CARVER BANCORP INC
Form 10-K/A
July 02, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	***13-3904174***
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
75 West 125th Street, New York, New York	***10027***
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: ***(718) 230-2900***

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	***NASDAQ Global Market***
(Title of Class)	(Name of each Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

o Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer þ Smaller Reporting Company

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

As of June 20, 2008, there were 2,474,738 shares of common stock of the registrant outstanding. The aggregate market value of the Registrant s common stock held by non-affiliates, as of September 28, 2007, the last day of registrant s most recently completed second fiscal quarter (based on the closing sales price of $15.85 per share of the registrant s common stock on September 28, 2007) was approximately $39,319,444.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant s proxy statement for the Annual Meeting of stockholders for the fiscal year ended March 31, 2008 are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

Carver Bancorp, Inc. (the Company or Carver) is filing this amendment No. 1 to its Annual Report on Form 10-K for the year ended March 31, 2008 to reflect the restatement of its Consolidated Financial Statements, as discussed in Note 2 of the Notes to the Consolidated Financial Statements contained in Part II, Item 8: Financial statements and supplementary data. Except for Items 6, 7, 8 and 9A of Part II, no other information in the Form 10-K is being amended or updated. This restatement has been disclosed previously in the Company s financial results as reported on Form 10-Q as of December 31, 2008.

PART II

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial and other data is as of and for the years ended March 31 and is derived in part from, and should be read in conjunction with the Company s consolidated financial statements and related notes (dollars in thousands):

	2008 (Restated)	2007 (Restated)	2006	2005	2004
Selected Financial Condition Data:					
Assets	$ 796,182	$ 739,530	$ 661,396	$ 626,377	$ 538,830
Loans held-for-sale	23,767	23,226			
Total loans receivable, net	627,231	579,866	493,432	421,987	351,900
Securities	38,172	67,117	108,286	149,335	139,877
Cash and cash equivalents	27,368	17,350	22,904	20,420	22,774
Deposits	654,663	615,122	504,638	455,870	375,519
Borrowed funds	58,625	61,093	93,792	115,299	104,282
Stockholders equity	53,881	51,142	48,697	45,801	44,645
Number of deposit accounts	46,771	46,034	41,614	40,199	38,578
Number of branches	10	10	8	8	6
Operating Data:					
Interest income	$ 48,132	$ 41,740	$ 32,385	$ 28,546	$ 26,234
Interest expense	22,656	19,234	13,493	9,758	8,700
Net interest income before provision for loan losses	25,476	22,506	18,892	18,788	17,534
Provision for loan losses	222	276			
Net interest income after provision for loan losses	25,254	22,230	18,892	18,788	17,534
Non-interest income	7,861	2,869	5,341	4,075	5,278
Non-interest expense	29,898	24,100	19,134	18,696	15,480
Income before income taxes	3,217	999	5,099	4,167	7,332
Income tax (benefit) expense	(892)	(1,099)	1,329	1,518	2,493
Minority interest, net of taxes	146				
Net income	$ 3,963	$ 2,098	$ 3,770	$ 2,649	$ 4,839
Basic earnings per common share	$ 1.59	$ 0.84	$ 1.50	$ 1.06	$ 2.03
Diluted earnings per common share	$ 1.55	$ 0.81	$ 1.45	$ 1.03	$ 1.87

Cash dividends per common share	$ 0.40	$ 0.35	$ 0.31	$ 0.26	$ 0.20
Selected Statistical Data:					
Return on average assets (1)	0.52%	0.30%	0.60%	0.45%	0.93%
Return on average equity (2)	7.23	4.25	7.93	5.80	11.40
Net interest margin (3)	3.62	3.44	2.97	3.41	3.56
Average interest rate spread (4)	3.34	3.16	3.18	3.26	3.40
Efficiency ratio (5)	90.31	94.98	78.96	81.77	67.86
Operating expense to average assets (6)	3.92	3.34	3.04	3.21	2.97
Average equity to average assets	7.16	7.05	7.54	7.84	8.13
Dividend payout ratio (7)	24.50	34.04	20.63	24.64	9.86
Asset Quality Ratios:					
Non-performing assets to total assets (8)	0.50%	0.61%	0.42%	0.16%	0.39%
Non-performing loans to total loans receivable (8)	0.43	0.74	0.55	0.23	0.60
Allowance for loan losses to total loans receivable	0.74	0.89	0.81	0.96	1.16

(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 divided by the sum of net interest income and

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 property acquired in settlement of loans.

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RESTATEMENT

During the quarter ended December 31, 2008, Carver became aware of certain adjustments to suspense accounts related to check return processing and automated clearing house (ACH) return processing that appeared to be incorrect. A review of the suspense account reconciliations commenced and an analysis was performed on Carver s accounting and financial reporting practices. The review raised questions regarding transactions since fiscal 2007, most of which involved adjustments to various suspense accounts, and identified evidence that certain adjustments were incorrect. The review found evidence that during fiscal 2007, suspense accounts adjustments for check returns and ACH returns were improper and resulted in aged suspense items not being properly cleared. As a result, an adjustment totaling $761,000 ($485,000 net of tax) was necessary to correct the fiscal 2007 financial statements to reflect charge-offs that should have been recorded in the appropriate period. This adjustment resulted in a reduction in diluted earnings per share for fiscal 2007 from $1.00 to $0.81, a decrease of $0.19, or 19%. The errors and irregularities identified in the course of the review revealed deficiencies in Carver s accounting and financial control environment, some of which were determined to be a material weakness requiring corrective and remedial actions.

Concurrently with the review, Carver also conducted extensive internal reviews for the purpose of the preparation and certification of Carver s fiscal 2009 financial statements and its assessment of internal controls over financial reporting. Carver s procedures included expanded account reviews and expanded balance sheet reconciliations to ensure all accounts were fully reconciled, supported, and appropriately documented. Carver also implemented improvements to its quarterly and annual accounting close process to provide for more complete review of the financial results.

As a result of the issues identified in the review, the Finance and Audit Committee, in consultation with management and KPMG LLP, concluded on February 9, 2009 that Carver s previously issued financial statements for fiscal 2007 and fiscal 2008 (including the interim periods within those years), should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, Carver restated its previously issued financial statements for those periods by filing this Amendment No. 1 to its Form 10-K for the year ended March 31, 2008. Restated financial information is presented in this Amendment No. 1 to its Form 10-K for the year ended March 31, 2008.

Set out below is the impact of the adjustment by financial statement line item in Carver s consolidated statement of financial condition as of March 31, 2008 and 2007, the Consolidated Statements of Income and Cash Flows for the year ended March 31, 2007 and the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income for the years ended March 31, 2008 and 2007. In addition, the income tax effect of the above adjustment has been reflected in footnote 11 of the consolidated financial statements.

Immaterial Corrections

The Consolidated Statement of Income for the year ended March 31, 2008 reflects an immaterial correction to reflect additional audit expenses in the amount of $28,000. After taxes this resulted in a decrease in net income of $17,000. As a result the corrected basic EPS remains unchanged at $1.59 while the corrected diluted EPS remains unchanged at $1.55.

The Consolidated Statement of Financial Position as of March 31, 2008 and 2007 also reflects an adjustment to reclassify $0.7 million from commercial business loans to goodwill. This adjustment was the result of a re-evaluation of goodwill in connection with the reconciliation matters disclosed above and elsewhere herein.

Management believes these corrections to prior period mistatements to be immaterial.

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

	March 31, 2008 (As Previously Reported)(1)	March 31, 2008 Adjustment	March 31, 2008 (As Restated)	March 31, 2007 (As Previously Reported)(1)	March 31, 2007 Adjustment	March 31, 2007 (As Restated)
ASSETS						
Cash and cash equivalents:						
Cash and due from banks	$ 15,920	$	$ 15,920	$ 14,619	$	14,619
Federal funds sold	10,500		10,500	1,300		1,300
Interest earning deposits	948		948	1,431		1,431
Total cash and cash equivalents	27,368		27,368	17,350		17,350
Securities:						
Available-for-sale, at fair value	20,865		20,865	47,980		47,980
Held-to-maturity, at amortized cost	17,307		17,307	19,137		19,137
Total securities	38,172		38,172	67,117		67,117
Loans held-for-sale	23,767		23,767	23,226		23,226
Loans receivable:						
Real estate mortgage loans	578,957		578,957	533,667		533,667
Commercial business loans	51,424		51,424	50,541		50,541
Consumer loans	1,728		1,728	1,067		1,067
Allowance for loan losses	(4,878)		(4,878)	(5,409)		(5,409)
Total loans receivable, net	627,231		627,231	579,866		579,866
Office properties and equipment, net	15,780		15,780	14,626		14,626
Federal Home Loan Bank of New York stock, at cost	1,625		1,625	3,239		3,239
Bank owned life insurance	9,141		9,141	8,795		8,795
Accrued interest receivable	4,063		4,063	4,335		4,335
Goodwill	7,055		7,055	6,401		6,401
Core deposit intangibles, net	532		532	684		684
Other assets	41,870	(422)	41,448	14,313	(422)	13,891
Total assets	$ 796,604	$ (422)	$ 796,182	$ 739,952	$ (422)	$ 739,530

LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits	$ 654,663	$	$ 654,663	$ 615,122	$	615,122
Advances from the FHLB-NY and other borrowed money	58,625		58,625	61,093		61,093
Other liabilities	9,800	63	9,863	12,110	63	12,173
Total liabilities	723,088	63	723,151	688,325	63	688,388
Minority interest	19,150		19,150			
Stockholders equity:						
Common stock	25		25	25		25
Additional paid-in capital	24,113		24,113	23,996		23,996
Retained earnings	30,473	(485)	29,988	27,436	(485)	26,951
Unamortized awards of common stock under ESOP				(4)		(4)
Treasury stock, at cost	(670)		(670)	(277)		(277)
Accumulated other comprehensive income	425		425	451		451
Total stockholders equity	54,366	(485)	53,881	51,627	(485)	51,142
Total liabilities and stockholders equity	$ 796,604	$ (422)	$ 796,182	$ 739,952	$ (422)	$ 739,530

(1) Includes adjustments for immaterial corrections to reclassify $685,000 from commercial business loans to goodwill as of 3/31/07 and to reflect additional audit expenses of $28,000 ($17,000 after tax) in fiscal 2008 net income.

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

	Years Ended March 31,		
	2007	**2007**	**2007**
	(As Previously Reported)	Adjustment	(As Restated)
Interest Income:			
Loans	$ 37,277	$	$ 37,277
Mortgage-backed securities	2,877		2,877
Investment securities	1,325		1,325
Federal funds sold	261		261
Total interest income	41,740		41,740
Interest expense:			
Deposits	15,227		15,227
Advances and other borrowed money	4,007		4,007
Total interest expense	19,234		19,234
Net interest income	22,506		22,506
Provision for loan losses	276		276
Net interest income after provision for loan losses	22,230		22,230
Non-interest income:			
Depository fees and charges	2,476		2,476
Loan fees and service charges	1,238		1,238
Write-down of loans held for sale	(702)		(702)
Gain (loss) on sale of securities	(624)		(624)
Gain on sale of loans	192		192
Loss on sale of real estate owned	(108)		(108)
Other	397		397
Total non-interest income	2,869		2,869
Non-interest expense:			
Employee compensation and benefits	10,470		10,470
Net occupancy expense	2,667		2,667
Equipment, net	2,071		2,071

Merger related expenses		1,258				1,258
Consulting Expense		496				496
Other		6,377		761		7,138
Total non-interest expense		23,339		761		24,100
Income before income taxes and minority interes		1,760		(761)		999
Income tax (benefit) expense		(823)		(276)		(1,099)
Minority interest, net of taxes						
Net income	$	2,583	$	(485)	$	2,098
Earnings per common share:						
Basic	$	1.03	$	(0.19)	$	0.84
Diluted	$	1.00	$	(0.19)	$	0.81

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)
(As Previously Reported)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Common Stock Acquired By ESOP	Common Stock Acquired By MRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-Holders Equity
Balance March 31, 2005	**$ 25**	**$ 23,937**	**$ (420)**	**$ (126)**	**$ (128)**	**$ 22,748**	**$ (235)**	**$ 45,801**
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:						3,770	(439)	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**	**(303)**	**(10)**	**(12)**	**25,736**	**(674)**	**48,697**
Adjustment to initially implement SFAS 158							281	281
Balance post implementation of SFAS 158	25	23,935	(303)	(10)	(12)	25,736	(393)	48,978
Net income						2,583		2,583
Minimum pension liability adjustment							79	79
Change in net unrealized loss on available-for-sale securities, net of							765	765

taxes								
Comprehensive income, net of taxes:						2,583	844	3,427
Dividends paid						(883)		(883)
Treasury stock activity		61	26					87
Allocation of ESOP Stock				6				6
Purchase of shares for MRP					12			12
Balance March 31, 2007	**25**	**23,996**	**(277)**	**(4)**		**27,436**	**451**	**51,627**
Net income						3,980		3,980
Minimum pension liability adjustment							195	195
Change in net unrealized loss on available-for-sale securities, net of taxes							(221)	(221)
Comprehensive income, net of taxes:						3,980	(26)	3,954
Adjustment to initially implement SFAS 156						49		49
Dividends paid						(975)		(975)
Treasury stock activity		117	(393)	4				(272)
Balance March 31, 2008	**$ 25**	**$ 24,113**	**$ (670)**	**$**	**$**	**$ 30,490**	**$ 425**	**$ 54,383**

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)
(As Restated)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Common Stock Acquired By ESOP	Common Stock Acquired By MRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-Holders Equity
Balance March 31, 2005	**$ 25**	**$ 23,937**	**$ (420)**	**$ (126)**	**$ (128)**	**$ 22,748**	**$ (235)**	**$ 45,801**
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:						3,770	(439)	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**	**(303)**	**(10)**	**(12)**	**25,736**	**(674)**	**48,697**
Adjustment to initially implement SFAS 158							281	281
Balance post implementation of SFAS 158	25	23,935	(303)	(10)	(12)	25,736	(393)	48,978
Net income (as restated)						2,098		2,098
Minimum pension liability adjustment							79	79
Change in net unrealized loss on available- for-sale							765	765

securities, net of taxes								
Comprehensive income, net of taxes:						2,098	844	2,942
Dividends paid						(883)		(883)
Treasury stock activity		61	26					87
Allocation of ESOP Stock				6				6
Purchase of shares for MRP					12			12
Balance March 31, 2007 (as restated)	**25**	**23,996**	**(277)**	**(4)**		**26,951**	**451**	**51,142**
Net income						3,963		3,963
Minimum pension liability adjustment							195	195
Change in net unrealized loss on available- for-sale securities, net of taxes							(221)	(221)
Comprehensive income, net of taxes:						3,963	(26)	3,937
Adjustment to initially implement SFAS 156						49		49
Dividends paid						(975)		(975)
Treasury stock activity		117	(393)	4				(272)
Allocation of ESOP Stock								
Purchase of shares for MRP								
Balance March 31, 2008 (as restated)	**$ 25**	**$ 24,113**	**$ (670)**	**$**	**$**	**$ 29,988**	**$ 425**	**$ 53,881**

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

	Years Ended March 31,		
	2007	**2007**	**2007**
	(As Previously Reported)	Adjustment	(As Restated)
Cash flows from operating activites:			
Net income	$ 2,583	$ (485)	$ 2,098
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	276		276
Stock based compensation expense	426		426
Depreciation and amortization expense	1,581		1,581
Amortization of premiums and discounts	(1,145)		(1,145)
Impairment charge on securities			
(Gain) Loss from sale of securities	624		624
Gain on sale of loans	(192)		(192)
Writedown on loans held-for-sale	702		702
Loss on sale of real estate owned	108		108
Originations of loans held-for-sale	(24,708)		(24,708)
Proceeds from sale of loans held-for-sale	14,422		14,422
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	(1,365)		(1,365)
Increase in other assets	(2,662)	422	(2,240)
(Decrease) increase in other liabilities	(4,330)	63	(4,267)
Net cash (used in) provided by operating activities	(13,680)		(13,680)
Cash flows from investing activites:			
Purchases of securities:			
Available-for-sale			
Proceeds from principal payments, maturities and calls of			

securities:			
Available-for-sale	26,539		26,539
Held-to-maturity	7,185		7,185
Proceeds from sales of available-for-sale securities	57,942		57,942
Originations of loans held-for-investment	(105,284)		(105,284)
Loans purchased from third parties	(58,191)		(58,191)
Principal collections on loans	146,410		146,410
Proceeds from sales of loan originations held-for-investment	16,548		16,548
Redemption of FHLB-NY stock	1,388		1,388
Additions to premises and equipment	(1,869)		(1,869)
Proceeds from sale of real estate owned	404		404
Payments for acquisition, net of cash acquired	(2,425)		(2,425)
Net cash (used in) provided by investing activities	88,647		88,647
Cash flows from financing activites:			
Net increase (decrease) in deposits	(33,657)		(33,657)
Net repayment of FHLB advances and other borrowings	(45,660)		(45,660)
Common stock repurchased	(321)		(321)
Dividends paid	(883)		(883)
Net cash provided by (used in) financing activities	(80,521)		(80,521)
Net (decrease) increase in cash and cash equivalents	(5,554)		(5,554)
Cash and cash equivalents at beginning of period	22,904		22,904
Cash and cash equivalents at end of period	$ 17,350	$	$ 17,350
Supplemental information:			
Noncash Transfers-			
Change in unrealized loss on valuation of available-for-sale investments, net	$ 765	$	$ 765
Cash paid for-			

Interest	$	19,510	$		$	19,510
Income taxes	$	652	$		$	652

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PART II

ITEM 7. 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 savings and loan holding company organized under the laws of the state of Delaware. 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 ten branches in the New York City boroughs of Manhattan, Brooklyn and Queens.

