscal 2005.

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 5.18% 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.

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 branch offices 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 $3.4 million, or 3.2%, 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 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. 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.

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 branch offices and ATM centers, 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 branch offices and ATM centers. 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 $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.

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 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, 2006.

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, 2006 and 2005, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $25.2 million and $30.2 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. As mortgage interest rates increase, customers' refinance activities tend to decline, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to decelerate. During fiscal 2005 the federal funds rate increased seven separate times resulting in a total increase in the federal funds rate of 175 basis points. The federal funds rate was again raised in fiscal 2006 eight separate times resulting in an additional increase in the federal funds rate of 200 basis points. While the Bank experienced relatively high loan and securities repayments over the last two fiscal years primarily as a result of increased mortgage loan refinancing activity caused by the low longer term interest rate environment, management anticipates a leveling of these prepayments in fiscal 2007 as longer term rates remain at current levels or begin to climb the effect of which can hinder liquidity.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal 2006, cash and cash equivalents increased by $2.5 million. Net cash provided by operating activities was $30.5 million, representing primarily the proceeds from the sale of loans. Net cash used in investing activities was $54.4 million, which was primarily the result of originations and purchases of loans and purchases of securities partially offset by repayments and maturities of loans and securities sales. Net cash provided by financing activities was $26.4 million, reflecting primarily net increases in deposits partially offset by repayments of borrowings from the FHLB-NY 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,	
	2006	2005
	(Dollars in thousands)	
Commitments to originate mortgage loans	$ 64,163	$ 44,129
Commitments to originate commercial and consumer loans	439	515
Letters of credit	1,795	1,908
Total	$ 66,397	$ 46,552

The following table presents the Bank's contractual obligations at March 31, 2006.

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(In thousands)				
Long term debt obligations:					
FHLB advances	$ 80,935	$ 49,434	$ 31,307	$ --	$ 194
Guaranteed preferred beneficial interest in junior subordinated debentures	12,857	--	12,857	--	--
Total long term debt obligations	93,792	49,434	44,164	--	194
Operating lease obligations:					
Lease obligations for rental properties	4,452	657	1,338	1,227	1,230
Total contractual obligations	$ 98,244	$ 50,091	$ 45,502	$ 1,227	$ 1,424

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, 2006, the Bank had tangible, core, and total risk-based capital ratios of 9.4%, 9.4% and 13.2%, respectively and was considered well capitalized.

The following table reconciles the Bank's stockholders' equity at March 31, 2006 under GAAP to regulatory capital requirements.

		Regulatory Capital Requirements		
	GAAP Capital	**Tangible Capital**	**Leverage Capital**	**Risk-Based Capital**
		(Dollars in thousands)		
Stockholders' Equity at March 31, 2006 (1)	$ 61,814	$ 61,814	$ 61,814	$ 61,814
Add:				
General valuation allowances		--	--	4,015
Unrealized loss on securities available-for-sale, net		393	393	393
Regulatory Capital		62,207	62,207	66,222
Minimum Capital requirement		9,929	26,477	40,074
Regulatory Capital Excess		$ 52,278	$ 35,730	$ 26,148

(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.

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KPMG

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 as of March 31, 2006 and 2005, 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, 2006. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carver Bancorp Inc. and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles.

KPMG LLP
June 29, 2006

KPMG LLP

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

	March 31, 2006	March 31, 2005
ASSETS:		
Cash and cash equivalents:		
Cash and due from banks	$ 13,604	$ 13,020
Federal funds sold	8,700	6,800
Interest earning deposits	600	600
Total cash and cash equivalents	22,904	20,420
Securities:		
Available-for-sale, at fair value (including pledged as collateral of $79,211 and $112,503 at March 31, 2006 and 2005, respectively)	81,882	118,033
Held-to-maturity, at amortized cost (including pledged as collateral of $26,039 and $30,900 at March 31, 2006 and 2005, respectively; fair value of $25,880 and $31,310 at March 31, 2006 and 2005, respectively)	26,404	31,302
Total securities	108,286	149,335
Loans receivable:		
Real estate mortgage loans	495,994	424,387
Consumer and commercial business loans	1,453	1,697
Allowance for loan losses	(4,015)	(4,097)
Total loans receivable, net	493,432	421,987
Office properties and equipment, net	13,194	13,658
Federal Home Loan Bank of New York stock, at cost	4,627	5,125
Bank owned life insurance	8,479	8,173
Accrued interest receivable	2,970	2,702
Other assets	7,101	4,977
Total assets	$ 660,993	$ 626,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 504,638	$ 455,870
Advances from the Federal Home Loan Bank of New York and other borrowed money	93,792	115,299
Other liabilities	13,866	9,407
Total liabilities	612,296	580,576
Stockholders' equity:		
Common stock (par value $0.01 per share: 10,000,000 shares authorized; 2,524,691 shares issued; 2,506,822 and 2,501,338 outstanding at March 31, 2006 and 2005, respectively)	25	25
Additional paid-in capital	23,935	23,937
Retained earnings	25,736	22,748
Unamortized awards of common stock under ESOP and management recognition plan ("MRP")	(22)	(254)
Treasury stock, at cost (17,869 and 23,353 shares at March 31, 2006 and 2005, respectively)	(303)	(420)
Accumulated other comprehensive loss	(674)	(235)
Total stockholders' equity	48,697	45,801
Total liabilities and stockholders' equity	$ 660,993	$ 626,377