Fiscal 2008

Fiscal 2008 was a particularly challenging year for Carver, driven in part by the yield curve and disruptions in credit markets, followed by the threat of recession. Nevertheless, Carver s business held up well, as the impact of national events has not been as apparent in our core markets. Carver was spared the brunt of the turbulent credit environment, given our limited exposure to loan and investment products of concern to the financial markets. Although the Company s local markets have not experienced in any material respect the fallout impacting other regions across the nation, management is intensely focused on any signs of weakening conditions. The Company believes its small business and real estate lending teams are well positioned to source attractive opportunities, and Carver remains committed to solid asset quality and accretive asset growth as top priorities.

Reported earnings increased 90% from fiscal 2007, but were basically flat when removing the impact of fiscal 2007 s acquisition and balance sheet restructuring. The Company s net interest income grew to a record level of over $25 million, following an increase in our net interest margin of 18 basis points to 3.62%. This margin expansion resulted from a 7.8% increase in loans and deposit growth of 6.4%, although consistent with peers, core deposits are migrating to higher priced CDs. Additionally, credit quality remained strong with non-performing loans at 0.50% of total assets. Securities and borrowings portfolios decreased during fiscal 2008, which is consistent with the Company s strategy to reduce lower yielding securities and invest in higher yielding mortgages and loans. Carver s fiscal 2008 performance was driven by three primary factors: first, Carver s lending business continued to excel, and credit quality remained stable; second, Carver leveraged its New Markets Tax Credit award to bolster bottom line performance; and third, Carver s asset/liability management eased margin pressure.

The Bank s non-interest income benefited from a significant New Markets Tax Credit transaction generating a $1.7 million payment during the year, along with increased lending and retail fee generation. With this transaction, the Bank s $59 million award received in June 2006 has been fully invested. Carver s NMTC award continues to provide a Federal income tax benefit to the Company s bottom line. The Company expects to receive additional NMTC tax benefits of approximately $12.1 million from its $40.0 million investment over approximately the next six years.

Asset quality remained solid in fiscal 2008 notwithstanding the Bank s loan portfolio growth and diversification into small business lending. The Company believes that the Bank s loan loss provision recorded in fiscal 2008 and the Bank s allowance for loan losses are adequate.

Expenses grew year over year, largely based on substantial expansion of non-interest expense of $3.6 million. The increase in expense falls into three categories: regulatory requirements (preparation for compliance with Sarbanes-Oxley Act Section 404 and recent Inter-Agency Guidance on Allowances for Loan Losses); strengthening the Bank s back office, including the accounting, lending and retail operations departments, by adding new staff and providing temporary expertise; and engaging consultants to assist the management team to analyze significant opportunities to improve financial results. For example, the Bank engaged consultants to conduct a rigorous business optimization review to help management identify further improvements in our operations, in part through greater systems integration. While these investments impact near-term results, they are fundamental to building the scale and infrastructure necessary for the Company to grow profitably. During fiscal 2009, management expects to outline specific steps to improve efficiency and return on equity. The first step should occur in the second quarter of fiscal

2009 when the Bank expects to complete outsourcing of its residential lending department. Management expects that this arrangement will expand the Bank s product base and improve customer service, while reducing costs to the Company.

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Fiscal 2009

The industry economic environment in fiscal 2009 is expected to be characterized by continued constraint in credit markets combined with the threat of stagflation. The credit issues relate to weaknesses in residential and commercial real estate due to subprime issues and general economic conditions. Interest rates are expected to remain low in the near term as the Federal Reserve lowered the Fed funds rate in efforts to stimulate growth. However, inflation fears may constrain the Federal Reserve s ability to lower rates from current levels, and inflation concerns may have the impact of steepening the yield curve and encouraging the Federal Reserve to consider raising the Fed funds rate later this year.

Thrifts, many of which have business models primarily dependent on spread income from real estate loans, have been especially hard hit in this environment. The thrift industry posted a record $5.2 billion loss in the December 2007 quarter. In calendar year 2008 (Carver s fiscal 2009), industry analysts expect earnings shrinkage for the sector, and expect smaller banks to suffer more than larger banks. Carver Federal s credit quality has been stable because its neighborhood markets have not been as severely impacted by the credit issues impacting the nation.

The outlook for fiscal 2009 reflects many of the economic and competitive factors that the Bank and the banking industry faced in fiscal 2008. As a result, the Bank expects the operating environment to remain challenging. In this challenging climate, the Bank will continue to focus on growth in its traditional businesses, namely the expansion of real estate loans and core deposits. The Bank expects its new business and marketing efforts to core customer groups including small business owners, landlords, and churches and other non-profits, to drive the Bank s deposit gathering strategy.

Carver expects its business performance in fiscal 2009 and thereafter will be propelled by several factors. First, the small business and non-residential markets offer the opportunity for higher-yielding loans and lower costing deposits. Management believes serving these market niches is critical to Carver s growth and future profitability. Second, Carver s focus on improving its back-office operations should pay dividends in the form of efficiencies. Third, Carver enjoys a venerable reputation in the world of community development financial institutions, and management believes that Carver may leverage that reputation to its business advantage by broadening its new business efforts to target a broader institutional audience. Finally, management believes that growth and profitability may be accelerated by a prudent merger and acquisition strategy. The importance of a strong and efficient operating platform has been amplified in the current regulatory environment and Carver s competitive marketplace.

Acquisition of Community Capital Bank

On September 29, 2006, the Bank completed its acquisition of Community Capital Bank, a Brooklyn-based New York State chartered commercial bank, with approximately $165.4 million in assets and two branches, in a cash transaction totaling approximately $11.1 million. Under the terms of the merger agreement, CCB s shareholders were paid $40.00 per outstanding share (including options which immediately vested with the consummation of the merger) and the Bank incurred an additional $0.9 million in transaction related costs. The combined entities operate under Carver Federal s thrift charter and Carver Federal continues to be supervised by the Office of Thrift Supervision.

The transaction, which was accounted for under the purchase accounting method, included the recognition of approximately $0.8 million of core deposit intangibles and $5.1 million representing the excess of the purchase price over the fair value of identifiable net assets (goodwill). At March 31, 2008, goodwill relating to the transaction and subsequent additional purchase accounting adjustments, primarily income taxes, sales tax assessment and professional fees, totaled approximately $7.1 million. A re-evaluation of goodwill in connection with the reconciliation matter disclosed elsewhere herein resulted in the reclassification of $0.7 million from loans to goodwill as of March 31, 2008 and 2007.

New Markets Tax Credit Award

In June 2006, Carver Federal was selected by the U.S. Department of Treasury to receive an award of $59 million in New Markets Tax Credits. The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating the revitalization of the community, pursuant to the goals of the NMTC program. The NMTC award provides a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified investment. Recognition of the Bank s NMTC award began in December 2006 when the Bank invested $29.5 million, one-half of its $59 million award. In December 2007, the Bank invested an additional $10.5 million and transferred rights to $19.0 million to an investor in a NMTC project. The Bank s NMTC allocation was fully invested as of December 31, 2007. During the seven year period, assuming the Bank meets compliance requirements, the Bank will receive 39% of the $40.0 million invested award amount in tax benefits (5% over each of the first three years, and 6% over each of the next four years). The Company expects to receive the remaining NMTC tax benefits of approximately $12.1 million from its $40.0 million investment over the next six years.

Critical Accounting Policies

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Carver s policy with respect to the methodologies used to determine the allowance for loan losses is the most critical accounting policy. This policy is important to the presentation of Carver s 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 2 of Notes to Consolidated Financial Statements for a description of our summary of significant accounting policies, including those related to allowance for loan losses, and an explanation of the methods and assumptions underlying their application.

Securities Impairment

The Bank s available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders equity. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in the portfolio are based on published or securities dealers market values and are affected by changes in interest rates. The Bank periodically reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. However, if such a decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings. At March 31, 2008, the Bank carried no other than temporarily impaired securities.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the portfolio as of March 31, 2008. During the third quarter of fiscal 2008, Carver changed its loan loss methodology to be consistent with the Interagency Policy Statement on the Allowance for Loan and Lease Losses released by the Federal Financial Regulatory Agencies on December 13, 2006. The change had an immaterial affect on the allowance for loan losses at March 31, 2008. 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 includes 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 loan loss allowance amounts for all specifically identified criticized and classified loans that have been designated as requiring attention by management s internal loan review process, bank regulatory examinations or Carver Federal s external auditors.
- An average loss factor, giving effect to historical loss experience over several years and other qualitative factors, is applied to all loans not subject to specific review.
- Evaluation of any changes in 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 performing this evaluation is the concentration of real estate related loans located in the New York City metropolitan area.

All new loan originations are assigned a credit risk grade which commences with loan officers and underwriters grading the quality of their loans one to five under a nine-category risk classification scale, the first five categories of which represent performing loans. Reserves are held based on actual loss factors based on several years of loss experience and other qualitative factors applied to the outstanding balances in each loan category. All loans are subject to continuous review and monitoring for changes in their credit grading. Grading that falls into criticized or classified categories (credit grading six through nine) are further evaluated and reserved amounts are established for each loan based on each loan s potential for loss and include consideration of the sufficiency of collateral. Any adverse trend in 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 includes:

- Amount and trend of criticized loans;
- Actual losses;
- Peer comparisons with other financial institutions; and
- Economic data associated with the real estate market in the Company s lending market areas.

A loan is considered to be impaired, as defined by 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, are excluded from the scope of SFAS 114. Impaired loans are required to be measured based upon (i) the present value of expected future cash flows, discounted at the loan s initial effective interest rate, (ii) the loan s market price, or (iii) 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 allowance must be established for the difference. The allowance is established by either an allocation of the existing allowance for loan losses or by a provision for loan losses, depending on various circumstances. Allowances are not needed when credit losses have been recorded so that the recorded investment in an impaired loan is less than the loan valuation.

Asset/Liability Management

The Company s primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between the rates on interest-earning assets and interest-bearing liabilities, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and the credit quality of earning assets. Management s asset/liability objectives are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, to maintain adequate liquidity and to manage its exposure to changes in interest rates.

The economic environment is uncertain regarding future interest rate trends. Management monitors the Company s cumulative gap position, which is the difference between the sensitivity to rate changes on the Company s interest-earning assets and interest-bearing liabilities. In addition, the Company uses various tools to monitor and manage interest rate risk, such as a model that projects net interest income based on increasing or decreasing interest rates.

Stock Repurchase Program

Refer to ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

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 virtually all of the Company s interest-bearing assets and liabilities are held by the Bank, most of the Company s interest rate risk exposure is retained by the Bank. As a result, all significant interest rate risk 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 interest rate risk 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 that 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 maturing or 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 12.47% of total rate sensitive assets at March 31, 2008. As a result, Carver Federal s net interest income could be negatively affected by rising interest rates and positively affected by falling interest rates.

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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, 2008. 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 (dollars in thousands):

	< 3 Mos.	4-12 Mos.	1-3 Yrs.	3-5 Yrs.	5-10 Yrs.	10+ Yrs.	Total
Rate Sensitive Assets:							
Loans	$ 171,142	$ 65,102	$ 113,724	$ 127,919	$ 70,390	$ 107,599	$ 655,876
Mortgage Backed Securities	5,265	6,297	8,728	943	2,823	12,756	36,812
Federal Funds Sold	10,500						10,500
Investment Securities					1,360		1,360
Total interest-earning assets	186,907	71,399	122,452	128,862	74,573	120,355	704,548
Rate Sensitive Liabilities:							
NOW accounts	2,167	2,500	5,999	5,086	6,726	5,689	28,167
Savings Accounts	9,681	11,168	26,798	22,719	30,042	25,411	125,819
Money market accounts	3,502	4,040	9,694	8,218	10,867	9,192	45,513
Certificate of Deposits	136,426	162,345	25,690	12,739	399	6	337,604
Borrowings	1,000	14,108		30,142			45,250
Total interest-bearing liabilities	152,776	194,161	68,181	78,904	48,034	40,298	582,353
Interest Sensitivity Gap	$ 34,131	$ (122,762)	$ 54,271	$ 49,958	$ 26,539	$ 80,057	$ 122,194
Cumulative Interest Sensitivity Gap	$ 34,131	$ (88,631)	$ (34,360)	$ 15,598	$ 42,137	$ 122,194	
Ratio of Cumulative Gap to Total Rate Sensitive assets	4.84%	-12.58%	-4.88%	2.21%	5.98%	17.34%	

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. NPV is the present value of expected net cash flows from existing assets less the present value of expected cash flows from existing liabilities plus the present value of net expected cash inflows from existing financial derivatives and off-balance-sheet contracts.

Under this methodology, interest rate risk exposure is assessed by reviewing the estimated changes in NPV that would hypothetically occur if interest rates rapidly rise or fall along the yield curve. Projected values of 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, 2008, is an analysis of the Bank s interest rate risk as measured by changes in NPV for instantaneous and sustained parallel shifts of 100 basis points and 50 basis points plus or minus changes 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 interest rate risk for fiscal 2008, 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 interest rate risk exposure lies at the Bank level, management believes the table below also similarly reflects an analysis of the Company s interest rate risk (dollars in thousands):

	Net Portfolio Value			NPV as % of PV of Assets	
Change in Rate	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**Change**
+300 bp	99,028	-15,954	-14%	12.27%	-154 bp
+200 bp	102,962	-12,020	-10%	12.65%	-117 bp
+100 bp	108,631	-6,351	-6%	13.21%	- 60 bp
+50 bp	111,870	-3,112	-3%	13.52%	- 30 bp
0 bp	114,982			13.82%	bp
(50) bp	117,979	2,997	3%	14.10%	28 bp
(100) bp	120,788	5,806	5%	14.36%	54 bp

	March 31, 2008
Risk Measures: +200 BP Rate Shock:	
Pre-Shock NPV Ratio: NPV as % of PV of Assets	13.82%
Post-Shock NPV Ratio	12.65%
Sensitivity Measure: Decline in NPV Ratio	-117 bp

Certain shortcomings are inherent in the methodology used in the above interest rate risk 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 interest rate risk 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.

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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 related yields for the years ended March 31. The table also presents information for the fiscal 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 (dollars in thousands):

	2008			2007			2006		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest Earning Assets:									
Loans	$ 639,583	$ 44,499	6.96%	$ 558,058	$ 37,278	6.68%	$ 443,461	$ 26,563	5.99%
Mortgage-backed securities	39,079	2,071	5.30%	64,682	2,877	4.45%	113,574	4,439	3.91%
Investment securities	22,902	1,434	6.26%	27,161	1,325	4.88%	25,698	971	3.78%
Fed funds sold	3,007	128	4.26%	5,145	261	5.07%	12,166	412	3.39%
Total interest earning assets	704,571	48,132	6.83%	655,046	41,741	6.37%	594,899	32,385	5.44%
Non-interest earning assets	63,440			44,576			35,198		
Total assets	$ 768,011			$ 699,622			$ 630,097		
Interest Bearing Liabilities:									
Deposits:									
NOW demand	$ 24,660	138	0.56%	$ 25,313	98	0.39%	$ 24,397	74	0.30%
Savings and clubs	131,627	1,004	0.76%	136,785	931	0.68%	137,934	919	0.67%
Money market savings	44,688	1,193	2.67%	43,303	1,133	2.62%	36,583	601	1.64%
Certificates of deposit	370,933	16,489	4.45%	312,452	13,036	4.17%	237,992	7,297	3.07%
Mortgagors deposits	2,687	42	1.56%	2,154	30	1.39%	2,044	30	1.47%
Total deposits	574,595	18,866	3.28%	520,007	15,228	2.93%	438,950	8,921	2.03%
Borrowed money	73,880	3,790	5.13%	78,853	4,007	5.08%	107,551	4,572	4.25%
Total interest bearing liabilities	648,475	22,656	3.49%	598,860	19,235	3.21%	546,501	13,493	2.47%

Non-interest-bearing liabilities:									
Demand	51,713			40,676			29,079		
Other liabilities	12,803			10,739			6,980		
Total liabilities	712,991			650,275			582,560		
Stockholders equity	55,020			49,347			47,537		
Total liabilities and stockholders equity	$ 768,011			$ 699,622			$ 630,097		
Net interest income		$ 25,476			$ 22,506			$ 18,892	
Average interest rate spread			3.34%			3.16%			2.97%
Net interest margin			3.62%			3.44%			3.18%
Ratio of avgerage interest-earning assets to interest-bearing liabilities			108.65%			109.38%			108.86%

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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 fiscal years ended March 31 (in thousands):

	2008 vs. 2007			2007 vs. 2006		
	Increase (Decrease) due to			Increase (Decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets:						
Loans	$ 5,626	$ 1,595	$ 7,221	$ 6,864	$ 3,060	$ 9,924
Investment securities	(248)	357	109	1,473	172	1,645
Mortgage-backed securities	(1,289)	483	(806)	(3,377)	1,102	(2,276)
Fed funds sold, FHLB stock & other	(101)	(32)	(133)	(238)	205	(33)
Total interest earning assets	3,988	2,403	6,391	4,722	4,539	9,260
Interest Bearing Liabilities:						
Deposits						
NOW demand	(4)	44	40	3	20	23
Savings and clubs	(39)	112	73	(8)	20	12
Money market savings	37	23	60	110	356	467
Certificates of deposit	2,580	873	3,453	2,283	2,632	4,915
Mortgagors deposits	8	4	12	2	(2)	0
Total deposits	2,582	1,056	3,638	2,390	3,026	5,417
Borrowed money	(255)	38	(217)	(1,220)	893	(327)
Total interest bearing liabilities	2,327	1,094	3,421	1,170	3,919	5,090
Net change in interest income	$ 1,661	$ 1,309	$ 2,970	$ 3,552	$ 620	$ 4,170

For each category of interest-earning assets and interest-bearing liabilities, information is provided for changes attributable to: (1) changes in volume (changes in volume multiplied by prior rate); (2) changes in rate (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.