See accompanying notes to consolidated financial statements

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

	For the Year Ended March 31,		
	2006	**2005**	**2004**
Interest Income:			
Loans	$ 26,563	$ 22,940	$ 20,117
Mortgage-backed securities	4,439	4,605	4,789
Investment securities	971	827	1,161
Federal funds sold	412	174	167
Total interest income	32,385	28,546	26,234
Interest expense:			
Deposits	8,921	5,455	4,649
Advances and other borrowed money	4,572	4,303	4,051
Total interest expense	13,493	9,758	8,700
Net interest income	18,892	18,788	17,534
Provision for loan losses	--	--	--
Net interest income after provision for loan losses	18,892	18,788	17,534
Non-interest income:			
Depository fees and charges	2,458	2,212	1,925
Loan fees and service charges	2,231	1,868	2,607
Gain on sale of securities	--	94	31
Impairment of securities	--	(1,547)	--
Gain on sale of loans	351	84	116
Gain on sale of fixed assets	--	--	2
Grant income	--	1,140	--
Other	301	224	597
Total non-interest income	5,341	4,075	5,278
Non-interest expense:			
Employee compensation and benefits	9,512	9,461	7,587
Net occupancy expense	2,284	1,957	1,443
Equipment, net	1,939	1,608	1,486
Merger related expenses	--	847	--
Other	5,399	4,823	4,964
Total non-interest expense	19,134	18,696	15,480
Income before income taxes	5,099	4,167	7,332
Income taxes	1,329	1,518	2,493
Net income	3,770	2,649	4,839
Dividends applicable to preferred stock	$ --	$ 114	$ 197
Net income available to common stockholders	$ 3,770	$ 2,535	$ 4,642
Earnings per common share:			
Basic	$ 1.50	$ 1.06	$ 2.03
Diluted	$ 1.47	$ 1.03	$ 1.87

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, 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)
Purchase of treasury stock	--	--	82	--	(200)	--	--	--	(118)
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	--	--	--	--	--	--	--
Treasury stock activity	--	--	55	--	(30)	--	--	--	25
Allocation of ESOP Stock	--	--	--	--	--	--	(126)	--	(126)
Purchase of shares for MRP	--	--	--	--	--	--	--	(107)	(107)
Balance--March 31, 2005	**--**	**25**	**23,937**	**22,748**	**(420)**	**(235)**	**(126)**	**(128)**	**45,801**
Comprehensive income :									
Net income	--	--	--	3,770	--	--	--	--	3,770
Loss on pension liability						(281)			(281)
Change in net unrealized loss on available-for-sale securities, net of taxes	--	--	--	--	--	(158)	--	--	(158)
Comprehensive income, net of taxes:									3,331
Dividends paid	--	--	--	(782)	--	--	--	--	(782)
Treasury stock activity	--	--	(2)	--	117	--	--	--	115
Allocation of ESOP Stock	--	--	--	--	--	--	116	--	116
Purchase of shares for MRP	--	--	--	--	--	--	--	116	116
Balance--March 31, 2006	**$ --**	**$ 25**	**$ 23,935**	**$ 25,736**	**$ (303)**	**$ (674)**	**$ (10)**	**$ (12)**	**$ 48,697**

See accompanying notes to consolidated financial statements.

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

	Year Ended March 31,		
	2006	**2005**	**2004**
Cash flows from operating activities			
Net income	$ 3,770	$ 2,649	$ 4,839
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	--	--	--
ESOP and MRP expense	233	358	128
Depreciation expense	1,546	1,423	1,146
Amortization of intangibles	--	--	178
Other amortization	863	1,502	1,848
Impairment charge on securities	--	1,547	--
Gain from sale of securities	--	(94)	(31)
Gain on sale of loans	(351)	(277)	(116)
Changes in assets and liabilities:			
Proceeds from loans sold	22,908	8,404	9,590
(Increase) decrease in accrued interest receivable	(268)	(213)	857
(Increase) decrease in other assets	(2,430)	(7,618)	4,478
Increase (decrease) in other liabilities	4,249	(4,452)	3,481
Net cash provided by operating activities	30,520	3,229	26,398
Cash flows from investing activities:			
Purchase of securities:			
Available-for-sale	(26,811)	(83,219)	(58,477)
Held-to-maturity	(19)	--	(19,859)
Proceeds from principal payments, maturities and calls of securities:			
Available-for-sale	60,645	51,383	65,060
Held-to-maturity	4,816	11,996	12,693
Proceeds from sales of available-for-sale securities	1,575	7,288	23,902
Disbursements for loan originations	(111,349)	(85,801)	(87,140)
Loans purchased from third parties	(96,140)	(104,734)	(93,694)
Principal collections on loans	113,468	112,518	111,821
Redemption (purchase) of FHLB-NY stock	498	(549)	864
Additions to premises and equipment	(1,082)	(3,399)	(2,779)
Net cash used in investing activities	(54,400)	(94,517)	(47,609)
Cash flows from financing activities:			
Net increase in deposits	48,768	79,789	26,501
Net (repayment of)/proceeds from FHLB advances and other borrowed money	(21,507)	10,959	(4,714)
Common stock repurchased	(115)	(1,021)	(303)
Dividends paid	(782)	(793)	(659)
Net cash provided by financing activities	26,364	88,934	20,825
Net increase (decrease) in cash and cash equivalents	2,484	(2,354)	(386)
Cash and cash equivalents at beginning of the year	20,420	22,774	23,160
Cash and cash equivalents at end of the year	$ 22,904	$ 20,420	$ 22,774
Supplemental information:			
Noncash Transfers-			
Change in unrealized loss on valuation of available-for-sale investments, net	$ (158)	$ (493)	$ (492)
Cash paid for-			
Interest	$ 13,502	$ 9,718	$ 8,739
Income taxes	$ 2,107	$ 2,395	$ 2,825

See accompanying notes to consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Carver Bancorp, Inc. (on a stand-alone basis, the "Holding Company" or "Registrant"), was incorporated in May 1996 and its principal wholly owned subsidiary is Carver Federal Savings Bank (the "Bank" or "Carver Federal"). Carver Statutory Trust I (the "Trust") is another wholly owned subsidiary of the Holding Company. The Trust, which was formed in September 2003, exists for the sole purpose of issuing trust preferred debt securities and investing the proceeds in an equivalent amount of subordinated debentures of the Holding Company. CFSB Realty Corp., CFSB Credit Corp. and Carver Community Development 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 branch offices 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 designated in either the securities held-to-maturity portfolio or securities available-for-sale portfolio. Securities should be classified as 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. No impairment charge was recorded for fiscal 2006, however, during fiscal 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 a nine-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, if necessary, 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. Death benefits proceeds received in excess of the policy's cash surrender value are recognized to income. 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. At March 31, 2006, Carver held no policy loans against its BOLI cash surrender values or restrictions on the use of the proceeds.

Mortgage Servicing Rights

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, 2006, 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 with a carrying amount of $10,000 and is included with other assets on the statement of condition.

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 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, 2006 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 costs for indication of impairment in value. There was no impairment on these assets for the past three years and 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. outstanding share awards under the Company's stock option plan). 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.

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 grants "incentive stock options" only to its employees and grants "nonqualified stock options" to employees and non-employee directors. Under Accounting Principle Board Opinion ("APB") No. 25 "*Accounting for Stock Issued to Employees*", no compensation expense is recognized if the exercise price of the option is greater than or equal to the fair market value of the underlying stock on the date of grant. In December 2004, the FASB issued a revised Statement of Financial Accounting Standards No. 123 "*Accounting for Stock-Based Compensation, Share Based Payment*", ("SFAS 123R") which 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 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 annual reporting period beginning after June 15, 2005. Carver Federal will adopt SFAS 123R as of April 1, 2006.

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.

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

	2006	2005	2004
	(Dollars in thousands, except per share data)		
Net Income available to common shareholders:			
As reported	$3,770	$ 2,535	$ 4,642
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(105)	(124)	(158)
Pro forma	$3,665	$ 2,411	$ 4,484
Basic earnings per share:			
As reported	$ 1.50	$ 1.06	$ 2.03
Pro forma	1.46	1.01	1.96
Diluted earnings per share:			
As reported	$ 1.47	$ 1.03	$ 1.87
Pro forma	1.43	0.98	1.81
Weighted average number of shares outstanding	2,506,029	2,381,980	2,283,802

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 4.50%, 3.50% and 2.50%, for the relevant fiscal years ended March 31, 2006, 2005 and 2004 ("fiscal 2006", "fiscal 2005" and "fiscal 2004"), respectively; volatility of 19% for fiscal 2006 and 35% fiscal 2005 and 45% fiscal 2004; expected dividend yield was calculated using annual dividends of $0.32 per share for fiscal 2006, $0.28 for fiscal 2005 and $0.20 for fiscal 2004; and an expected life of seven years for employees and directors option grants.

Reclassifications

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

NOTE 2. SECURITIES

The following is a summary of securities at March 31, 2006:

	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	$ 63,499	$ 48	$ (540)	$ 63,007
Federal Home Loan Mortgage Corporation	2,229	8	(28)	2,209
Federal National Mortgage Association	4,696	3	(110)	4,589
Total mortgage-backed securities	70,424	59	(678)	69,805
U.S. Government Agency Securities	12,386	--	(309)	12,077
Total available-for-sale	82,810	59	(987)	81,882
Held-To-Maturity:				
Mortgage-backed securities:				
Pass-through certificates:				
Government National Mortgage Association	809	36	--	845
Federal Home Loan Mortgage Corporation	17,372	15	(500)	16,887
Federal National Mortgage Association	7,900	34	(107)	7,827
Small Business Administration	323	--	(2)	321
Total held-to-maturity	26,404	85	(609)	25,880
Total securities	$ 109,214	$ 144	$ (1,596)	$ 107,762

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	19,115	32	(71)	19,076
Federal National Mortgage Association	10,780	110	(120)	10,770
Small Business Administration	337	--	(2)	335
Total held-to-maturity	31,302	201	(193)	31,310
Total securities	$ 150,051	$ 330	$ (1,038)	$ 149,343

The net unrealized loss on available-for-sale securities was $928,000 ($575,000 after taxes) at March 31, 2006 and $716,000 ($444,000 after taxes) at March 31, 2005. 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, 2006 the carrying value of these securities was $16.0 million and a related net unrealized gain of $183,000 continues to be reported. Changes in unrealized holding gains and losses between fiscal 2006 and fiscal 2005 resulted in an after-tax decrease in stockholders' equity of $158,000. These gains and losses will continue to fluctuate based on changes in the portfolio and market conditions.