Comparison of Financial Condition at March 31, 2008 and 2007

Assets

At March 31, 2008, total assets increased $56.6 million, or 7.7%, to $796.2 million compared to $739.5 million at March 31, 2007, primarily the result of increases in loans receivable and loans held-for-sale of $47.4 million, other assets of $27.4 million and cash and cash equivalents of $10.0 million, partially offset by decreases in investment securities of $28.9 million and FHLB-NY stock of $1.6 million.

Total loans receivable, including loans held-for-sale, increased $47.4 million, or 7.8%, to $655.9 million at March 31, 2008 compared to $608.5 million at March 31, 2007. The increase was primarily the result of an increase in commercial real estate loans of $35.3 million and an increase in construction loans of $21.2 million, offset by a decrease of multi-family loans of $13.2 million. The Bank continues to grow its loan portfolio through focusing on the origination of loans in the markets it serves and will continue to augment these originations with loan purchases.

At March 31, 2008, construction loans represented 25.1% of the loan portfolio. Approximately 67.5% of the Bank s construction loans are participations in loans originated by Community Preservation Corporation. CPC is a non-profit mortgage lender whose mission is to enhance the quality and quantity of affordable housing in the New York, New Jersey, and Connecticut tri-state area. The Bank s construction lending activity is concentrated in the New York City market. At this time, the New York City real estate market has been resilient relative to the real estate downturn impacting other parts of the U.S. The economic environment is expected to be characterized by continued constraint in credit markets for affordable housing. The credit issues relate to weaknesses in residential and commercial real estate due to subprime issues and general economic conditions. Based on recent reports, various factors including continuing demand, relatively low proportion of subprime loans, interest from international buyers, and a lack of affordable housing supply contribute to New York City real estate s continuing strength. Despite those favorable factors, the Bank will continue to closely monitor trends.

Other assets increased $27.5 million, or 198.3%, to $41.4 million at March 31, 2008 compared to $13.9 million at March 31, 2007, primarily due to a $19.0 million NMTC transaction on December 31, 2007, which increased both other assets and minority interest. Additionally, other assets consisted of a settlement receivable of $7.6 million from the sale of certain investments.

Cash and cash equivalents increased $10.0 million, or 57.7%, to $27.4 million at March 31, 2008 compared to $17.4 million at March 31, 2007, primarily due to a $9.2 million increase in Federal funds sold and a $1.3 million increase in cash and due from banks. Office properties and equipment on a net basis increased by $1.2 million, or 7.9%, to $15.8 million at March 31, 2008 compared to $14.6 million at March 31, 2007, primarily the result of leasing new office space to consolidate back-office operations and the opening of a new ATM center.

Total securities decreased $28.9 million, or 43.1%, to $38.2 million at March 31, 2008 compared to $67.1 million at March 31, 2007, reflecting a decline of $27.1 million in available-for-sale securities and a $1.8 million decrease in held-to-maturity securities. The decrease in total securities is primarily due to collection of normal principal repayments, maturities of securities and the Bank s strategy of reducing lower yielding securities and replacing them with higher yielding loans. However, the Bank may invest in securities from time to time to help diversify its asset portfolio, manage liquidity and satisfy collateral requirements for certain deposits. There were $15.3 million purchases of securities during the fiscal 2008. Total securities also declined due to an increase in the net unrealized loss on securities of $0.2 million resulting from the mark-to-market of the available for sale securities portfolio.

The Bank s investment in FHLB-NY stock decreased by $1.6 million, or 49.8%, to $1.6 million at March 31, 2008 compared to $3.2 million at March 31, 2007. The FHLB-NY requires banks to own membership stock as well as borrowing activity-based stock. The decrease in investment in FHLB-NY stock was the result of the repayment of FHLB-NY borrowings, resulting in the net redemption of stock during the period.

Liabilities and Stockholders Equity

Liabilities

At March 31, 2008, total liabilities increased $34.7 million, or 5.0%, to $723.1 million at March 31, 2008 compared to $688.4 million at March 31, 2007. The increase in total liabilities was primarily the result of $39.5 million of additional customer deposits, offset by decreases of $2.5 million in advances and borrowed money and $2.3 million of other liabilities.

Deposits increased $39.5 million, or 6.4%, to $654.7 million at March 31, 2008 compared to $615.1 million at March 31, 2007. The increase in deposit balances was primarily the result of an increase in certificates of deposit of $52.8 million, which were offset by decreases of $12.1 million in savings and $1.5 million in money market accounts. At March 31, 2008, the Bank had $63.0 million in brokered deposits.

Advances from the FHLB-NY and other borrowed money decreased $2.5 million, or 4.0%, to $58.6 million at March 31, 2008 compared to $61.1 million at March 31, 2007. The decrease in advances and borrowed money was primarily the result of a reduction of $32.5 million in FHLB advances, offset by an increase in repurchase obligations of $30.0 million at March 31, 2008 compared to no repurchase obligations at March 31, 2007. Other liabilities decreased $2.3 million, or 19.3%, to $9.8 million at March 31, 2008 compared to $12.1 million at March 31, 2007, primarily due to a decrease of $1.5 million in retail liabilities.

On December 31, 2007, CCDC received an equity investment of $19.0 million related to a New Markets Tax Credit transaction. On consolidation, this transaction is reflected as a $19.0 million increase in other assets and minority interest.

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Stockholders Equity
Total stockholders equity increased $2.8 million, or 5.4%, to $53.9 million at March 31, 2008 compared to $51.1 million at March 31, 2007. The increase in total stockholders equity was primarily attributable to net income for fiscal 2008 totaling $4.0 million, partially offset by dividends paid of $1.0 million, the repurchase of common stock totaling $0.4 million in accordance with the Company s stock repurchase program and a favorable pension valuation adjustment of $0.2 million. The Bank s capital levels meet regulatory requirements of a well-capitalized financial institution.

Comparison of Operating Results for the Years Ended March 31, 2008 and 2007

Net Income
The Company reported net income of $4.0 million and diluted earnings per share of $1.55 for fiscal 2008 compared to net income of $2.1 million and diluted earnings per share of $0.81 for fiscal 2007. Net income rose $1.9 million, or 90.0%, to $4.0 million, primarily reflecting increases in net interest income of $3.0 million and non-interest income of $5.0 million, offset by an increase in non-interest expense of $5.8 million. The prior year period included special pre-tax charges of $1.3 million related to CCB acquisition costs and $1.3 million related to the balance sheet repositioning.

Interest Income
Interest income increased by $6.4 million, or 15.3%, to $48.1 million for fiscal 2008 compared to $41.7 million for fiscal 2007. Interest income increased as a result of an increase in total average balances of interest-earning assets of $49.5 million, which includes an increase in average loan balances of $81.5 million offset by decreases in average balances of mortgage-backed securities of $25.6 million, investment securities of $4.3 million and Federal funds sold of $2.1 million. Interest income increased as a result of an increase in average loan balances, acquisition of CCB s higher yielding portfolio and origination of higher yielding loans. Additionally, these results were pursuant to the Bank s asset/liability strategy of increasing the average loan balances and its higher yields offset by a decline in average balances of mortgage-backed securities and investment securities. Yields on interest-earning assets increased 46 basis points to 6.83% for fiscal 2008 compared to 6.37% for the prior year period, reflecting increases in yields on loans of 28 basis points, mortgage-backed securities of 85 basis points and investment securities of 138 basis points, offset by a decrease in yields on Federal funds sold of 81 basis points.

Interest income on loans increased by $7.2 million, or 19.4%, to $44.5 million for fiscal 2008 compared to $37.3 million for fiscal 2007. These results were primarily driven by an increase in average loan balances of $81.5 million to $639.6 million for fiscal 2008 compared to $558.1 million for fiscal 2007, partly a reflection of the full year impact of the CCB acquisition. In addition, yield increased 28 basis points to 6.96% for fiscal 2008 compared to 6.68% for fiscal 2007, primarily due to growth in higher yielding construction and small business loans.

Interest income on securities decreased by $0.7 million, or 16.6%, to $3.5 million for fiscal 2008 compared to $4.2 million for fiscal 2007. Interest income on mortgage-backed securities decreased by $0.8 million, or 28.0%, to $2.1 million for fiscal 2008 compared to $2.9 million for fiscal 2007. The decrease in interest income on mortgage-backed securities for fiscal 2008 was primarily the result of a $25.6 million, or 39.68%, reduction in the average balances of mortgage-backed securities to $39.1 million, compared to $64.7 million for fiscal 2007. The net decrease in the average balance of such securities demonstrates Management s commitment to invest proceeds received from the cash flows from the repayment of securities into higher yielding assets and the sale of lower yielding securities to reposition the balance sheet. The mortgage-backed securities yield increased by 85 basis points to 5.30%, compared to 4.45% in fiscal 2007.

Additionally, the decrease in interest income on mortgage-backed securities was partially offset by an increase in investment securities interest of $0.1 million, or 8.2%, to $1.4 million for fiscal 2008 compared to $1.3 million for fiscal 2007. The increase was primarily the result of an increase in the yield on investment securities by 138 basis points to 6.26% compared to 4.88% in fiscal 2007, as adjustable rate securities in the portfolio repriced to higher coupon rates. The increase in interest income on investment securities was offset by a reduction of $4.3 million, or 15.7%, in the average balances of investment securities to $22.9 million compared to $27.2 million for fiscal 2007.

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Interest income on federal funds decreased by $0.2 million, or 51.0%, to $0.1 million for fiscal 2008 compared to $0.3 million for fiscal 2007. The decrease is primarily the result of $2.1 million decrease in the average balance of Federal funds year over year and an 81 basis point decrease in the average rate earned on federal funds. This decrease in the average rate earned on federal funds was realized as the FRB lowered the federal funds rate.

Interest Expense

Interest expense increased by $3.5 million, or 17.8%, to $22.7 million for fiscal 2008 compared to $19.2 million for fiscal 2007. The increase in interest expense reflects a 28 basis point increase in the average cost of interest-bearing liabilities to 3.49% in fiscal 2008 compared to 3.21% in fiscal 2007 and growth in the average balance of interest-bearing liabilities of $49.6 million, or 8.3%, to $648.5 million for fiscal 2008 compared to $598.9 million for fiscal 2007. The increase in interest expense was primarily the result of growth in the average balance of certificates of deposit of $58.5 million over fiscal 2007 to $370.9 million.

Interest expense on deposits increased $3.7 million, or 10.5%, to $18.9 million for fiscal 2008 compared to $15.2 million for fiscal 2007. This increase was primarily the result of growth in the average balance of certificates of deposit of $58.4 million, or 18.7%, to $370.9 million for fiscal 2008 compared to $312.5 million for fiscal 2007. Interest paid on certificates of deposit increased $3.5 million, or 10.2%, to $16.5 million for fiscal 2008 compared to 13.0 million for fiscal 2007. Additionally, a 35 basis point increase in the rate paid on deposits to 3.28% in fiscal 2008 compared to 2.93% in fiscal 2007 contributed to the increase. Historically, the Bank s customer deposits have provided a relatively low cost funding source from which its net interest income and net interest margin have benefited. In addition, the Bank s relationship with various government entities has been a source of relatively stable and low cost funding.

Interest expense on advances and other borrowed money decreased $0.2 million, or 5.4%, to $3.8 million for fiscal 2008 compared to $4.0 million for fiscal 2007. The average balance of total borrowed money outstanding declined, primarily as a result of a $5.0 million decrease in the average balance of outstanding borrowings to $73.9 million for fiscal 2008 compared to $78.9 million in fiscal 2007. Partially offsetting the decrease in interest expense was a 5 basis point increase in the cost of borrowed money to 5.13% in fiscal 2008 compared to 5.08% in fiscal 2007. This was partially offset by an increased cost of debt service on the $13.0 million in floating rate junior subordinated notes issued by the Company in connection with issuance of trust preferred securities by Carver Statutory Trust I in September 2003. Cash distributions on the trust preferred debt securities are cumulative and payable at a floating rate per annum (reset quarterly) equal to 3.05% over the 3-month LIBOR, with a rate at March 31, 2008 of 5.85%.

Net Interest Income Before Provision for Loan Losses

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 $3.0 million, or 13.2%, to $25.5 million for fiscal 2008 compared to $22.5 million for fiscal 2007. This increase was achieved as a result of an increase in both the average balance and the yield on average interest-earning assets of $49.5 million and 46 basis points, respectively. Offsetting the increase in net interest income was an increase in the average balance and cost of interest-bearing liabilities of $49.6 million and 28 basis points, respectively. The result was a 18 basis point increase in the interest rate spread to 3.34% for fiscal 2008 compared to 3.16% for fiscal 2007. The net interest margin also increased to 3.62% for fiscal 2008 compared to 3.44% for fiscal 2007.

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Provision for Loan Losses and Asset Quality

The Bank provided $0.2 million in provision for loan losses for fiscal 2008 compared to $0.3 million for fiscal 2007, a decrease of $0.1 million. 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, trends in the local and national economy and trends in the real estate market.

The Bank had net charge-offs of $0.8 million for fiscal 2008 compared to $0.1 million for fiscal 2007. At March 31, 2008 and 2007, the Bank s allowance for loan losses was $4.9 million and $5.4 million, respectively. The ratio of the allowance for loan losses to non-performing loans was 170.89% at March 31, 2008 compared to 119.9% at March 31, 2007. The ratio of the allowance for loan losses to total loans was 0.74% at March 31, 2008 compared to 0.89% at March 31, 2007. Additionally, at a 0.43% ratio, the level of non-performing loans to total loans receivable remains within the range the Bank has experienced over the trailing twelve quarters. The Bank s future levels of non-performing loans will be influenced by economic conditions, including the impact of those conditions on the Bank s customers, interest rates and other internal and external factors existing at the time. The Bank believes its reported allowance for loan losses at March 31, 2008 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.

Subprime Loans

On July 10, 2007, the OTS and other Federal bank regulatory authorities (the Agencies) published the final Interagency Statement on Subprime Lending (the Statement) to address emerging issues and questions relating to certain subprime mortgage lending practices. Although the Agencies did not provide a specific definition of a subprime loan in the Statement, the Statement did highlight the Agencies concerns with certain adjustable-rate mortgage products offered to subprime borrowers that have one or more of the following characteristics:

- Low initial payments based on a fixed introductory rate that expires after a short period and then adjusts to a variable index rate plus a margin for the remaining term of the loan;
- Very high or no limits on how much the payment amount or the interest rate may increase (payment or rate caps) on reset dates;
- Limited or no documentation of borrowers income;
- Product features likely to result in frequent refinancing to maintain an affordable monthly payment; and/or
- Substantial prepayment penalties and/or prepayment penalties that extend beyond the initial fixed interest rate period.

In the 2001 Expanded Guidance for Subprime Lending Programs, the Agencies determined that, generally, subprime borrowers will display a range of credit risk characteristics that may include one or more of the following:

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;
- Judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- Bankruptcy in the last 5 years;
- Relatively high default probability as evidenced by, for example, a credit bureau risk score (FICO) of 660 or below (depending on the product/collateral), or other bureau or proprietary scores with an equivalent default probability likelihood; and/or
- Debt service-to-income ratio of 50% or greater, or otherwise limited ability to cover family living expenses after deducting total monthly debt-service requirements from monthly income.

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The Bank has minimal exposure to the subprime loan market and, therefore, we do not expect the Statement to have a material impact on the Company. At March 31, 2008, the Bank s loan portfolio contained $1.5 million in subprime loans, all of which were performing loans.

Non-Interest Income

Non-interest income is comprised of depository fees and charges, 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 other non-interest income. Non-interest income increased by $5.0 million, or 174.0%, to $7.9 million for fiscal 2008 compared to $2.9 for fiscal 2007. The increase was primarily due to a NMTC transfer fee of $1.7 million, gain on sale of securities of $1.1 million, write-down for the prior year period of loans held for sale of $0.7 million, other income of $0.7 million and an increase in loan fees and service charges of $0.4 million. The Bank will receive additional non-interest income over approximately the next eight years from this transaction. Further, as a result of the NMTC transaction, other income increased by $0.2 million reflecting consolidation of income from minority interest. In addition, the prior year period included a $1.3 million charge associated with a balance sheet restructuring implemented to improve margins.

Non-Interest Expense

Non-interest expense increased by $5.8 million, or 23.9%, to $29.9 million for fiscal 2008 compared to $24.1 million for fiscal 2007. The increase was primarily due to increases in employee compensation and benefits of $2.9 million, consulting expense of $2.2 million, net occupancy expense of $0.9 million and other expenses of $0.6 million. The increase in employee compensation and benefits is primarily due to the Community Capital Bank acquisition and investments in new talent in the retail, lending and accounting units. The $2.2 million increase in consulting expense falls into three categories: regulatory requirements (preparation for compliance with Sarbanes-Oxley Act Section 404 and recent Inter-Agency Guidance on Allowances for Loan Losses); strengthening our back office, including the accounting, lending and retail operations departments, by adding new staff and providing temporary expertise; and engaging consultants to assist the management team to analyze significant opportunities to improve financial results. For example, the Bank engaged consultants to conduct a rigorous business optimization review to help management identify further potential improvements in the Bank s operations, in part through greater systems integration. The $0.6 million increase in other expense primarily consists of the cost of sub-servicing of loans, ATM expenses, charge-offs and regulatory reporting costs. The fiscal 2007 expense included $1.3 million in merger related expenses.

Income Tax Expense

Income tax benefit decreased by $0.2 million, or 18.8%, to $0.9 million for fiscal 2008 compared to $1.1 million for fiscal 2007, resulting in a net tax benefit of $0.9 million, which includes a minority interest tax expense of $0.1 million. The decrease in tax benefit reflects income before income taxes of $3.2 million for fiscal 2008 compared to $1.0 million for fiscal 2007. The income tax expense of $1.1 million for fiscal 2008 was offset by the tax benefit generated by the NMTC investment totaling $2.0 million. The Bank s NMTC award received in June 2006 has been fully invested. The Company expects to receive additional NMTC tax benefits of approximately $12.1 million from its $40.0 million investment over approximately the next six years.