There were no gains or losses resulting from the sale of available-for-sale securities in fiscal 2006. In fiscal 2005, an other-than-temporary impairment charge related to the investment in IFSB common stock was recorded and was subsequently sold in fiscal 2006. Additionally, sales of available-for-sale securities in fiscal 2005 and 2004 resulted in gross realized gains of $94,000 and $31,000, respectively.

At March 31, 2006 the Bank pledged securities of $38.3 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, 2006, 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.

	Book Value	Fair Value	Weighted Average Rate
	(Dollars in thousands)		
Available-for-Sale:			
Less than one year	$ 2,000	$ 1,982	2.43%
One through five years	10,687	10,398	3.92%
Five through ten years	1,524	1,471	4.53%
After ten years	68,599	68,031	3.78%
	$ 82,810	$ 81,882	3.78%
Held-to-maturity:			
One through five years	$ 50	$ 50	5.69%
After ten years	26,354	25,830	5.65%
	$ 26,404	$ 25,880	5.65%

The unrealized losses and fair value of securities in an unrealized loss position at March 31, 2006 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	$ (152)	$ 19,051	$ (526)	$ 39,795	$ (678)	$ 58,846
U.S. Government Agency Securities	(141)	5,725	(168)	6,352	(309)	12,077
Total available-for-sale	(293)	24,776	(694)	46,147	(987)	70,923
Held-to-Maturity:						
Mortgage-backed securities	(502)	16,777	(107)	6,224	(609)	23,001
Total securities	$ (795)	$ 41,553	$ (801)	$ 52,371	$ (1,596)	$ 93,924

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

A total of 46 securities had an unrealized loss at March 31, 2006 compared to 33 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 86.7% and 68.8% of total securities at March 31, 2006 and 2005, 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,			
	2006		2005	
	Amount	Percent	Amount	Percent
		(Dollars in thousands)		
Real estate loans:				
One- to four-family	$ 143,433	28.91%	$ 155,797	36.69%
Multifamily	104,718	21.11	101,899	23.99
Nonresidential	154,044	31.05	116,769	27.49
Construction	92,511	18.64	48,579	11.43
Consumer and business	1,453	0.29	1,697	0.40
Total gross loans	496,159	100.00%	424,741	100.00%

Add:		
Premium on loans	1,890	1,743
Less:		
Deferred fees and loan discounts	(602)	(400)
Allowance for loan Losses	(4,015)	(4,097)
Total	**$ 493,432**	**$ 421,987**

At March 31, 2006, 82.3% of the Company's real estate loans receivable was principally secured by properties located in the State of New York.

The mortgage loan portfolios serviced for Federal National Mortgage Association ("FNMA") and other third parties are not included in the accompanying consolidated financial statements. The unpaid principal balances of these loans aggregated $33.2 million, $17.9 million and $11.7 million at March 31, 2006, 2005 and 2004, respectively. Custodial escrow balances, maintained in connection with the above-mentioned loan servicing, were approximately $114,000, $56,000 and $40,000 at March 31, 2006, 2005 and 2004, respectively. During the year ended March 31, 2006 the Bank sold $22.5 million in loans with a recognized gain of $158,000, as compared to $8.0 million in loans sold during fiscal 2005 with an $84,000 gain recognized. Also recognized from these loan sales were gains of $193,000 for both fiscal 2006 and 2005 from other mortgage servicing rights since the loans were sold with servicing retained.

At March 31, 2006 the Bank pledged $141.8 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,		
	2006	**2005**	**2004**
Balance at beginning of the year	$ 4,097	$ 4,125	$ 4,158
Provision charged to operations	--	--	--
Recoveries of amounts previously charged-off	35	45	292
Charge-offs of loans	(117)	(73)	(325)
Balance at end of the year	$ 4,015	$ 4,097	$ 4,125

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, 2006, 2005 and 2004 the recorded investment in impaired loans was $2.8 million, $998,000 and $2.1 million, respectively, all of which represented non-accrual loans. The related allowance for credit losses was approximately $276,000, $160,000 and $317,000 at March 31, 2006, 2005 and 2004, respectively. The impaired loan portfolio is primarily collateral dependent. The average recorded investment in impaired loans during the fiscal years ended March 31, 2006, 2005 and 2004 was approximately $2.2 million, $1.6 million and $2.0 million, respectively. For the fiscal years ended March 31, 2006, 2005 and 2004, the Company did not recognize any interest income on these impaired loans. Interest income of $79,000, $83,000 and $185,000, respectively, for the fiscal years ended March 31, 2006, 2005 and 2004 would have been recorded on impaired loans had they performed in accordance with their original terms.

At March 31, 2006, 2005 and 2004, 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, 2006	March 31, 2005
	(In thousands)	
Land	$ 415	$ 415
Building and improvements	9,391	9,195
Leasehold improvements	4,404	3,939
Furniture and Equipment	8,367	7,734
	22,577	21,283
Less accumulated depreciation and amortization	9,383	7,625
	$ 13,194	$ 13,658

Depreciation and amortization charged to operations for the fiscal years ended March 31, 2006, 2005 and 2004 amounted to $1.5 million, $1.4 million and $1.1 million, respectively.

NOTE 5. ACCRUED INTEREST RECEIVABLE

The detail of accrued interest receivable is as follows:

	March 31, 2006	March 31, 2005
	(In thousands)	
Loans receivable	$ 2,300	$ 1,895
Mortgage-backed securities	482	576
Investments and other interest bearing assets	188	231
Total accrued interest receivable	$ 2,970	$ 2,702

NOTE 6. DEPOSITS

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

	2006 Amount	2006 Percent of Total Deposits	2006 Weighted Average Rate	2005 Amount	2005 Percent of Total Deposits	2005 Weighted Average Rate
			(Dollars in thousands)			
Non-interest-bearing demand	$ 31,085	6.2%	--%	$ 25,570	5.6%	--%
NOW demand	27,904	5.5	0.31	24,095	5.2	0.30
Savings and clubs	139,724	27.7	0.68	137,810	30.2	0.62
Money market savings	40,045	7.9	2.41	36,294	8.0	1.34
Certificates of deposit	263,963	52.3	3.76	229,685	50.4	2.30
Other	1,917	0.4	1.47	2,416	0.5	1.13
Total	$504,638	100.0%	2.37%	$ 455,870	100.0%	1.47%

Scheduled maturities of certificates of deposit follow:

	March 31, 2006	March 31, 2005
	(In thousands)	
Certificates of deposit by remaining term to contractual maturity:		
Within one year	217,578	186,585
After one but within two years	20,195	13,412
After two but within three years	10,456	8,512
After three years	15,734	21,176
Total	$ 263,963	$ 229,685

The aggregate amount of certificates of deposit with minimum denominations of $100,000 or more was approximately $183.5 million at March 31, 2006 compared to $161.7 million at March 31, 2005.

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

	2006	2005	2004
		(In thousands)	
NOW demand	$ 74	$ 69	$ 85
Savings and clubs	919	801	1,001
Money market savings	601	302	235
Certificates of deposit	7,321	4,268	3,315
	8,915	5,440	4,636
Mortgagors deposits	30	25	24
Penalty for early withdrawal of certificates of deposit	(24)	(10)	(11)
Total interest expense	$ 8,921	$ 5,455	$ 4,649

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 as follow:

	2006		2005	
	(Dollars in thousands)			
Maturing Year Ended March 31,	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**
2006	--%	$ --	3.41%	$ 34,840
2007	4.40	49,434	4.21	36,134
2008	3.65	16,200	3.65	16,200
2009	3.78	15,107	3.78	15,107
2012	3.50	194	3.50	219
	4.13%	$ 80,935	3.78%	$ 102,500

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 $165 million at March 31, 2006. 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, 2006, advances were secured by pledges of the Bank's investment in the capital stock of the FHLB-NY totaling $4.6 million and a blanket assignment of the Bank's unpledged qualifying mortgage loans of $141.8 million and mortgage-backed and investment securities of $38.3 million. Included in the total assets held at the FHLB-NY as collateral for borrowings is excess borrowing capacity of $23.2 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, 2006 and 2005 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, 2006 and 2005 the rate paid on these trust preferred debt securities was 7.97% and 6.08%, 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,		
	2006	2005	2004
	(Dollars in thousands)		
Amounts outstanding at the end of year:			
FHLB advances	$ 80,935	$ 102,500	$ 91,516
Guaranteed preferred beneficial interest in junior subordinated debentures	12,857	12,799	12,741
Loan for employee stock ownership plan	--	--	25
Rate paid at year end:			
FHLB advances	4.13%	3.78%	3.92%
Guaranteed preferred beneficial interest in junior subordinated debentures	7.97%	6.08%	4.16%
Loan for employee stock ownership plan	--	--	4.00%
Maximum amount of borrowing outstanding at any month end:			
FHLB advances	$ 112,488	$ 112,506	$ 112,030
Guaranteed preferred beneficial interest in junior subordinated debentures	12,857	12,799	12,742
Loan for employee stock ownership plan	--	--	207
Approximate average amounts outstanding for year:			
FHLB advances	$ 94,798	$ 97,013	$ 99,359
Guaranteed preferred beneficial interest in junior subordinated debentures	12,827	12,768	6,854
Loan for employee stock ownership plan	--	--	137
Approximate weighted average rate paid during year [1]:			
FHLB advances	3.81%	3.71%	3.74%
Guaranteed preferred beneficial interest in junior subordinated debentures	7.50%	5.49%	4.78%
Loan for employee stock ownership plan	--	--	4.07%

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

NOTE 8. INCOME TAXES

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

	2006	2005	2004
		(In thousands)	
Federal income tax expense (benefit):			
Current	$ 1,155	$ 1,978	$ 1,634
Deferred	35	(782)	427
	1,190	1,196	2,061
State and local income tax expense (benefit):			
Current	196	418	342
Deferred	(57)	(96)	90
	139	322	432
Valuation allowance	--	--	--
Total provision for income tax expense	$ 1,329	$ 1,518	$ 2,493

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

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Statutory Federal income tax	$ 1,734	34.0%	$ 1,417	34.0%	$ 2,493	34.0%
State and local income taxes, net of Federal tax benefit	92	1.8	213	5.1	285	3.9
General business credit	(73)	(1.5)	--	--	--	--
Release of contingency reserve	(500)	(9.8)	--	--	--	--
Other	76	1.5	(112)	(2.7)	(285)	(3.9)
Total income tax expense	$ 1,329	26.0%	$ 1,518	36.4%	$ 2,493	34.0%