Comparison of Operating Results for the Years Ended March 31, 2007 and 2006

Net Income

For fiscal 2007, the Company recorded net income of $2.1 million, or $0.81 per diluted common share, compared to $3.8 million, or $1.45 per diluted common share, for fiscal 2006. The $1.7 million decrease is primarily due to an increase of $5.0 million in non-interest expense and a decrease of $2.5 million in non-interest income, partially offset by an increase of $3.3 million in net interest income after provision for loan losses, and a decrease of $2.4 million in the Company s income tax provision compared to fiscal 2006.

Interest Income

Interest income increased in fiscal 2007 by $9.4 million from fiscal 2006, or 28.9%, to $41.7 million. The average balance of interest-earning assets increased to $655.0 million for fiscal 2007 from $594.9 million for fiscal 2006. Adding to the increase was a rise in the average yield on interest-earning assets to 6.37% for fiscal 2007 compared to 5.44% for fiscal 2006.

Interest income on loans increased by $10.7 million, or 40.3%, to $37.3 million for fiscal 2007 compared to $26.6 million for fiscal 2006. The increase in interest income from loans was primarily the result of a $114.7 million increase in average loan balances to $558.1 million for fiscal 2007 compared to $443.5 million for fiscal 2006, coupled with the effects of a 69 basis point increase in the average rate earned on loans to 6.68% for fiscal 2007 from 5.99% for fiscal 2006. The increase in the average balance of loans reflects the acquisition of the CCB loan portfolio. The increase in the average rate earned on loans was principally due to the acquisition of the higher yielding CCB business loan portfolio and an increase in the average rate on mortgage loans.

Interest income on mortgage-backed securities decreased by $1.6 million, or 35.2%, to $2.9 million for fiscal 2007 compared to $4.4 million for fiscal 2006, reflecting a decrease of $48.9 million in the average balance of mortgage-backed securities to $64.7 million for fiscal 2007 compared to $113.6 million for fiscal 2006. The decrease in the average balance was partially offset by the CCB acquisition. Partially offsetting the decline in income was a 54 basis point increase in the average rate earned on mortgage-backed securities to 4.45% for fiscal 2007 from 3.91% for fiscal 2006. The net decrease in the average balance of such securities demonstrates Management s commitment to invest proceeds received from the cash flows from the repayment of securities into higher yielding assets and the sale of lower yielding securities to reposition the balance sheet.

Interest income on investment securities increased by approximately $0.3 million, or 36.5%, to $1.3 million for fiscal 2007 compared to $1.0 million for fiscal 2006. The increase in interest income on investment securities reflects a 71 basis point increase in the average rate earned on investment securities to 4.67% for fiscal 2007 from 3.78% for fiscal 2006 and an increase of $1.5 million in the average balance of investment securities to $27.2 million for fiscal 2007 compared to $25.7 million for fiscal 2006. The increase in the average balance results from the acquisition of CCB, partially offset by maturities and the sale of securities with the repositioning of the balance sheet.

Interest income on federal funds decreased $0.1 million, or 36.6%, to $0.3 for fiscal 2007 compared to $0.4 million for fiscal 2006. The decrease is primarily attributable to a $7.0 million decrease in the average balance of federal funds year over year partially offset by a 169 basis point increase in the average rate earned on federal funds. This large increase in the average rate earned on federal funds was realized as the FRB raised the federal funds rate.

Interest Expense

Interest expense increased by $5.7 million, or 42.6%, to $19.2 million for fiscal 2007 compared to $13.5 million for fiscal 2006. The increase in interest expense reflects an increase of $52.4 million in the average balance of interest-bearing liabilities to $598.9 million in fiscal 2007 from $546.5 million in fiscal 2006. Additionally, the total cost of interest-bearing liabilities increased 74 basis points to 3.21% in fiscal 2007 compared to 2.47% in fiscal 2006. The increase in the average balance of interest-bearing liabilities in fiscal 2007 compared to fiscal 2006 was primarily due to the acquisition of CCB partially offset by a decrease in borrowed funds and the repayment of certain higher costing deposits with the repositioning of the balance sheet.

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Interest expense on deposits increased $6.3 million, or 70.7%, to $15.2 million for fiscal 2007 compared to $8.9 million for fiscal 2006. This increase is attributable to an $81.1 million, or 18.5%, increase in the average balance of interest-bearing deposits to $520.0 million for fiscal 2007 compared to $439.0 million for fiscal 2006 coupled with a 90 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 the acquisition of CCB. The increase in the average rate paid on deposits was principally due to the rise in the interest rate environment throughout fiscal 2007.

Interest expense on advances and other borrowed money decreased by $0.6 million, or 12.4%, to $4.0 million for fiscal 2007 compared to $4.6 million for fiscal 2006. The decrease in interest expense on borrowed money for fiscal 2007 reflects a $28.7 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. Partially offsetting the decrease was a rise of 83 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.

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 $3.6 million, or 19.1%, to $22.5 million for fiscal 2007 compared to $18.9 million for fiscal 2006. This increase was achieved as a result of an increase in both the average balance and the yield on average interest-earning assets of $60.3 million and 93 basis points, respectively. Offsetting the increase in net interest income was an increase in the average balance and cost of interest-bearing liabilities of $52.0 million and 74 basis points, respectively. The result was a 19 basis point increase in the interest rate spread to 3.16% for fiscal 2007 compared to 2.97% for fiscal 2006. The net interest margin also increased to 3.44% for fiscal 2007 compared to 3.18% for fiscal 2006.

Provision for Loan Losses

During fiscal 2007 a $0.3 million 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, trends in the local and national economy and trends in the real estate market.

During fiscal 2007, the Bank had net charge-offs of $73,000 compared to $82,000 for fiscal 2006. At March 31, 2007, non-performing loans totaled $4.5 million, or 0.74% of total loans, compared to $2.7 million, or 0.55% of total loans, at March 31, 2006. At March 31, 2007, the Bank s allowance for loan losses was $5.4 million compared to $4.0 million at March 31, 2006, resulting in a ratio of the allowance to non-performing assets of 119.9% at March 31, 2007 compared to 147.1% at March 31, 2006, and a ratio of allowance for possible loan losses to total loans of 0.89% and 0.81% at March 31, 2007 and March 31, 2006, respectively. The Bank believes its reported allowance for loan losses at March 31, 2007 is adequate to provide for estimated probable losses in the loan portfolio. For further discussion of non-performing loans and allowance for loan losses, see Item 1 Business General Description of Business Asset Quality and Note 1 of Notes to the Consolidated Financial Statements.

Non-Interest Income

Non-interest income is comprised of loan fees and service charges, fee income from banking services and charges, gains or losses from the sale of securities, loans and other assets and certain other miscellaneous non-interest income. Non-interest income decreased $2.5 million, or 46.3%, to $2.9 million for fiscal 2007 compared to $5.3 million for fiscal 2006. The decline in non-interest income was comprised primarily of a decrease of $1.0 million in loan fees and service charges due primarily to lower loan prepayment penalty income, $0.6 million in losses associated with the repositioning of the balance sheet, $0.7 million in the write-down of loans held for sale, a decrease of $0.2 million in the gain on the sale of loans and $0.1 million loss on the sale of real estate owned. Partially offsetting these decreases were increases in other non-interest income and deposit fees and charges of $0.1 million and $18,000, respectively. The decline in the gain on the sale of loans was primarily attributable to a gain on a bulk sale of loans during fiscal 2006.

Non-Interest Expense

Non-interest expense increased by $5.0 million, or 26.0%, to $24.1 million for fiscal 2007 compared to $19.1 million for fiscal 2006. The increase in non-interest expense was primarily attributable to the acquisition of CCB and the resulting operating and non-recurring merger related expenses. Non-recurring merger related expenses represented $1.3 million of the increase, and employee compensation and benefits, net occupancy expense, equipment, net, and other non-interest expense increased $1.0 million, $4.0 million, $0.1 million and $2.0 million, respectively.

Interest Tax Expense

Income tax benefit was $1.1 million for fiscal 2007, as compared to an income tax expense of $1.3 million for fiscal 2006. The Bank recognized a $1.5 million benefit in fiscal 2007 from the NMTC program and pre-tax income was $4.1 million less in fiscal 2007 compared to fiscal 2006. The two items account for the $2.4 million change in taxes from fiscal 2007 to fiscal 2006.

Liquidity and Capital Resources

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

Carver Federal monitors its liquidity utilizing guidelines that are contained in a policy developed by its management and approved by its Board of Directors. Carver Federal s several liquidity measurements are evaluated on a frequent basis. The Bank was in compliance with this policy as of March 31, 2008. Management believes Carver Federal s short-term assets have sufficient liquidity to cover loan demand, potential fluctuations in deposit accounts and to meet other anticipated cash requirements. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the FHLB-NY utilizing unpledged mortgage-backed securities and certain mortgage loans, the sale of available-for-sale securities and the sale of certain mortgage loans. At March 31, 2008, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow from the FHLB-NY an additional $29.4 million on a secured basis, utilizing mortgage-related loans and securities as collateral.

Congress eliminated the statutory liquidity requirement that 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, 2008 and 2007, assets qualifying for short-term liquidity, including cash and short-term investments, totaled $27.4 million and $17.4 million, respectively.

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The levels of Carver Federal s short-term liquid assets are dependent on Carver Federal s operating, investing and financing activities during any given period. The most significant liquidity challenge the Bank faces is variability in its cash flows as a result of mortgage refinance activity. When mortgage interest rates decline, customers refinance activities tend to accelerate, causing the cash flow from both the mortgage loan portfolio and the mortgage-backed securities portfolio to accelerate. In contrast, when mortgage interest rates increase, refinance activities tend to slow, causing a reduction of liquidity. However, in a rising rate environment, customers generally tend to prefer fixed rate mortgage loan products over variable rate products. Because Carver Federal generally sells its one- to four- family 15-year and 30-year fixed rate loan production into the secondary mortgage market, the origination of such products for sale does not significantly reduce Carver Federal s liquidity.

The OTS requires that the Bank meet minimum capital requirements. Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. At March 31, 2008, the Bank exceeded all regulatory minimum capital requirements and qualified, under OTS regulations, as a well-capitalized institution. See Regulatory Capital Position below for certain information relating to the Bank s regulatory capital compliance at March 31, 2008.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal 2008, total cash and cash equivalents increased by $10.0 million reflecting cash provided by financing activities of $54.9 million, offset by cash used in operating of $26.8 million and investing activities of $18.1 million.

Net cash provided by financing activities was $54.9 million, primarily resulting from increased deposits of $39.5 million and consolidation of minority interest in a NMTC transaction of $19.1 million, offset partially by reductions in borrowings of $2.5 million and the payment of common dividends of $1.0 million. Net cash used in operating activities during this period was $26.8 million, primarily representing funds used in originations of loans held-for-sale of $20.2 million, an increase in other assets of $29.7 million (primarily resulting from a NMTC transaction), offset partially by proceeds from sales of loans held-for-sale $20.0 million. Net cash used in investing activities was $18.1 million, primarily representing cash disbursed to fund mortgage loan originations of $162.6 million, loans purchased from third parties of $29.7 million and purchases of available-for-sale securities of $15.3 million, offset partially by principal collections on loans of $145.5 million, proceeds from sale of available-for-sale securities of $36.1 million and proceeds from principal payments/maturities/calls of securities of $9.2 million.

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. See Note 14 of Notes to Consolidated Financial Statements for the Bank s outstanding lending commitments and contractual obligations at March 31, 2008.

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The Bank has contractual obligations at March 31, 2008 as follows (in thousands):

		Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
Long term debt obligations:					
FHLB advances	$ 15,249	$ 15,107	$	$ 142	$
Repo Borrowings	30,141				30,141
Guaranteed preferred beneficial interest in junior subordinated debentures	13,375				13,375
Total long term debt obligations	58,765	15,107		142	43,516
Operating lease obligations:					
Lease obligations for rental properties	11,456	1,517	3,014	2,262	4,663
Total contractual obligations	$ 70,221	$ 16,624	$ 3,014	$ 2,404	$ 48,179

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, 2008, the Bank had tangible equity ratio, core capital ratio, and total risk-based capital ratio of 7.7%, 7.7% and 10.2%, respectively, and was considered well capitalized. For additional information regarding Carver Federal s Regulatory Capital and Ratios, refer to Note 12 of Notes to Consolidated Financial Statements, Stockholders Equity.

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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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
New York, New York
July 1, 2008, except as to the restatement and subsequent events discussed in Note 2 and Note 20, respectively, to the consolidated financial statements which is as of July 2, 2009.

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

	March 31, 2008 (As Restated)	March 31, 2007 (As Restated)
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 15,920	14,619
Federal funds sold	10,500	1,300
Interest earning deposits	948	1,431
Total cash and cash equivalents	27,368	17,350
Securities:		
Available-for-sale, at fair value (including pledged as collateral of $20,621 and $34,649 at March 31, 2008 and 2007, respectively)	20,865	47,980
Held-to-maturity, at amortized cost (including pledged as collateral of $16,643 and $18,581 at March 31, 2008 and 2007, respectively; fair value of $17,167 and $19,005 at March 31, 2008 and 2007, respectively)	17,307	19,137
Total securities	38,172	67,117
Loans held-for-sale	23,767	23,226
Loans receivable:		
Real estate mortgage loans	578,957	533,667
Commercial business loans	51,424	50,541
Consumer loans	1,728	1,067
Allowance for loan losses	(4,878)	(5,409)
Total loans receivable, net	627,231	579,866
Office properties and equipment, net	15,780	14,626
Federal Home Loan Bank of New York stock, at cost	1,625	3,239
Bank owned life insurance	9,141	8,795
Accrued interest receivable	4,063	4,335
Goodwill	7,055	6,401
Core deposit intangibles, net	532	684
Other assets	41,448	13,891
Total assets	$ 796,182	$ 739,530
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	$ 654,663	615,122
Advances from the FHLB-NY and other borrowed money	58,625	61,093
Other liabilities	9,863	12,173

Total liabilities	723,151	688,388
Minority interest	19,150	
Stockholders equity:		
Preferred stock (par value $0.01 per share; 112 shares authorized; 112 issued and outstanding) Common stock (par value $0.01 per share: 10,000,000 shares authorized; 2,524,691 shares issued; 2,481,706 and 2,507,985 shares outstanding at March 31, 2008 and 2007, respectively)	25	25
Additional paid-in capital	24,113	23,996
Retained earnings	29,988	26,951
Unamortized awards of common stock under ESOP		(4)
Treasury stock, at cost (42,985 and 16,706 shares at March 31, 2008 and 2007, respectively)	(670)	(277)
Accumulated other comprehensive income	425	451
Total stockholders equity	53,881	51,142
Total liabilities and stockholders equity	$ 796,182	$ 739,530

See accompanying notes to consolidated financial statements.

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

	Years Ended March 31,		
	2008	**2007**	**2006**
		(As Restated)	
Interest Income:			
Loans	$ 44,499	$ 37,277	$ 26,563
Mortgage-backed securities	2,071	2,877	4,439
Investment securities	1,434	1,325	971
Federal funds sold	128	261	412
Total interest income	48,132	41,740	32,385
Interest expense:			
Deposits	18,866	15,227	8,921
Advances and other borrowed money	3,790	4,007	4,572
Total interest expense	22,656	19,234	13,493
Net interest income	25,476	22,506	18,892
Provision for loan losses	222	276	
Net interest income after provision for loan losses	25,254	22,230	18,892
Non-interest income:			
Depository fees and charges	2,669	2,476	2,458
Loan fees and service charges	1,628	1,238	2,231
Write-down of loans held for sale		(702)	
Gain (loss) on sale of securities	431	(624)	
Gain on sale of loans	323	192	351
Loss on sale of real estate owned		(108)	
New Market Tax Credit Transfer Fee	1,700		
Other	1,110	397	301
Total non-interest income	7,861	2,869	5,341
Non-interest expense:			
Employee compensation and benefits	13,323	10,470	9,512
Net occupancy expense	3,590	2,667	2,284
Equipment, net	2,451	2,071	1,939
Merger related expenses		1,258	
Consulting Expense	2,733	496	307
Other	7,801	7,138	5,092
Total non-interest expense	29,898	24,100	19,134

Income before income taxes and minority interest		3,217		999		5,099
Income tax (benefit) expense		(892)		(1,099)		1,329
Minority interest, net of taxes		146				
Net income	$	3,963	$	2,098	$	3,770
Earnings per common share:						
Basic	$	1.59	$	0.84	$	1.50
Diluted	$	1.55	$	0.81	$	1.45

See accompanying notes to consolidated financial statements.

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)
(As Restated)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Common Stock Acquired By ESOP	Common Stock Acquired By MRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-Holders Equity
Balance March 31, 2005	**$ 25**	**$ 23,937**	**$ (420)**	**$ (126)**	**$ (128)**	**$ 22,748**	**$ (235)**	**$ 45,801**
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:						3,770	(439)	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**	**(303)**	**(10)**	**(12)**	**25,736**	**(674)**	**48,697**
Adjustment to initially implement SFAS 158							281	281
Balance post implementation of SFAS 158	25	23,935	(303)	(10)	(12)	25,736	(393)	48,978
Net income (as restated)						2,098		2,098
Minimum pension liability adjustment							79	79
Change in net unrealized loss on available-for-sale							765	765

securities, net of taxes								
Comprehensive income, net of taxes:						2,098	844	2,942
Dividends paid						(883)		(883)
Treasury stock activity		61	26					87
Allocation of ESOP Stock				6				6
Purchase of shares for MRP					12			12
Balance March 31, 2007 (as restated)	**25**	**23,996**	**(277)**	**(4)**		**26,951**	**451**	**51,142**
Net income						3,963		3,963
Minimum pension liability adjustment							195	195
Change in net unrealized loss on available-for-sale securities, net of taxes							(221)	(221)
Comprehensive income, net of taxes:						3,963	(26)	3,937
Adjustment to initially implement SFAS 156						49		49
Dividends paid						(975)		(975)
Treasury stock activity		117	(393)	4				(272)
Balance March 31, 2008 (as restated)	**$ 25**	**$ 24,113**	**$ (670)**	**$**	**$**	**$ 29,988**	**$ 425**	**$ 53,881**

See accompanying notes to consolidated financial statements.