Carver Federal's stockholders' equity includes approximately $2.8 million at each of March 31, 2006, 2005 and 2004, 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:

	2006	2005
	(In thousands)	
Deferred Tax Assets		
Income from affiliate	$ 1,975	$ 1,873
Allowance for loan losses	1,365	1,393
Deferred loan fees	235	137
Compensation and benefits	113	384
Non-accrual loan interest	284	274
Reserve for losses on other assets	65	32
Investment security impairment	--	588
Capital loss carryforward	591	--
Unrealized loss on available-for-sale securities	240	144
Minimum pension liability	173	--
Other	2	--
Total Deferred Tax Assets	5,043	4,825
Deferred Tax Liabilities		
Depreciation	352	428
Total Deferred Tax Liabilities	352	428
Net Deferred Tax Assets	$ 4,691	$ 4,397

A valuation allowance against the deferred tax assets at March 31, 2006 and 2005 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 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,		
	2006	2005	2004
		(In thousands)	
Net income	$ 3,770	$ 2,649	$ 4,839
Preferred stock dividends	--	(114)	(197)
Net income - basic	3,770	2,535	4,642
Impact of conversion/potential conversion of convertible preferred stock to common stock	--	114	197
Net income - diluted	$ 3,770	$ 2,649	$ 4,839
Weighted average common shares outstanding - basic	2,506	2,382	2,284
Effect of dilutive options	59	84	97
Effect of dilutive securities convertible preferred stock	--	113	208
Weighted average common shares outstanding - diluted	2,565	2,579	2,589

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 (the "Common Stock"), 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, 2006 and 2005, 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.

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, 2006 and 2005, 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, 2006 and 2005 compared to the OTS requirements for minimum capital adequacy and for classification as a well-capitalized institution:

	Bank Actual		Minimum Capital Adequacy		Classification As Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
March 31, 2006						
Tangible capital	$ 62,207	9.4%	$ 9,929	1.5%	N/A	N/A%
Leverage capital	62,207	9.4	26,477	4.0	$ 33,096	5.0
Risk-based capital:						
Tier 1	$ 62,207	12.4	$ 20,037	4.0	$ 30,056	6.0
Total	66,222	13.2	40,074	8.0	50,093	10.0
March 31, 2005						
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

The following table reconciles the Bank's stockholders' equity at March 31, 2006, 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, 2006 [1]	$ 61,814	$ 61,814	$ 61,814	$ 61,814
Add:				
General valuation allowances		--	--	4,015
Deduct:				
Unrealized gain (loss) on securities available-for-sale, net		393	393	393
Regulatory Capital		62,207	62,207	66,222
Minimum Capital requirement		9,929	26,477	40,074
Regulatory Capital Excess		$ 52,278	$ 35,730	$ 26,148

(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 and loss on pension liability. The Holding Company has reported its comprehensive income for fiscal 2006, 2005 and 2004 in the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income. Carver Federal's accumulated other comprehensive income or loss (other than net income or loss) included net unrealized losses on securities at March 31, 2006 and 2005 of $393,000 and $235,000, respectively. Included in the amounts at March 31, 2006 and 2005 were unrealized gains of $183,000 and $209,000, 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. Also included in accumulated other comprehensive income or loss at March 31, 2006 was a loss on the Bank's employee pension plan liability of $281,000, net of taxes.

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 was 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:

	2006	2005
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at the beginning of year	$ 2,785	$ 2,736
Interest cost	163	167
Actuarial loss	197	136
Benefits paid	(253)	(254)
Projected benefit obligation at end of year	$ 2,892	$ 2,785
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ 2,950	$ 3,068
Actual return on plan assets	173	136
Benefits paid	(253)	(254)
Fair value of plan assets at end of year	$ 2,870	$ 2,950
Funded status	$ (22)	$ 165
Unrecognized loss / (gain)	454	203
Accrued pension cost	$ 432	$ 368

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

	2006	2005	2004
		(In thousands)	
Interest cost	$ 164	$ 167	$ 172
Expected return on plan assets	(227)	(236)	(223)
Amortization of:			
Unrecognized (gain)	--	--	--
Net periodic pension (benefit)	$ (63)	$ (69)	$ (51)

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

	2006	2005	2004
		(In thousands)	
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	5.75%	6.38%	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, 2006, 2005 and 2004 were $198,000, $174,000 and $95,000, 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:

	2006	2005
	(In thousands)	
Change in projected benefit obligation during the year		
Projected benefit obligation at beginning of year	$ 136	$ 169
Interest cost	7	9
Actuarial (gain) loss	(7)	1
Benefits paid	(34)	(43)
Projected benefit obligation at end of year	$ 102	$ 136
Change in fair value of plan assets during the year		
Fair value of plan assets at beginning of year	$ --	$ --
Employer contributions	34	43
Benefits paid	(34)	(43)
Fair value of plan assets at end of year	$ --	$ --
Funded Status	$ (102)	$ (136)
Unrecognized (gain)	(22)	(16)
Accrued pension cost	$ (124)	$ (152)

Net periodic pension cost for the years ended March 31, 2006, 2005 and 2004 included the following:

	2006	2005	2004
		(In thousands)	
Interest cost	$ 6	$ 9	$12
Net periodic pension cost	$ 6	$ 9	$12

The actuarial assumptions used in determining plan benefits include a discount rate of 5.75%, 6.1% and 6.4% for the years ended March 31, 2006, 2005 and 2004, 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, 2006 the Consolidated Statement of Conditions reflects a net cash surrender value of $8.5 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 $134,000, $158,000 and $128,000 as expense for the years ended March 31, 2006, 2005 and 2004, 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, $200,000 and $0 for the years ended March 31, 2006, 2005 and 2004, respectively.

The ESOP shares at March 31 follow:

	2006	2005
	(In thousands)	
Allocated shares	72	78
Unallocated shares	1	5
Total ESOP shares	73	83
Fair value of unallocated shares	$ 10	$ 95

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, 2006, there were 238,061 options outstanding and 144,836 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:

	2006		2005		2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	225,292	$ 12.37	229,636	$ 11.25	192,176	$ 10.07
Granted	35,277	16.98	39,347	19.65	43,638	16.35
Exercised	(9,903)	9.57	(35,954)	12.75	(77)	12.06
Forfeited	(12,605)	17.44	(7,737)	14.38	(6,101)	10.39
Outstanding, end of year	238,061	12.90	225,292	12.37	229,636	11.25
Exercisable at year end	144,836		151,846		108,925	

Information regarding stock options at March 31, 2006 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	60,000	4 years	$ 8.17	60,000	$ 8.17
	9.00	9.99	38,060	5 years	9.92	38,060	9.92
	10.00	10.99	6,000	5 years	10.52	6,000	10.52
	12.00	12.99	40,576	6 years	12.10	39,776	12.09
	13.00	13.99	1,000	2 years	13.81	1,000	13.81
	15.00	15.99	2,265	10 years	15.10	--	--
	16.00	16.99	30,480	7 years	16.47	--	--
	17.00	17.99	29,327	9 years	17.13	--	--
	19.00	19.99	29,243	8 years	19.64	--	--
	20.00	20.99	729	9 years	20.00	--	--
	21.00	21.99	381	8 years	21.76	--	--
Total			238,061			144,836	

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, 2006	March 31, 2005
	(In thousands)	
Commitments to originate mortgage loans	$ 64,163	$ 44,129
Commitments to originate commercial and consumer loans	439	515
Letters of credit	1,795	1,908
Total	$ 66,397	$ 46,552

At March 31, 2006, of the $64.2 million in outstanding commitments to originate mortgage loans, $61.0 million represented construction loans at an average rate of 5.70%, $1.3 million represented commitments to originate non-residential mortgage loans at rates within a range of 6.50% to 7.00% and $1.9 million represented the balance of one-four residential loans at rates between 6.38% and 7.25%.

The balance of commitments on commercial and consumer loans at March 31, 2006 is primarily undisbursed funds from approved unsecured commercial lines of credit. All such lines carry adjustable rates mainly tied to prime. At March 31, 2006, the Bank maintained one letter of credit in the amount of $1.8 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 $717,000, $479,000, and $245,000 for the years ended March 31, 2006, 2005 and 2004, 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)	
2007	657
2008	677
2009	662
2010	621
2011	605
Thereafter	1,230
	$ 4,452

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, 2006, 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.

NOTE 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 107 "*Disclosures About Fair Value of Financial Instruments*" requires the Bank to disclose, in addition to the carrying value, the fair value of certain financial instruments, both assets and liabilities recorded on and off balance sheet, for which it is practicable to estimate fair value. SFAS 107 defines financial instrument as cash, evidence of ownership of an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. 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 and is best evidenced by a quoted market price if one exists. In cases where quoted market prices are not available, 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 for the following years:

	At March 31,			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 22,904	22,904	$ 20,420	$ 20,420
Investment securities available-for-sale	12,078	12,078	22,551	22,551
Mortgage backed securities available-for-sale	69,804	69,804	95,482	95,482
Mortgage backed securities held-to-maturity	26,404	25,880	31,302	31,310
Loans receivable	493,432	488,258	421,987	424,886
Accrued interest receivable	2,970	2,970	2,702	2,702
Mortgage servicing rights	339	325	179	161
Financial Liabilities:				
Deposits	$ 504,638	$ 506,886	$ 453,454	$ 451,752
Advances from FHLB of New York	80,935	79,848	102,500	101,651
Other borrowed money	12,857	12,857	12,799	12,799

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, 2006 and 2005:

	Three Months Ended			
	June 30	September 30	December 31	March 31
	(Dollars in thousands, except per share data)			
Fiscal 2006				
Interest income	$ 7,752	$ 7,748	$ 8,210	$ 8,676
Interest expense	(3,052)	(3,213)	(3,438)	(3,791)
Net interest income	4,700	4,535	4,772	4,885
Provision for loan losses	--	--	--	--
Non-interest income	1,399	1,031	1,123	1,788
Non-interest expense	(4,795)	(4,636)	(4,668)	(5,037)
Income tax expense	(464)	(329)	60	(595)
Net income	$ 840	$ 601	$ 1,287	$ 1,041
Earnings per common share				
Basic	0.34	0.24	0.51	0.42
Diluted	0.33	0.23	0.50	0.41
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