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

	Years Ended March 31,		
	2008	**2007**	**2006**
		(As Restated)	
Cash flows from operating activites:			
Net income	$ 3,963	$ 2,098	$ 3,770
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	222	276	
Stock based compensation expense	272	426	233
Depreciation and amortization expense	1,709	1,581	1,546
Amortization of premiums and discounts	(250)	(1,145)	863
(Gain) Loss from sale of securities	(431)	624	
Gain on sale of loans	(323)	(192)	(351)
Writedown on loans held-for-sale		702	
Loss on sale of real estate owned		108	
Originations of loans held-for-sale	(20,172)	(24,708)	(12,646)
Proceeds from sale of loans held-for-sale	19,953	14,422	12,197
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	272	(1,365)	(268)
Increase in other assets	(29,702)	(2,240)	(2,430)
(Decrease) increase in other liabilities	(2,283)	(4,267)	4,249
Net cash (used in) provided by operating activities	(26,770)	(13,680)	7,163
Cash flows from investing activites:			
Purchases of securities:			
Available-for-sale	(15,265)		(26,811)
Held-to-maturity			(19)
Proceeds from principal payments, maturities and calls of securities:			
Available-for-sale	7,358	26,539	60,645
Held-to-maturity	1,803	7,185	4,816
Proceeds from sales of available-for-sale securities	36,116	57,942	1,575
Originations of loans held-for-investment	(162,556)	(105,284)	(98,704)
Loans purchased from third parties	(29,736)	(58,191)	(96,140)
Principal collections on loans	145,458	146,410	113,482
Proceeds from sales of loan originations held-for-investment		16,548	10,697
Redemption of FHLB-NY stock	1,614	1,388	498
Additions to premises and equipment	(2,862)	(1,869)	(1,082)
Proceeds from sale of real estate owned		404	
Payments for acquisition, net of cash acquired		(2,425)	
Net cash (used in) provided by investing activities	(18,070)	88,647	(31,043)
Cash flows from financing activites:			

Net increase (decrease) in deposits		39,541		(33,657)		48,768
Net repayment of FHLB advances and other borrowings		(2,527)		(45,660)		(21,507)
Capital contribution by minority interest		19,150				
Common stock repurchased		(331)		(321)		(115)
Dividends paid		(975)		(883)		(782)
Net cash provided by (used in) financing activities		54,858		(80,521)		26,364
Net (decrease) increase in cash and cash equivalents		10,018		(5,554)		2,484
Cash and cash equivalents at beginning of period		17,350		22,904		20,420
Cash and cash equivalents at end of period	$	27,368	$	17,350	$	22,904
Supplemental information:						
Noncash Transfers-						
Change in unrealized loss on valuation of available-for-sale investments, net	$	221	$	765	$	(158)
Cash paid for-						
Interest	$	21,973	$	19,510	$	13,502
Income taxes	$	922	$	652	$	2,107

See accompanying notes to consolidated financial statements.

CARVER BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1. ORGANIZATION
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)), Alhambra Holding Corp., an inactive Delaware corporation, and Carver Federal s wholly-owned subsidiaries, CFSB Realty Corp., Carver Municipal Bank (CMB), Carver Community Development Corp. (CCDC) and CFSB Credit Corp. which is currently inactive. The Bank has a majority owned interest in Carver Asset Corporation, a real estate investment trust formed in February 2004.

Carver, the Company, we, us or our refers to the Holding Company along with its consolidated subsidiaries. Th 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. 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. 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.

In September 2003, the Holding Company formed Carver Statutory Trust I (the Trust) for the sole purpose of issuing trust preferred securities and investing the proceeds in an equivalent amount of floating rate junior subordinated debentures of the Holding Company. In accordance with Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, Carver Statutory Trust I is not consolidated for financial reporting purposes. In December 2007, Carver Federal s subsidiary CCDC entered into a NMTC venture in which it exerts a controlling influence.

On October 5, 2006, Carver Federal established Carver Municipal Bank (CMB), a wholly-owned, New York State chartered limited purpose commercial bank, with the intention of expanding Carver Federal s ability to compete for municipal and state agency deposits and provide other fee income based services. The Bank invested $2.0 million of capital into CMB at its formation. In the State of New York, municipal entities may deposit funds only with commercial banks, other than except through limited exceptions, and CMB provided Carver Federal with a platform to enter into this line of business. As of March 31, 2008, Carver Federal has discontinued the operations of CMB and is in the process of dissolution. The $2.0 million capital invested will revert back to the Bank.

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

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NOTE 2. RESTATEMENT

During the quarter ended December 31, 2008, Carver became aware of certain adjustments to suspense accounts related to check return processing and automated clearing house (ACH) return processing that appeared to be incorrect. A review of the suspense account reconciliations commenced and an analysis was performed on Carver s accounting and financial reporting practices. The review raised questions regarding transactions since fiscal 2007, most of which involved adjustments to various suspense accounts, and identified evidence that certain adjustments were incorrect. The review found evidence that during fiscal 2007, suspense accounts adjustments for check returns and ACH returns were improper and resulted in aged suspense items not being properly cleared. As a result, an adjustment totaling $761,000 ($485,000 net of tax) was necessary to correct the fiscal 2007 financial statements to reflect charge-offs that should have been recorded in the appropriate period. This adjustment resulted in a reduction in diluted earnings per share for fiscal 2007 from $1.00 to $0.81, a decrease of $0.19, or 19%. The errors and irregularities identified in the course of the review revealed deficiencies in Carver s accounting and financial control environment, some of which were determined to be a material weakness requiring corrective and remedial actions.

Concurrently with the review, Carver also conducted extensive internal reviews for the purpose of the preparation and certification of Carver s fiscal 2009 financial statements and its assessment of internal controls over financial reporting. Carver s procedures included expanded account reviews and expanded balance sheet reconciliations to ensure all accounts were fully reconciled, supported, and appropriately documented. Carver also implemented improvements to its quarterly and annual accounting close process to provide for more complete review of the financial results.

As a result of the issues identified in the review, the Finance and Audit Committee, in consultation with management and KPMG, concluded on February 9, 2009 that Carver s previously issued financial statements for fiscal 2007 and fiscal 2008 (including the interim periods within those years), should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, Carver restated its previously issued financial statements for those periods by filing this Amendment No. 1 to its Form 10-K for the year ended March 31, 2008. Restated financial information is presented in this Amendment No. 1 to its Form 10-K for the year ended March 31, 2008.

Set forth below is the impact of the adjustment by financial statement line item in Carver s consolidated statement of financial condition as of March 31, 2008 and 2007, the Consolidated Statements of Income and Cash Flows for the year ended March 31, 2007 and the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income for the years ended March 31, 2008 and 2007. In addition, the income tax effect of the above adjustment has been reflected in footnote 11 of the Consolidated Financial Statements.

Immaterial Corrections

The Consolidated Statement of Income for the year ended March 31, 2008 reflects an immaterial correction to correctly reflect additional audit expenses in the amount of $28,000. After taxes this resulted in a decrease in net income of $17,000. As a result the corrected basic EPS remains unchanged at $1.59 while the corrected diluted EPS remains unchanged at $1.55.

The Consolidated Statement of Financial Position as of March 31, 2008 and 2007 also reflects an adjustment to reclassify $0.7 million from commercial business loans to goodwill. The adjustment was the result of a re-evaluation of goodwill in connection with the reconciliation matters disclosed above and elsewhere herein.

Management believes these corrections to prior period mistatements to be immaterial.

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

	March 31, 2008 (As Previously Reported)(1)	March 31, 2008 Adjustment	March 31, 2008 (As Restated)	March 31, 2007 (As Previously Reported)(1)	March 31, 2007 Adjustment	March 31, 2007 (As Restated)
ASSETS						
Cash and cash equivalents:						
Cash and due from banks	$ 15,920	$	$ 15,920	$ 14,619	$	14,619
Federal funds sold	10,500		10,500	1,300		1,300
Interest earning deposits	948		948	1,431		1,431
Total cash and cash equivalents	27,368		27,368	17,350		17,350
Securities:						
Available-for-sale, at fair value	20,865		20,865	47,980		47,980
Held-to-maturity, at amortized cost	17,307		17,307	19,137		19,137
Total securities	38,172		38,172	67,117		67,117
Loans held-for-sale	23,767		23,767	23,226		23,226
Loans receivable:						
Real estate mortgage loans	578,957		578,957	533,667		533,667
Commercial business loans	51,424		51,424	50,541		50,541
Consumer loans	1,728		1,728	1,067		1,067
Allowance for loan losses	(4,878)		(4,878)	(5,409)		(5,409)
Total loans receivable, net	627,231		627,231	579,866		579,866
Office properties and equipment, net	15,780		15,780	14,626		14,626
Federal Home Loan Bank of New York stock, at cost	1,625		1,625	3,239		3,239
Bank owned life insurance	9,141		9,141	8,795		8,795
Accrued interest receivable	4,063		4,063	4,335		4,335
Goodwill	7,055		7,055	6,401		6,401
Core deposit intangibles, net	532		532	684		684
Other assets	41,870	(422)	41,448	14,313	(422)	13,891
Total assets	$ 796,604	$ (422)	$ 796,182	$ 739,952	$ (422)	$ 739,530

LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits	$ 654,663	$	$ 654,663	$ 615,122	$	615,122
Advances from the FHLB-NY and other borrowed money	58,625		58,625	61,093		61,093
Other liabilities	9,800	63	9,863	12,110	63	12,173
Total liabilities	723,088	63	723,151	688,325	63	688,388
Minority interest	19,150		19,150			
Stockholders equity:						
Common stock	25		25	25		25
Additional paid-in capital	24,113		24,113	23,996		23,996
Retained earnings	30,473	(485)	29,988	27,436	(485)	26,951
Unamortized awards of common stock under ESOP				(4)		(4)
Treasury stock, at cost	(670)		(670)	(277)		(277)
Accumulated other comprehensive income	425		425	451		451
Total stockholders equity	54,366	(485)	53,881	51,627	(485)	51,142
Total liabilities and stockholders equity	$ 796,604	$ (422)	$ 796,182	$ 739,952	$ (422)	$ 739,530

(1) Includes adjustments for immaterial corrections to reclassify $685,000 from commercial business loans to goodwill as of 3/31/07 and to reflect additional audit expenses of $28,000 ($17,000 after tax) in fiscal 2008 net income.

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

	Years Ended March 31, 2007 (As Previously Reported)	2007 Adjustment	2007 (As Restated)
Interest Income:			
Loans	$ 37,277	$	$ 37,277
Mortgage-backed securities	2,877		2,877
Investment securities	1,325		1,325
Federal funds sold	261		261
Total interest income	41,740		41,740
Interest expense:			
Deposits	15,227		15,227
Advances and other borrowed money	4,007		4,007
Total interest expense	19,234		19,234
Net interest income	22,506		22,506
Provision for loan losses	276		276
Net interest income after provision for loan losses	22,230		22,230
Non-interest income:			
Depository fees and charges	2,476		2,476
Loan fees and service charges	1,238		1,238
Write-down of loans held for sale	(702)		(702)
Gain (loss) on sale of securities	(624)		(624)
Gain on sale of loans	192		192
Loss on sale of real estate owned	(108)		(108)
Other	397		397
Total non-interest income	2,869		2,869
Non-interest expense:			
Employee compensation and benefits	10,470		10,470
Net occupancy expense	2,667		2,667
Equipment, net	2,071		2,071

Merger related expenses	1,258		1,258
Consulting Expense	496		496
Other	6,377	761	7,138
Total non-interest expense	23,339	761	24,100
Income before income taxes and minority interes	1,760	(761)	999
Income tax (benefit) expense	(823)	(276)	(1,099)
Minority interest, net of taxes			
Net income	$ 2,583	$ (485)	$ 2,098
Earnings per common share:			
Basic	$ 1.03	$ (0.19)	$ 0.84
Diluted	$ 1.00	$ (0.19)	$ 0.81

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)
(As Previously Reported)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Common Stock Acquired By ESOP	Common Stock Acquired By MRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-Holders Equity
Balance March 31, 2005	**$ 25**	**$ 23,937**	**$ (420)**	**$ (126)**	**$ (128)**	**$ 22,748**	**$ (235)**	**$ 45,801**
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:						3,770	(439)	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**	**(303)**	**(10)**	**(12)**	**25,736**	**(674)**	**48,697**
Adjustment to initially implement SFAS 158							281	281
Balance post implementation of SFAS 158	25	23,935	(303)	(10)	(12)	25,736	(393)	48,978
Net income						2,583		2,583
Minimum pension liability adjustment							79	79
Change in net unrealized loss on available-for-sale securities, net of							765	765

taxes								
Comprehensive income, net of taxes:						2,583	844	3,427
Dividends paid						(883)		(883)
Treasury stock activity		61	26					87
Allocation of ESOP Stock				6				6
Purchase of shares for MRP					12			12
Balance March 31, 2007	**25**	**23,996**	**(277)**	**(4)**		**27,436**	**451**	**51,627**
Net income						3,980		3,980
Minimum pension liability adjustment							195	195
Change in net unrealized loss on available-for-sale securities, net of taxes							(221)	(221)
Comprehensive income, net of taxes:						3,980	(26)	3,954
Adjustment to initially implement SFAS 156						49		49
Dividends paid						(975)		(975)
Treasury stock activity		117	(393)	4				(272)
Balance March 31, 2008	**$ 25**	**$ 24,113**	**$ (670)**	**$**	**$**	**$ 30,490**	**$ 425**	**$ 54,383**

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CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)
(As Restated)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Common Stock Acquired By ESOP	Common Stock Acquired By MRP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-Holders Equity
Balance March 31, 2005	**$ 25**	**$ 23,937**	**$ (420)**	**$ (126)**	**$ (128)**	**$ 22,748**	**$ (235)**	**$ 45,801**
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:						3,770	(439)	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**	**(303)**	**(10)**	**(12)**	**25,736**	**(674)**	**48,697**
Adjustment to initially implement SFAS 158							281	281
Balance post implementation of SFAS 158	25	23,935	(303)	(10)	(12)	25,736	(393)	48,978
Net income (as restated)						2,098		2,098
Minimum pension liability adjustment							79	79
Change in net unrealized loss on available- for-sale							765	765

securities, net of taxes								
Comprehensive income, net of taxes:						2,098	844	2,942
Dividends paid						(883)		(883)
Treasury stock activity		61	26					87
Allocation of ESOP Stock				6				6
Purchase of shares for MRP					12			12
Balance March 31, 2007 (as restated)	**25**	**23,996**	**(277)**	**(4)**		**26,951**	**451**	**51,142**
Net income						3,963		3,963
Minimum pension liability adjustment							195	195
Change in net unrealized loss on available- for-sale securities, net of taxes							(221)	(221)
Comprehensive income, net of taxes:						3,963	(26)	3,937
Adjustment to initially implement SFAS 156						49		49
Dividends paid						(975)		(975)
Treasury stock activity		117	(393)	4				(272)
Allocation of ESOP Stock								
Purchase of shares for MRP								
Balance March 31, 2008 (as restated)	**$ 25**	**$ 24,113**	**$ (670)**	**$**	**$**	**$ 29,988**	**$ 425**	**$ 53,881**

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

	Years Ended March 31,		
	2007	**2007**	**2007**
	(As Previously Reported)	Adjustment	(As Restated)
Cash flows from operating activites:			
Net income	$ 2,583	$ (485)	$ 2,098
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	276		276
Stock based compensation expense	426		426
Depreciation and amortization expense	1,581		1,581
Amortization of premiums and discounts	(1,145)		(1,145)
Impairment charge on securities			
(Gain) Loss from sale of securities	624		624
Gain on sale of loans	(192)		(192)
Writedown on loans held-for-sale	702		702
Loss on sale of real estate owned	108		108
Originations of loans held-for-sale	(24,708)		(24,708)
Proceeds from sale of loans held-for-sale	14,422		14,422
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	(1,365)		(1,365)
Increase in other assets	(2,662)	422	(2,240)
(Decrease) increase in other liabilities	(4,330)	63	(4,267)
Net cash (used in) provided by operating activities	(13,680)		(13,680)
Cash flows from investing activites:			
Purchases of securities:			
Available-for-sale			
Proceeds from principal payments, maturities and calls of			

securities:			
Available-for-sale	26,539		26,539
Held-to-maturity	7,185		7,185
Proceeds from sales of available-for-sale securities	57,942		57,942
Originations of loans held-for-investment	(105,284)		(105,284)
Loans purchased from third parties	(58,191)		(58,191)
Principal collections on loans	146,410		146,410
Proceeds from sales of loan originations held-for-investment	16,548		16,548
Redemption of FHLB-NY stock	1,388		1,388
Additions to premises and equipment	(1,869)		(1,869)
Proceeds from sale of real estate owned	404		404
Payments for acquisition, net of cash acquired	(2,425)		(2,425)
Net cash (used in) provided by investing activities	88,647		88,647
Cash flows from financing activites:			
Net increase (decrease) in deposits	(33,657)		(33,657)
Net repayment of FHLB advances and other borrowings	(45,660)		(45,660)
Common stock repurchased	(321)		(321)
Dividends paid	(883)		(883)
Net cash provided by (used in) financing activities	(80,521)		(80,521)
Net (decrease) increase in cash and cash equivalents	(5,554)		(5,554)
Cash and cash equivalents at beginning of period	22,904		22,904
Cash and cash equivalents at end of period	$ 17,350	$	$ 17,350
Supplemental information:			
Noncash Transfers-			
Change in unrealized loss on valuation of available-for-sale investments, net	$ 765	$	$ 765
Cash paid for-			

Interest	$ 19,510	$	$ 19,510
Income taxes	$ 652	$	$ 652

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

The consolidated financial statements include the accounts of the Holding Company, the Bank and the Bank s wholly-owned or majority owned subsidiaries, Carver Asset Corporation, CFSB Realty Corp., CMB, Carver Community Development Corporation, 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. Amounts subject to significant estimates and assumptions are items such as the allowance for loan losses, goodwill and intangibles, pensions and the fair value of financial instruments. 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 has extended mortgages and other credit instruments. Actual results could differ significantly from those assumptions.