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

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	As of March 31,	
	2006	2005
	(In thousands)	
Assets		
Cash on deposit with the Bank	$ 59	$ 289
Investment securities	--	1,575
Investment in subsidiaries	62,219	57,851
Other assets	3	140
Total Assets	$ 62,281	$ 59,855
Liabilities and Stockholders' Equity		
Borrowings	13,260	13,202
Accounts payable to subsidiaries	66	667
Other liabilities	258	185
Total liabilities	$ 13,584	$ 14,054
Stockholders' equity	48,697	45,801
Total Liabilities and Stockholders' Equity	$ 62,281	$ 59,855

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended March 31, 2006	2005 (In thousands)	2004
Income			
Equity in net income from Subsidiaries	$ 6,758	$ 7,119	$ 8,328
Interest income from deposit with the Bank	5	7	9
Other income	22	23	9
Total income	6,785	7,149	8,346
Expenses			
Interest Expense on Borrowings	985	721	337
Salaries and employee benefits	287	225	169
Legal expense	--	--	--
Shareholder expense	407	488	458
Other	7	1,548	50
Total expense	1,686	2,982	1,014
Income before income taxes	5,099	4,167	7,332
Income tax expense	1,329	1,518	2,493
Net Income	$ 3,770	$ 2,649	$ 4,839

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2006	2005 (In thousands)	2004
Cash Flows from Operating Activities			
Net income	$ 3,770	$ 2,649	$4,839
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Equity in net income of Subsidiaries	(6,758)	(7,119)	(8,328)
Income taxes from the Bank	1,329	1,518	2,493
(Decrease) increase in accounts payable to Bank	(443)	645	21
Increase (decrease) in other liabilities	40	(14)	131
Other, net	299	2,534	1,772
Net cash (used in) provided by operating activities	(1,763)	213	928
Cash Flows from Investing Activities			
Dividends Received from Bank	850	4,866	--
Additional Investment in Bank & other subsidiaries	--	--	(13,153)
Proceeds from sale of investment securities	1,575	--	--
Purchase of investment securities	--	(3,074)	(59)
Net cash provided by (used in) investing activities	2,425	1,792	(13,212)
Cash Flows from Financing Activities			
Issuance of Sub Debt	--	--	13,144
Purchase of treasury stock, net	(115)	(1,021)	(200)
Dividends paid	(777)	(788)	(654)
Net cash (used in) provided by financing activities	(892)	(1,809)	12,290
Net (decrease) increase in cash	(230)	196	6
Cash and cash equivalents - beginning	289	93	87
Cash and cash equivalents - ending	$ 59	$ 289	$ 93

NOTE 16. RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR SERVICING OF FINANCIAL ASSETS

In March, 2006 FASB issued SFAS 156, *Accounting for Servicing of Financial Assets*, which amends SFAS.140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting.

SFAS 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. CARVER will adopt this pronouncement as of April 1, 2007 and it is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

THE MEANING OF OTHER-THAN-TEMPORARY IMPAIRMENT AND ITS APPLICATION TO CERTAIN INVESTMENTS

In November 2005, the FASB issued Staff Position No. FASB 115-1 and FAS 124-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*" (FSP FAS 115-1 AND FAS 124-1), which amends FASB Statements No. 115, Accounting for Certain Investments in Debt and Equity Securities, and No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 and FAS 124-1 addresses the determination of when an investment is considered impaired; whether the impairment is other than temporary; and how to measure an impairment loss and also addresses accounting considerations subsequent to the recognition of an other-than-temporary impairment on a debt security, and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Under FSP FAS 115-1 and FAS 124-1, impairment losses must be recognized in earnings equal to the entire difference between the security's cost and it fair share value at the financial statement date, without considering partial recoveries subsequent to that date. FSP FAS 115-1 and FAS 124-1 also requires that an investor recognize an other-than-temporary impairment loss when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. This pronouncement is effective for reporting periods beginning after December 15, 2005. The Company does not expect application to have any impact on its financial condition, results of operations or financial statement disclosures.

ACCOUNTING CHANGES AND ERROR CORRECTIONS

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes and Error Corrections*"(SFAS No. 154), which replaces APB Opinion No. 20, "Accounting Changes," or APB No. 20, and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement when the pronouncement does not include specific transaction provisions. SFAS No. 154 requires retrospective application of changes in accounting principle to prior periods' financial statements unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including the cumulative effect of the change in net income for the period of the change in accounting principle. SFAS No. 154 carries forward without change the guidance contained in APB No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS No. 154 also carries forward the guidance in APB No. 20 requiring justification of a change in accounting principle on the basis of preferability. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, with early adoption permitted. Carver will adopt this pronouncement as of April 1, 2006.

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. Carver will adopt this pronouncement as of April 1, 2006 and it is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

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Board of Directors

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Chairman and CEO
Carver Bancorp, Inc.

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Senior Vice President and Chief Compliance Officer
Nationwide Insurance

Dr. Samuel J. Daniel
President and CEO
North General Hospital

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Deutsche Bank

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Director of Audit and Compliance

William Gray
Senior Vice President and Chief Financial Officer

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

Other Senior Officers

Evan Jalazo
Vice President and Controller

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

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(St. Albans office)

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ANNUAL MEETING
The 2006 Annual Meeting of Stockholders will be held on September 12, 2006 at 10:00 a.m. at The Apollo Theater, 253 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, 2006 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 (718) 230-2900.

CREDITS
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CARVER BANCORP, INC.

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