In addition, the Office of Thrift Supervision (OTS), Carver Federal s 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.

In June 2005, the Emerging Issues Task Force (EITF) of the FASB reached final consensus on Issue No. 04-5, Determining Whether a General Partner, or General Partners as a Group, controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF Issue No. 04-5). EITF Issue No. 04-5 set forth the criteria to determine whether partnerships are to be consolidated for financial statement purposes or reported using the Equity Method. In accordance with guidance set forth in EITF Issue No. 04-5, Carver CDC-Subsdiary CDE 10, LLC has been consolidated for financial reporting purposes.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, amounts due from depository institutions, federal funds sold and other short-term instruments with original maturities of three months or less. Federal funds sold 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

When purchased, securities are designated as either securities held-to-maturity or securities available-for-sale. Securities are 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. 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.

If not classified as held-to-maturity, securities are classified as 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. Estimated fair values of securities are based on either published or security dealers market value. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes as a separate component of accumulated other comprehensive income (loss), 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 2008, 2007 or 2006. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Loans held-for-sale are carried at the lower of cost or market value as determined on an aggregate loan basis. Premiums paid and discounts obtained on such loans held-for-sale are deferred as an adjustment to the carrying value of the loans until the loans are sold.

Loans Receivable

Loans receivable are carried at unpaid principal balances plus unamortized premiums, purchase accounting mark-to-market adjustments, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses.

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, of the related loans, adjusted for prepayments when applicable, 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.

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Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses inherent in the portfolio as of March 31, 2008. 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 calls 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 loan loss allowance amounts for all specifically identified criticized and classified loans that have been designated as requiring attention by management s internal loan review process, bank regulatory examinations or Carver Federal s external auditors.
- An average loss factor, giving effect to historical loss experience over several years and other qualitative factors, is applied to all loans not subject to specific review.
- Evaluation of any changes in 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 performing this evaluation is the concentration of real estate related loans located in the New York City metropolitan area.

All new loan originations are assigned a credit risk grade which commences with loan officers and underwriters grading the quality of their loans one to five under a nine-category risk classification scale, the first five categories of which represent performing loans. Reserves are held based on actual loss factors based on several years of loss experience and other qualitative factors applied to the outstanding balances. All loans are subject to continuous review and monitoring for changes in their credit grading. Grading that falls into criticized or classified categories (credit grading six through nine) are further evaluated and reserved amounts are established for each loan based on each loan s potential for loss and includes consideration of the sufficiency of collateral. Any adverse trend in 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 includes:

- Amount and trend of criticized loans;
- Actual losses;
- Peer comparisons with other financial institutions; and
- Economic data associated with the real estate market in the Company s lending market areas.

A loan is considered to be impaired, as defined by 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, are excluded from the scope of SFAS 114. Impaired loans are required to be measured based upon (i) the present value of expected future cash flows, discounted at the loan s initial effective interest rate, (ii) the loan s market price, or (iii) 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 allowance must be established for the difference. The allowance is established by either an allocation of the existing allowance for loan losses or by a provision for loan losses, depending on various circumstances. Allowances are not needed when credit losses have been recorded so that the recorded investment in an impaired loan is less than the loan valuation.

Segment Reporting

In accordance with Statement of Financial Accounting Standard No. 131, *Disclosures about Segments of an Enterprise and Related Information* , the Company has determined that all of its activities constitute one reportable operating segment.

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 New York City. 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.

Office Properties and Equipment

Office properties 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.

Federal Home Loan Bank Stock

The Federal Home Loan Bank of New York (FHLB-NY) has assigned to the Bank a mandated membership stock purchase, based on the Bank s asset size. In addition, for all borrowing activity, the Bank is required to purchase shares of FHLB-NY non-marketable capital stock at par. Such shares are redeemed by FHLB-NY at par with reductions in the Bank s borrowing levels. The Bank carries this investment at historical cost.

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 in income. Returns on the BOLI assets are added to the carrying value and included as non-interest income in the consolidated statement of income. Any receipt of benefit proceeds is recorded as a reduction to the carrying value of the BOLI asset. At March 31, 2008, Carver held no policy loans against its BOLI cash surrender values or restrictions on the use of the proceeds.

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Mortgage Servicing Rights

Mortgage servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Mortgage servicing rights are carried at the lower of the initial carrying value, adjusted for amortization, or fair value, and are amortized in proportion to, and over the period of, estimated net servicing income using a discounted analysis of future cash flows, incorporating numerous assumptions including servicing income, servicing costs, market discount rates, prepayment speeds and default rates. Mortgage servicing rights are evaluated quarterly for impairment based on the difference between the carrying amount and current fair value. If it is determined that impairment exists, the resulting loss is charged against earnings.

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.

Identifiable Intangible Assets

In accordance with Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets* goodwill and intangible assets with indefinite useful lives are no longer amortized, rather they are assessed, at least annually, for impairment (See Note 3).

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

Effective April 1, 2007, the Company adopted SFAS, No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. For subsequent measurements, entities are permitted to choose either the amortization method, which is consistent with the prior requirements of SFAS No. 140, or the fair value method. Upon adoption of SFAS No. 156, the Company elected to adopt the fair value method for measurements of mortgage servicing rights (MSR). The adoption of SFAS No. 156 did not have a material impact on the Company s financial statements.

The Company recognizes as separate assets the rights to service mortgage loans and such assets are included in other assets in the statements of financial condition.

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.

Effective January 1, 2007, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes- An Interpretation of FASB Statement No 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 also prescribes a specified recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a material impact on the Company s financial statements.

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Securities Impairment

The Bank s available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders equity. Securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The fair values of securities in portfolio are based on published or securities dealers market values and are affected by changes in interest rates. The Bank periodically reviews and evaluates the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. The Bank generally views changes in fair value caused by changes in interest rates as temporary, which is consistent with its experience. However, if such a decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings. At March 31, 2008, the Bank carried no other than temporarily impaired securities.

Earnings 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 plans). 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

The Company s pension benefit and post-retirement health and welfare benefit obligations, and the related costs, are calculated using actuarial concepts, within the framework of SFAS No. 87, Employers Accounting for Pensions and SFAS No. 106, Employers Accounting for Post-retirement Benefits Other than Pensions, respectively. The measurement of such obligations and expenses requires that certain assumptions be made regarding several factors, most notably including the discount rate and the expected return on plan assets. The Company evaluates these critical assumptions on an annual basis. Other factors considered by the Company include retirement patterns, mortality, turnover, and the rate of compensation increase.

Under Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefits Pension *and Other Post-retirement Plans- an amendment of SFAS Statement Nos. 87, 88, 106 and 132(R)* , actuarial gain and losses, prior services cost or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in accumulated other comprehensive income or loss , net of taxes effects, until they are amortized as a component of net of periodic benefit cost. In addition, under SFAS No. 158 the measurement date (i.e., the date at which plan assets and the benefit obligation are measured for financial reporting purposes) is required to be the company s fiscal year end. The company presently uses a December 31 measurement date for its pension, as permitted by SFAS Nos. 87 and 106. In accordance with SFAS No. 158, the Company will adopt a fiscal year-end measurement date on March 31, 2009.

Stock-Based Compensation Plans

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment, (SFAS No. 123R). This statement replaces Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB No. 25). SFAS No. 123R requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro forma disclosures in prior periods. SFAS No. 123R also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows.

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Prior to the adoption of SFAS No. 123R on April 1, 2006, the Company applied APB No. 25 and related interpretations in accounting for its stock option plans. As each granted stock option entitled the holder to purchase shares of the Company s common stock at an exercise price equal to 100% of the fair market value of the stock on the date of grant, no compensation cost for such options was recognized. Had compensation cost for the stock option plans been determined, using a Black-Scholes option-pricing model, based on the fair value at the date of grant for awards made under those plans, consistent with the method set forth in SFAS No. 123, Accounting for Stock-based Compensation, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-based Compensation Transition and Disclosure*, (SFAS No. 148), the Company s pro forma net income in the year ended March 31, 2006 would have been as follows:

		2006
Net Income available to common shareholders:		
As reported	$	3,770
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects		(105)
Pro forma	$	3,665
Basic earnings per share:		
As reported	$	1.50
Pro forma		1.46
Diluted earnings per share:		
As reported	$	1.45
Pro forma		1.43
Weighted average number of shares outstanding		2,506,029

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 Company grants incentive stock options only to its employees and grants nonqualified stock options to employees and non-employee directors. All options granted, vested and unexercised as of March 31, 2006 will still be accounted for under APB No. 25. 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.

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Reclassifications

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

NOTE 4. IMPAIRMENT AND GOODWILL

The Company annually evaluates long-lived assets, certain identifiable intangibles and deferred costs for indication of impairment in value. When required, asset impairment will be recorded as an expense in the current period. The Company reported goodwill from its acquisition of Community Capital Bank in 2006 in the amount of $7.1 million

In accordance with Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets (SFAS No.142) goodwill and intangible assets with indefinite useful lives are no longer amortized, rather they are assessed, at least annually, for impairment. The Company tests goodwill for impairment on an annual basis as of January 31, or more often if events or circumstances indicate there may be impairment. The Company has determined that all of its activities constitute one reporting and operating segment.

The Company performed the annual goodwill impairment test as of January 31, 2008, and determined that the fair value of the reporting unit was in excess of its carrying value, using the guideline company and guideline transaction methodologies. There was no indication of goodwill impairment as of the annual impairment test date.

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NOTE 5. SECURITIES

The following is a summary of securities at March 31, 2008 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 8,303	$	$ (123)	$ 8,180
Federal Home Loan Mortgage Corporation	4,077	19		4,096
Federal National Mortgage Association	6,748	107		6,855
Other	205	4		209
Total mortgage-backed securities	19,333	130	(123)	19,340
U.S. Government Agency Securities	1,473	52		1,525
Total available-for-sale	20,806	182	(123)	20,865
Held-to-Maturity:				
Mortgage-backed securities:				
Government National Mortgage Association	573	34		607
Federal Home Loan Mortgage Corporation	12,343	11	(230)	12,124
Federal National Mortgage Association	4,216	78	(32)	4,262
Total mortgage-backed securities	17,132	123	(262)	16,993
Other	175		(1)	174
Total held-to-maturity	17,307	123	(263)	17,167
Total securities	$ 38,113	$ 305	$ (386)	$ 38,032

The following is a summary of securities at March 31, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair-Value
Available-for-Sale:				
Mortgage-backed securities:				
Government National Mortgage Association	$ 13,637	$ 47	$ (65)	$ 13,619
Federal Home Loan Mortgage Corporation	1,116	12	(3)	1,125
Federal National Mortgage Association	5,905	30	(40)	5,895
Other	517	20		537
Total mortgage-backed securities	21,175	109	(108)	21,176
U.S. Government Agency Securities	26,417	387		26,804
Total available-for-sale	47,592	496	(108)	47,980
Held-to-Maturity:				

Mortgage-backed securities:				
Government National Mortgage Association	727	25		752
Federal Home Loan Mortgage Corporation	13,308	9	(166)	13,151
Federal National Mortgage Association	4,792	53	(50)	4,795
Other	120			120
Total mortgage-backed securities	18,947	87	(216)	18,818
Other	190		(3)	187
Total held-to-maturity	19,137	87	(219)	19,005
Total securities	$ 66,729	$ 583	$ (327)	$ 66,985

The following is a summary regarding securities and/or calls of available-for-sale portfolio at March 31, 2008 (in thousands):

	2008	2007	2006
Available-for-Sale:			
Proceeds	$ 22,428	$ 14,422	$ 12,197
Gross gains	431	22	
Gross losses		646	

The net unrealized gain on available-for-sale securities was $0.1 million ($36,000 after taxes) at March 31, 2008 and net unrealized gain of $0.4 million ($0.2 million after taxes) at March 31, 2007. 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 $0.5 million 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, 2008 the carrying value of these securities was $8.8 million and a related net unrealized gain of $0.1 million continues to be reported. There was a loss of $0.6 million resulting from the sale of available-for-sale securities in fiscal 2007. At March 31, 2008 the Bank pledged securities of $9.7 million as collateral for advances from the FHLB-NY.

The following is a summary of the carrying value (amortized cost) and fair value of securities at March 31, 2008, 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. The table below does not consider the effects of possible prepayments or unscheduled repayments.

	Amortized Cost	Fair Value	Weighted Avg Rate
Available-for-Sale:			
Less than one year	$ 42	$ 43	5.44%
One through five years	181	188	5.31%
Five through ten years	6,706	6,264	5.42%
After ten years	14,280	14,370	5.02%
	$ 21,209	$ 20,865	5.13%
Held-to-maturity:			
One through five years	$ 11	$ 11	5.15%
Five through ten years	493	486	5.00%
After ten years	16,803	16,670	5.78%
	$ 17,307	$ 17,167	5.76%

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The unrealized losses and fair value of securities in an unrealized loss position at March 31, 2008 for less than 12 months and 12 months or longer were as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-Sale:						
Mortgage-backed securities	$ (33)	$ 3,857	$ (90)	$ 4,033	$ (123)	$ 7,890
Total available-for-sale	(33)	3,857	(90)	4,033	(123)	7,890
Held-to-Maturity:						
Mortgage-backed securities	(7)	451	(255)	13,800	(262)	14,251
U.S. Government Agency Securities			(1)	174	(1)	174
Total held-to-maturity	(7)	451	(256)	13,974	(263)	14,425
Total securities	$ (40)	$ 4,308	$ (346)	$ 18,007	$ (386)	$ 22,315

The unrealized losses and fair value of securities in an unrealized loss position at March 31, 2007 were as follows (in thousands):

	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	(108)	9,498			(108)	9,498
Total available-for-sale	(108)	9,498			(108)	9,498
Held-to-Maturity:						
Mortgage-backed securities	(216)	15,241			(216)	15,241
U.S. Government Agency Securities	(3)	187			(3)	187
Total Held-to- Maturity	(219)	15,428			(219)	15,428
Total securities	(327)	24,926			(327)	24,926

A total of 29 securities had an unrealized loss at March 31, 2008 compared to 24 at March 31, 2007. Based on estimated fair value, all the securities in an unrealized loss position were United States government agency-backed securities, which represents 32.4% and 20.3% of total securities at March 31, 2008 and 2007, respectively. The cause of the temporary impairment is directly related to the change in interest rates. In general, as interest rates decline, the fair value of securities will rise, and conversely as interest rates rise, the fair value of securities will decline. 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 rise in fair value to movements in interest rates, the life of the investments and their high credit quality.

NOTE 6. LOANS RECEIVABLE, NET

The following is a summary of loans receivable, net of allowance for loan losses at March 31 (dollars in thousands):

	2008		2007	
	Amount	Percent	Amount	Percent
Gross loans receivable:				
One- to four-family	$ 103,419	16.33%	$ 100,910	17.22%
Multifamily	78,657	12.42%	91,877	15.68%
Non-residential	238,508	37.66%	203,187	34.68%
Construction	158,877	25.09%	137,697	23.50%
Business	51,424	8.23%	51,226	8.74%
Consumer and other [1]	1,728	0.27%	1,067	0.18%
Total loans receivable	633,298	100.00%	585,964	100.00%
Add:				
Premium on loans	725		990	
Less:				
Deferred fees and loan discounts	(1,229)		(994)	
Allowance for loan losses	(4,878)		(5,409)	
Total loans receivable, net	$ 627,231		$ 580,551	

(1) Includes personal, credit card, and home improvement.

At March 31, 2008 and 2007, 89.3% and 89.9%, respectively, of the Bank s real estate loans receivable was principally secured by properties located in New York City.

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 $52.0 million, $38.8 million and $33.2 million at March 31, 2008, 2007, and 2006, respectively. Custodial escrow balances, maintained in connection with the above-mentioned loan servicing, were approximately $0.2 million, $0.1 million and $0.1 million at March 31, 2008, 2007 and 2006, respectively. During the years ended March 31, 2008, 2007 and 2006, the Bank recognized gains on the sale of loans of $0.3 million, $0.2 million and $0.4 million, respectively.

At March 31, 2008 the Bank pledged $187.9 million in total mortgage loans as collateral for advances from the FHLB-NY.

The following is an analysis of the allowance for loan losses for the years ended March 31 (in thousands):

	2008	2007	2006
Balance at beginning of the year	$ 5,409	$ 4,015	$ 4,097
Provision charged to operations	222	276	
Recoveries of amounts previously charged-off	153	47	35
Charge-offs of loans	(906)	(120)	(117)
Acquisition of CCB		1,191	

Balance at end of the year	$	4,878	$	5,409	$	4,015

Non-accrual loans consist of loans for which the accrual of interest has been discontinued 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, 2008, 2007 and 2006, the recorded investment in impaired loans was $2.9 million, $4.5 million and $2.8 million, respectively, all of which represented non-accrual loans. The related allowance for loan losses for these impaired loans was approximately $0.3 million, $0.8 million and $0.3 million at March 31, 2008, 2007 and 2006, respectively. The impaired loan portfolio is primarily collateral dependent. The average recorded investment in impaired loans during the fiscal years ended March 31, 2008, 2007 and 2006 was approximately $4.7 million, $3.6 million and $2.2 million, respectively. For the fiscal years ended March 31, 2008, 2007 and 2006, the Company did not recognize any interest income on these impaired loans. Interest income of $0.6 million, $0.3 million, and $0.1 million, for the fiscal years ended March 31, 2008, 2007 and 2006, respectively, would have been recorded on impaired loans had they performed in accordance with their original terms.

At March 31, 2008, other non-performing assets totaled $4.0 million which consists of non-performing loans of $2.9 million and other real estate owned of $1.2 million. Other non-performing loans of $2.9 million consist of 18 small business and SBA loans, two multi-family loans and two 1-4 family loans. All are relatively small balance loans. Other real estate owned of $1.2 million reflects four foreclosed properties.

At March 31, 2008 and 2007, there were no loans to officers or directors of the Company.

NOTE 7. OFFICE PROPERTIES AND EQUIPMENT, NET

The detail of office properties and equipment as of March 31 is as follows (in thousands):

	2008	**2007**
Land	$ 415	$ 415
Building and improvements	9,874	9,834
Leasehold improvements	6,041	5,262
Furniture and equipment	12,079	10,039
	28,409	25,550
Less accumulated depreciation and amortization	(12,629)	(10,924)
Office properties and equipment, net	$ 15,780	$ 14,626

Depreciation and amortization charged to operations for the fiscal years ended March 31, 2008, 2007 and 2006 amounted to $1.7 million, $1.6 million and $1.5 million, respectively.

NOTE 8. ACCRUED INTEREST RECEIVABLE

The detail of accrued interest receivable as of March 31 is as follows (in thousands):

	2008	**2007**
Loans receivable	$ 3,751	$ 3,689
Mortgage-backed securities	273	590
Investments and other interest bearing assets	39	56
Total accrued interest receivable	$ 4,063	$ 4,335

NOTE 9. DEPOSITS

Deposit balances and weighted average stated interest rates as of March 31 are as follows (dollars in thousands):

	2008			2007		
	Amount	Percent of Total Deposits	Weighted Average Rate	Amount	Percent of Total Deposits	Weighted Average Rate
Non-interest-bearing demand	$ 51,736	7.90%	0.00%	$ 50,891	8.27%	0.00%
NOW accounts	28,168	4.30%	0.20%	28,910	4.70%	0.31%
Savings and club	125,819	19.22%	0.53%	137,960	22.43%	0.78%
Money market savings account	45,514	6.95%	2.94%	46,996	7.64%	2.18%
Certificates of deposit	400,587	61.20%	4.10%	347,753	56.53%	4.28%
Other	2,839	0.43%	1.51%	2,612	0.43%	1.39%
Total	$ 654,663	100.00%	2.83%	$ 615,122	100.00%	2.78%

Scheduled maturities of certificates of deposit are as follows for the year ended March 31, 2008 (in thousands):

	Period to Maturity					
Rate	< 1 Yr.	1-2 Yrs.	2-3 Yrs.	3+ Yrs.	Total 2007	Percent of Total
0% 0.99%	$ 2,993	$ 389	$ 48	$ 231	$ 3,661	0.91%
1% 1.99%	27,640				27,640	6.90%
2% 3.99%	98,003	9,577	4,202	1,743	113,525	28.34%
4% and over	231,542	9,054	3,995	11,170	255,761	63.85%
Total	$ 360,178	$ 19,020	$ 8,245	$ 13,144	$ 400,587	100.00%

The aggregate amount of certificates of deposit with minimum denominations of $100,000 or more was approximately $229.7 million at March 31, 2008 compared to $217.4 million at March 31, 2007. As of March 31, 2008 the Bank had pledged $1.3 million of investment securities as collateral for certain large deposits.

Interest expense on deposits is as follows for the years ended March 31 (in thousands):

	2008	2007	2006
NOW demand	$ 138	$ 98	$ 74
Savings and clubs	1,004	931	919
Money market savings	1,193	1,133	601
Certificates of deposit	16,522	13,079	7,321
Mortgagors deposits	42	30	30
	18,899	15,271	8,945
Penalty for early withdrawal of certificates of deposit	(33)	(44)	(24)
Total interest expense	$ 18,866	$ 15,227	$ 8,921

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NOTE 10. BORROWED MONEY

Federal Home Loan Bank Advances and Repurchase agreements. FHLB-NY advances and repurchase agreements weighted average interest rates by remaining period to maturity at March 31 are as follows (dollars in thousands):

Maturing Year Ended March 31,	2008 Weighted Average Rate	2008 Amount	2007 Weighted Average Rate	2007 Amount
2008	0.00%	$	4.58%	$ 32,500
2009	3.77%	$ 15,107	3.78%	15,107
2012	4.63%	30,143	3.50%	168
	4.34%	$ 45,250	4.32%	$ 47,775

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 $199.0 million at March 31, 2008. 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, 2008, advances were secured by pledges of the Bank s investment in the capital stock of the FHLB-NY totaling $1.6 million and a blanket assignment of the Bank s unpledged qualifying mortgage loans of $187.9 million and mortgage-backed and investment securities of $9.7 million. The Bank has sufficient collateral at the FHLB-NY to be able to borrow an additional $29.4 million from the FHLB-NY at March 31, 2008.

Repurchase agreements. Repurchase agreements (REPO) are contracts for the sale of securities owned or borrowed by the Bank with an agreement to repurchase those securities at an agreed-upon price and date. The Banks repurchase agreements are primarily collateralized by $30.0 million obligations and other mortgage-related securities, and are entered into with either the Federal Home Loan Bank of New York (the FHLB-NY) or selected brokerage firms. Repurchase agreements totaled $30.0 million at March 31, 2008. At March 31, 2008, the accrued interest on repurchase agreements amounted to $0.2 million and the interest expense was $1.1 million for the year ended March 31, 2008. The Bank had no repurchase agreements at March 31, 2007 and no related interest expense for fiscal 2007.

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 of $13.0 million, and proceeds from the sale of the trust s common securities of $0.4 million, 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 at par quarterly at the option of the Company beginning on or after September 17, 2008 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.

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The following table sets forth certain information regarding Carver Federal s borrowings as of and for the years ended March 31 (dollars in thousands):

	2008	2007	2006
Amounts outstanding at the end of year:			
FHLB advances	$ 15,250	$ 47,775	$ 80,935
Guaranteed preferred beneficial interest in junior subordinated debentures	$ 13,375	$ 13,318	$ 13,260
Rate paid at year end:			
FHLB advances	3.77%	4.32%	4.13%
Guaranteed preferred beneficial interest in junior subordinated debentures	5.85%	8.40%	7.97%
Maximum amount of borrowing outstanding at any month end:			
FHLB advances	$ 60,874	$ 93,975	$ 112,488
Guaranteed preferred beneficial interest in junior subordinated debentures	$ 13,375	$ 13,318	$ 13,260
Approximate average amounts outstanding for year:			
FHLB advances	$ 36,724	$ 65,567	$ 94,798
Guaranteed preferred beneficial interest in junior subordinated debentures	$ 13,344	$ 13,286	$ 13,230
Approximate weighted average rate paid during year:			
FHLB advances	5.18%	4.36%	3.81%
Guaranteed preferred beneficial interest in junior subordinated debentures	7.76%	8.33%	7.50%

NOTE 11. INCOME TAXES

The components of income tax (benefit) expense for the years ended March 31 are as follow (in thousands):

	2008	2007 (Restated)	2006
Federal income tax expense (benefit):			
Current	$ 70	**$ 1,628**	$ 1,155
Deferred	(1,107)	(3,018)	35
	(1,037)	**(1,390)**	1,190
State and local income tax expense:			
Current	169	**296**	196
Deferred	(24)	(5)	(57)
	145	**291**	139
Total provision for income tax (benefit) expense	$ (892)	**$ (1,099)**	$ 1,329

The following is a reconciliation of the expected Federal income tax rate to the consolidated effective tax rate for the years ended March 31 (dollars in thousands):

	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Restated)			
Statutory Federal income tax	$ 1,094	34.0%	**$ 339**	**34.0%**	$ 1,734	34.0%
State and local income taxes, net of Federal tax benefit	86	2.7%	**187**	**11.6%**	92	1.8%
New markets tax credit	(2,000)	-61.6%	**(1,475)**	**-83.8%**		
General business credit	(41)	-1.3%	**(69)**	**-3.9%**	(73)	-1.5%
Release of contingency reserve					(500)	-9.8%
Other	(31)	-1.0%	**(81)**	**-4.6%**	76	1.5%
Total income tax (benefit) expense	$ (892)	-27.2%	**$ (1,099)**	**-46.7%**	$ 1,329	26.0%

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Carver Federal s stockholders equity includes approximately $2.8 million at the end of each year ended March 31, 2008, 2007 and 2006, 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 are included in other assets at March 31 are as follows (in thousands):

	2008	2007
Deferred Tax Assets:		
Income from affiliate	$	$ 1,876
Allowance for loan losses	1,427	1,839
Deferred loan fees	461	371
Compensation and benefits	102	109
Non-accrual loan interest	579	587
Capital loss carryforward	591	591
Deferred rent	111	111
Purchase accounting adjustment	159	702
Net operating loss carry forward	2,072	
New markets tax credit	3,227	1,242
Depreciation	330	
Other	28	2
Total Deferred Tax Assets	9,087	7,430
Deferred Tax Liabilities:		
Depreciation		128
Income from affiliate	690	
Minimum pension liability	170	50
Unrealized gain on available-for-sale securities	92	228
Total Deferred Tax Liabilities	952	406
Net Deferred Tax Assets	$ 8,135	$ 7,024

In June 2006, Carver Federal was selected by the U.S. Department of Treasury to receive an award of $59 million in New Markets Tax Credits. The NMTC award is used to stimulate economic development in low- to moderate-income communities. The NMTC award enables the Bank to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates, which may have the effect of attracting capital to underserved communities and facilitating the revitalization of the community, pursuant to the goals of the NMTC program. The NMTC award provides a credit to Carver Federal against Federal income taxes when the Bank makes qualified investments. The credits are allocated over seven years from the time of the qualified investment. Recognition of the Bank s NMTC award began in December 2006 when the Bank invested $29.5 million, one-half of its $59 million award. In December 2007, the Bank invested an additional $10.5 million and transferred rights to $19.0 million of its $59 million NMTC award to an investor pursuant to its investment in a NMTC project. The Bank s NMTC allocation has been fully invested as of December 31, 2007. During the seven year period, assuming the Bank meets compliance requirements, the Bank will receive 39% of the $40.0 million invested award amount (5% over each of the first three years, and 6% over each of the next four years). The Company expects to

receive additional NMTC tax benefits of approximately $12.1 million from its $40.0 million investment over approximately six years.
A valuation allowance against the deferred tax asset at March 31, 2008 and 2007 was not required since it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset.
The Company has no uncertain tax positions. The Company and its subsidiaries are subject to U.S. federal, New York State and New York City income taxation. The Company is no longer subject to examination by taxing authorities for years before March 31, 2005. CCB, a subsidiary of the Holding Company, which was purchased in 2006, is currently subject to a New York State examination by the taxing authorities for tax years 2003 and 2004.

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), as of April 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. FIN 48 had no affect on the Company s financial statements.

NOTE 12. 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 years ended March 31 (in thousands):

	2008	2007 (Restated)	2006
Net income basic and diluted	$ 3,963	**$ 2,098**	$ 3,770
Weighted average common shares outstanding basic	2,492	2,511	2,506
Effect of dilutive options	50	57	59
Effect of dilutive MRP shares	19	18	27
Weighted average common shares outstanding diluted	2,561	2,586	2,592

NOTE 13. 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 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.

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 (FDICIA), as amended, stipulates that an institution with less than 4.0% core capital is deemed undercapitalized. At March 31, 2008 and 2007, the Bank exceeded all of its regulatory capital requirements.

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The following is a summary of the Bank s actual capital amounts as of March 31, 2008 compared to the OTS requirements for minimum capital adequacy and for classification as a well-capitalized institution (in thousands):

	GAAP Capital	Tangible Equity	Leverage Capital	Risk-Based Capital
Stockholders Equity at March 31, 2008[1] (As restated)	**$ 68,184**	**$ 68,184**	**$ 68,184**	**$ 68,184**
Add:				
General valuation allowances				4,878
Deduct:				
Unrealized gains on securities available-for-sale, net		(151)	(151)	(151)
Goodwill and qualifying intangible assets, net		(7,587)	(7,587)	(7,587)
Other		(33)	(33)	(33)
Regulatory Capital		60,413	60,413	65,291
Minimum Capital requirement		11,852	23,709	51,673
Regulatory Capital Excess		$ 48,561	$ 36,704	$ 13,618

(1) Carver Federal 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 2008, 2007 and 2006 in the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income. Carver Federal s accumulated other comprehensive income or loss included net unrealized losses on securities at March 31, 2008 and 2007 was $0.2 million and $0.4 million, respectively. Included in the amounts at March 31, 2006 were unrealized gains of $0.2 million 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 at March 31, 2008 and 2007 was gains on the Bank s pension plan liabilities of $0.3 million and $0.1 million, net of taxes, respectively. At March 31, 2006, there was a loss on the Bank s employee pension plan liability of $0.3 million, net of taxes, included in accumulated other comprehensive loss.

NOTE 14. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

Pension Plan. Carver Federal has a non-contributory defined benefit pension plan covering all who were participants prior to curtailment of the plan. The benefits are based on each employee s term of service through the date of curtailment. 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.

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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 (in thousands):

	2008	2007
Change in projected benefit obligation during the year:		
Projected benefit obligation at the beginning of year	$ 2,887	$ 2,892
Interest cost	163	159
Actuarial (gain) loss	(308)	55
Benefits paid	(170)	(219)
Settlements	(173)	
Projected benefit obligation at end of year	$ 2,399	$ 2,887
Change in fair value of plan assets during the year:		
Fair value of plan assets at beginning of year	$ 2,877	$ 2,870
Actual return on plan assets	232	226
Benefits paid	(170)	(219)
Settlements	(173)	
Fair value of plan assets at end of year	$ 2,766	$ 2,877
Funded status	$ 367	$ (10)
Unrecognized loss		
Accrued pension cost	$ 367	$ (10)

Net periodic pension benefit includes the following components for the years ended March 31 (in thousands):

	2008	2007	2006
Interest cost	$ 163	$ 159	$ 163
Expected return on plan assets	(221)	(220)	(227)
Net periodic pension (benefit)	$ (58)	$ (61)	$ (64)

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

	YEAR ENDED MARCH 31,		
	2008	2007	2006
Annual salary increase (1)			
Expected long-term return on assets	8.00%	8.00%	8.00%
Discount rate used in measurement of benefit obligations	6.50%	5.88%	5.75%

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

plan is frozen
and no new
benefits accrue.

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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 through the date of curtailment. 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 (in thousands):

	2008	2007
Change in projected benefit obligation during the year:		
Projected benefit obligation at beginning of year	$ 36	$ 102
Interest cost	2	5
Actuarial gain		(50)
Benefits paid	(13)	(21)
Projected benefit obligation at end of year	$ 25	$ 36
Change in fair value of plan assets during the year:		
Fair value of plan assets at beginning of year	$	$
Employer contributions	13	21
Benefits paid	(13)	(21)
Fair value of plan assets at end of year	$	$
Funded status	$ (25)	$ (36)
Unrecognized (gain)		
Accrued pension cost	$ (25)	$ (36)

Savings Incentive Plan. Carver has a savings incentive plan, pursuant to Section 401(k) of the Code, for all eligible employees of the Bank. The Bank matches contributions to the 401(k) 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 are fully vested and non-forfeitable at all times regardless of the years of service with the Bank. Under the profit-sharing feature, if the Bank achieves a minimum of 70% of its net income goal as mentioned previously, the Compensation Committee may authorize 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 contribution may be made regardless of whether the employee makes a contribution to the 401(k) Plan. Non-elective Bank contributions, if awarded, vest 20% each year for the first five years of employment and are fully vested thereafter. To be eligible for the matching contribution, the employee must be 21 years of age and have completed at least one year of service. To be eligible for the non-elective Carver contribution, the employee must also be employed as of the last day of the plan year. Total savings incentive plan expenses for the years ended March 31, 2008, 2007 and 2006 were $0.1 million, $0.2 million and $0.2 million, 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, 2008 the Consolidated Statement of Conditions reflects a net cash surrender value of $9.1 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 provided for grants of restricted stock to certain employees at 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 but the Compensation Committee may accelerate vesting at any time. 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. There are no shares available to grant under the MRP. Pursuant to the MRP, the Bank recognized $155,000, $118,000 and $134,000 as expense for the years ended March 31, 2008, 2007and 2006, respectively.

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Employee Stock Ownership Plan. Effective upon conversion, an ESOP was established for all eligible employees. The ESOP used $1,821,000 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. Each year until the loan paid off in June of 2004, the Bank made discretionary contributions to the ESOP, which was 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. In May 2006, Carver amended the ESOP so that no new participants are eligible to enter after December 31, 2006 and the Compensation Committee voted to cease discretionary contributions after the 2006 allocation. ESOP compensation expense was $0.1 million, $0.1 million and $0.2 million for the years ended March 31, 2008, 2007 and 2006, respectively.

The ESOP shares at March 31 are as follows (in thousands):

	2008	2007
Allocated shares	69	73
Unallocated shares		
Total ESOP shares	69	73
Fair value of unallocated shares	$ 3	$ 10

Stock Option Plans. 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 was 338,862. The 1995 plan expired by its term and no new options may be granted under it, however, stock options granted under the 1995 Plan continue in accordance with their terms. At March 31, 2008, there were 237,182 options outstanding and 198,088 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 1995 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, but the Committee may accelerate vesting at any time. All options are exercisable immediately upon a participant s disability, death or a change in control, as defined in the Plan.

In September 2006, Carver stockholders approved the 2006 Stock Incentive Plan which provides for the grant of stock options, stock appreciation rights and restricted stock to employees and directors who are selected to receive awards by the Committee. The 2006 Incentive Plan authorizes Carver to grant awards with respect to 300,000 shares, but no more than 150,000 shares of restricted stock may be granted. Options are granted at a price not less than fair market value of Carver Federal common stock at the time of the grant for a period not to exceed 10 years. Shares generally vest in 20% increments over 5 years, however, the Committee may specify a different vesting schedule. At March 31, 2008, there were 32,447 options outstanding under the 2006 Incentive Plan and none were exercisable. All options are exercisable immediately upon a participant s disability, death or a change in control, as defined in the Plan, if the person is employed on that date.

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

	2008		2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	240,087	$ 13.24	238,061	$ 12.90	225,292	$ 12.37
Granted	15,978	16.93	21,019	16.50	35,277	16.98
Exercised	(3,475)	11.58	(11,776)	9.57	(9,903)	9.57
Forfeited	(15,408)	17.72	(7,217)	17.44	(12,605)	17.44
Outstanding, end of year	237,182	$ 13.22	240,087	$ 13.24	238,061	$ 12.90
Exercisable, at year end	198,088		192,110		144,836	

Information regarding stock options as of and for the year ended March 31, 2008 is as follows:

Range of Exercise Prices		Options Outstanding			Options Exercisable	
		Shares	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 8.00	$ 8.99	60,000	2 years	$ 8.17	60,000	$ 8.17
9.00	9.99	32,000	3 years	9.93	32,000	9.93
10.00	10.99	2,000	2 years	10.38	2,000	10.38
12.00	12.99	37,400	4 years	12.10	37,400	12.10
16.00	16.99	54,721	7 years	16.59	38,252	16.59
17.00	17.99	29,033	6 years	17.18	6,408	17.18
19.00	19.99	20,918	6 years	19.66	20,918	19.66
20.00	20.99	729	7 years	20.00	729	20.00
21.00	21.99	381	6 years	21.76	381	21.76
Total		237,182			198,088	

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 for the years ended March 31:

	2008	2007	2006
Risk-free interest rate	4.3%	4.5%	3.5%
Volatility	31.2%	19.0%	35.0%
Annual dividends	$ 0.29	$ 0.32	$ 0.28
Expected life of option grants	7 yrs	7 yrs	7 yrs

Under the provisions of SFAS No. 123R, the Company recorded compensation expense of $0.3 million during the year ended March 31, 2008. As of March 31, 2008, the total remaining unrecognized compensation cost related to stock options granted under the Company s plan was $0.1 million, which is expected to be recognized over a weighted-average vesting period of 1.3 years.

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Performance Compensation Plan. In 2006, Carver adopted the Performance Compensation Plan of Carver Bancorp, Inc. This plan provides for cash payments to officers or employees designated by the Compensation Committee, which also determines the amount awarded to such participants. Vesting is generally 20% a year over 5 years and awards are fully vested on a change in control (as defined), or termination of employment by death or disability, but the Committee may accelerate vesting at any time. Payments are made as soon as practicable after the end of the fiscal year in which amounts vest. In fiscal year 2007, the Company granted its first awards under the new Plan. The total fair value of options granted was $0.4 million. The amount of compensation expense recognized in fiscal year 2008 was $0.1 million.

NOTE 14. 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 had outstanding commitments at March 31 as follows (in thousands):

	2008	**2007**
Commitments to originate mortgage loans	$ 81,754	$ 107,115
Commitments to originate commercial and consumer loans	4,236	214
Lines of credit	24,518	300
Letters of credit	4,518	
Total	$ 115,026	$ 107,629

At March 31, 2008, of the $115.0 million in outstanding commitments to originate loans, $74.9 million represented construction loans at a weighted average rate of 6.44%, $37.3 million represented commitments to originate non-residential mortgage loans at a weighted average rate of 6.03% and $2.8 million represented one- to four-family residential loans at a weighted average rate of 6.24%.

The balance of commitments on commercial and consumer loans at March 31, 2008 is primarily undisbursed funds from approved unsecured commercial lines of credit. All such lines carry adjustable rates mainly tied to prime.

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 under long term operating leases for certain branches aggregated approximately $1.4 million, $0.9 million and $0.7 million for the years ended March 31, 2008, 2007 and 2006, respectively. As of March 31, 2008, minimum rental commitments under all noncancellable leases with initial or remaining terms of more than one year and expiring through 2018 follow (in thousands):

Year Ending March 31,	**Minimum Rental**
2009	$ 1,517
2010	1,556
2011	1,458
2012	1,137
2013	1,125
Thereafter	4,663
	$ 11,456

The Bank also has, in the normal course of business, commitments for services and supplies.

Legal Proceedings. From time to time, Carver Federal is a party to various legal proceedings incidental 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, 2008, 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 16. 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 instruments 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 such category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate their recorded carrying value. 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 and loan held-for-sale

The fair value of loans receivable and held-for-sale 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 determined by discounting the present value of estimated future servicing cash flows using current market assumptions for prepayments, servicing costs and other factors.

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 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, 2008 approximates the fees received. The fair value is not considered material.

The carrying amounts and estimated fair values of the Bank s financial instruments at March 31 are as follows (in thousands):

	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 27,368	$ 27,368	$ 17,350	$ 17,350
Investment securities available-for-sale	1,735	1,525	26,804	26,804
Mortgage backed securities available-for-sale	19,130	19,340	21,176	21,176
Mortgage backed securities held-to-maturity	17,307	17,167	19,137	19,005
Loans receivable	627,231	644,702	580,551	580,854
Loans held-for-sale	23,767	24,084	23,226	23,226
Accrued interest receivable	4,063	4,063	4,335	4,335
Mortgage servicing rights	605	605	388	467
Financial Liabilities:				
Deposits	$ 654,663	$ 660,813	$ 615,122	$ 614,199
Advances from FHLB of New York	15,249	15,191	47,775	47,307
Other borrowed money	43,375	44,984	13,318	13,318

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. 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.

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NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of unaudited quarterly financial data for fiscal years ended March 31, 2008 and 2007 (in thousands, except per share data):

	June 30	September 30	December 30	March 31
Fiscal 2008				
Interest income	$ 11,968	$ 12,088	$ 12,309	$ 11,767
Interest expense	(5,315)	(5,625)	(5,992)	(5,724)
Net interest income	6,653	6,463	6,317	6,043
Provision for loan losses			(222)	
Non-interest income	1,137	1,453	3,178	2,093
Non-interest expense	(6,504)	(7,196)	(7,963)	(8,235)
Income tax benefit (expense)	(143)	44	268	723
Minority interest, net of taxes				(146)
Net income	$ 1,143	$ 764	$ 1,578	$ 478
Earnings per common share				.
Basic	$ 0.46	$ 0.31	$ 0.63	$ 0.19
Diluted	$ 0.44	$ 0.30	$ 0.62	$ 0.19
Fiscal 2007 (As Previously Reported)				
Interest income	$ 9,120	$ 9,380	$ 11,770	$ 11,470
Interest expense	(4,085)	(4,169)	(5,643)	(5,337)
Net interest income	5,035	5,211	6,127	6,133
Provision for loan losses			(120)	(156)
Non-interest income	945	(337)	966	1,295
Non-interest expense	(4,733)	(6,242)	(5,884)	(6,479)
Income tax benefit (expense)	(445)	464	311	493
Net income (loss)	$ 802	$ (904)	$ 1,400	$ 1,286
Earnings (loss) per common share				
Basic	$ 0.32	$ (0.36)	$ 0.56	$ 0.51
Diluted	$ 0.31	$ (0.36)	$ 0.54	$ 0.50
Fiscal 2007 (Restated)				
Interest income	$ 9,120	$ 9,380	$ 11,770	$ 11,470
Interest expense	(4,085)	(4,169)	(5,643)	(5,337)
Net interest income	5,035	5,211	6,127	6,133
Provision for loan losses			(120)	(156)
Non-interest income	945	(337)	966	1,295
Non-interest expense	(4,861)	(6,305)	(6,001)	(6,933)
Income tax benefit (expense)	(399)	487	354	657

Net income (loss)	$ 720	$ (944)	$ 1,326	$ 996
Earnings (loss) per common share				
Basic	$ 0.29	$ (0.38)	$ 0.53	$ 0.40
Diluted	$ 0.28	$ (0.38)	$ 0.52	$ 0.39

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NOTE 18. CARVER BANCORP, INC. PARENT COMPANY ONLY
CONDENSED STATEMENTS OF FINANCIAL CONDITION (in thousands):

	As of March 31,			
	2008	**2008**	**2007**	**2007**
	(As Previously Reported)	**(Restated)**	(As Previously Reported)	**(Restated)**
Assets				
Cash on deposit with subsidiaries	$ 384	**$ 384**	$ 399	**$ 399**
Investment in subsidiaries	69,401	**68,916**	64,996	**64,511**
Other assets	32	**32**	16	**16**
Total Assets	$ 69,817	**$ 69,332**	$ 65,411	**$ 64,926**
Liabilities and Stockholders Equity				
Borrowings	$ 13,376	**$ 13,376**	$ 13,318	**$ 13,318**
Accounts payable to subsidiaries	1,945	**1,945**	291	**291**
Other liabilities	113	**113**	175	**175**
Total liabilities	$ 15,434	**$ 15,434**	$ 13,784	**$ 13,784**
Stockholders equity	54,383	**53,898**	51,627	**51,142**
Total Liabilities and Stockholders Equity	$ 69,817	**$ 69,332**	$ 65,411	**$ 64,926**

CONDENSED STATEMENTS OF INCOME (in thousands):

	Years Ended March 31,			
	2008	**2007**	**2007**	**2006**
		(As Previously Reported)	**(Restated)**	
Income				
Equity in net income from subsidiaries	$ 5,089	$ 3,551	**$ 2,790**	$ 6,758
Interest income from deposit with subsidiaries				5
Other income	34	34	**34**	22
Total income	5,123	3,585	**2,824**	6,785
Expenses				
Interest Expense on Borrowings	1,185	1,196	**1,196**	985
Salaries and employee benefits	157	180	**180**	287
Shareholder expense	664	439	**439**	407
Other	46	10	**10**	7
Total expense	2,052	1,825	**1,825**	1,686

Income before income taxes		3,071		1,760		**999**		5,099
Income tax (benefit) expense		(892)		(823)		**(1,099)**		1,329
Net Income	$	3,963	$	2,583	**$**	**2,098**	$	3,770

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CONDENSED STATEMENTS OF CASH FLOWS (in thousands):

	Years Ended March 31,			
	2008	2007 (As Previously Reported)	2007 (Restated)	2006
Cash Flows From Operating Activities				
Net income	$ 3,963	$ 2,583	$ 2,098	$ 3,770
Adjustments to reconcile net income to net cash from operating activities:				
Equity in net income of Subsidiaries	(5,224)	(3,551)	(2,790)	(6,758)
Income taxes from the Bank	(881)	(823)	(1,099)	1,329
Increase in other assets	(27)			
Increase (decrease) in accounts payable to subsidiaries	1,654	225	225	(443)
(Decrease) increase in other liabilities	(34)	(83)	(83)	40
Other, net	140	(13)	(13)	299
Net cash used in operating activities	(409)	(1,662)	(1,662)	(1,763)
Cash Flows From Investing Activities				
Dividends Received from Bank	1,700	3,201	3,201	850
Proceeds from sale of investment securities				1,575
Net cash from investing activities	1,700	3,201	3,201	2,425
Cash Flows From Financing Activities				
Purchase of treasury stock, net	(331)	(321)	(321)	(115)
Dividends paid	(975)	(878)	(878)	(777)
Net cash used in financing activities	(1,306)	(1,199)	(1,199)	(892)
Net increase (decrease) in cash	(15)	340	340	(230)
Cash and cash equivalents beginning	399	59	59	289
Cash and cash equivalents ending	$ 384	$ 399	$ 399	$ 59

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NOTE 19. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* . This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities , and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets . SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 had no material impact on the Company s financial position or its results of operations for fiscal 2008.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140* (SFAS No. 156), which amends SFAS No. 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. SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortization or fair value measurement method for subsequent measurements. The Company determines the fair value of its mortgage servicing rights on the basis of a third party market valuation of the Company s servicing portfolio stratified by predominant risk characteristics loan type and coupon. The valuation of the Company s mortgage servicing rights utilizes market derived assumptions for discount rates, servicing costs, escrow earnings rate, and prepayments. The Company, upon adoption of SFAS No. 156 as of April 1, 2007, recorded a cumulative effect adjustment of $49,000 to retained earnings (net of tax) as of the beginning of fiscal 2008 for the difference between the mortgage servicing rights fair value and its carrying amount as reflected in the consolidated statement of changes in stockholders equity. At March 31, 2008, the fair value of mortgage servicing rights totaled $0.6 million.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). The Statement establishes a single definition of fair value, sets up a framework for measuring it, and requires additional disclosures about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement by establishing a three level fair value hierarchy that ranks the quality and reliability of inputs used in valuation models, i.e., the lower the level, the more reliable the input. The hierarchy provides the basis for the Statement s new disclosure requirements which are dependent upon the frequency of an item s measurement (recurring versus nonrecurring). SFAS No. 157 is effective for fair-value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Its provisions will generally be applied prospectively. The adoption of SFAS No. 157 had no material impact on the Company s financial position or its results of operations for fiscal 2008.

The Fair Value Option for Financial Assets and Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statements No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Carver is currently assessing the impact of this pronouncement.

As outlined in SFAS No.142 the Goodwill impairment analysis involves a two-step test. The first step, used to identify potential impairment, involves comparing the fair value of the reporting unit to its carrying value including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill for the reporting unit, in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of reporting unit goodwill, there is no impairment. If the carrying value of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment charge is recorded in earnings for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies Statement 109 by establishing a criterion that an individual tax position would have to meet in order for some or all of the associated benefit to be recognized in an entity s financial statements. The Interpretation applies to all tax positions within the scope of Statement 109. In applying FIN 48, an entity is required to evaluate each individual tax position using a two step-process. First, the entity should determine whether the tax position is recognizable in its financial statements by assessing whether it is more-likely-than-not that the position would be sustained by the taxing authority on examination. The term more-likely-than-not means a likelihood of more than 50 percent. Second, the entity should measure the amount of benefit to recognize in its financial statements by determining the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. Each tax position must be re-evaluated at the end of each reporting period to determine whether recognition or derecognition is warranted. The liability resulting from the difference between the tax return position and the amount recognized and measured under FIN 48 should be classified as current or non-current depending on the anticipated timing of settlement. An entity should also accrue interest and penalties on unrecognized tax benefits in a manner consistent with the tax law. The Company s Federal, New York State and City tax filings for years 2003 through the present are subject to examination.

FIN 48 requires significant new annual disclosures in the notes to an entity s financial statements that include a tabular roll-forward of the beginning to ending balances of an entity s unrecognized tax benefits. The Interpretation is effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying FIN 48 should be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted. The adoption and evaluation under FAS 109 and FIN 48 had no material impact on the Company s financial position or its results of operations for fiscal 2008.

Accounting for Purchases of Life Insurance

In September 2006, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4* (FTB No. 85-4), *Accounting for Purchases of Life Insurance* (EITF No. 06-5). EITF No. 06-5 explains how to determine the amount that could be realized from a life insurance contract, which is the measurement amount for the asset in accordance with FTB No. 85-4. EITF No. 06-5 would require all amounts that would ultimately be realized by a policyholder upon the assumed surrender of a final policy to be included in the amount that could be realized under the insurance contract. Thus, contractual provisions that limit the amount that could be realized in specified circumstances would be considered if it is probable that those circumstances would occur. The consensus on EITF No. 06-5 is effective for fiscal years beginning after December 15, 2006 and would be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of EITF No. 06-5 had no material impact on the Company s financial position or its results of operations for fiscal 2008.

Prior Year Misstatements

In September 2006, the SEC Staff issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 will require registrants to quantify misstatements using both the balance sheet and income-statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is determined to be material, SAB No. 108 allows registrants to record that effect as a cumulative effect adjustment to beginning retained earnings. The requirements are effective for the Company beginning April 1, 2007. Carver has evaluated the requirements of SAB No. 108 and determined that it did not have a material effect on its financial condition or results of operations.

Application of Accounting Principles to Loan Commitments

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109 (SAB 109). SAB 109 supersedes Staff Accounting Bulletin No. 105 (SAB 105), *Application of Accounting Principles to Loan Commitments*. It clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. However, it retains the guidance in SAB 105 that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment. The guidance is effective on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. In conjunction with the adoption of SFAS 157 and SFAS 159, this guidance generally would result in higher fair values being recorded upon initial recognition of derivative loan commitments. The adoption of SAB 109 is not expected to have a material impact on the Bank s financial condition or results of operations.

Business Combinations

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations (revised 2007)*. SFAS No. 141R improves reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. To achieve this goal, the new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose the information necessary to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year that commences after December 15, 2008.

Non-controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements*. SFAS No. 160 improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling (minority) interests in subsidiaries in the same way, i.e., as equity in the consolidated financial statements. In addition, SFAS No. 160 eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring that they be treated as equity transactions. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and is not expected to have a material impact on the Bank s financial condition or results of operations.

Sale with Repurchase Financing Agreements

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The objective of this FSP is to provide implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate de-linked transactions.

Current practice records the transfer as a sale and the repurchase agreement as a financing. The FSP requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement s price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. The FSP will be effective for the Carver on March 31, 2009. Early adoption is prohibited. The Company is currently evaluating the impact of adopting this FSP.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161), an amendment of SFAS 133. The standard requires enhanced disclosures about derivative instruments and hedged items that are accounted for under SFAS 133 and related interpretations. The standard will be effective for all of the Company s interim and annual financial statements for periods beginning after November 15, 2008, with early adoption permitted. The standard expands the disclosure requirements for derivatives and hedged items and has no impact on how Carver accounts for these instruments. The Bank is currently assessing the impact of this pronouncement.

Elimination of QSPEs and Changes in the FIN 46(R) Consolidation Model

In April of 2008, the FASB voted to eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance in SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* While the revised standard has not been finalized and the proposals will be subject to a public comment period, this change may have a significant impact on Carver s consolidated financial statements as the Company may lose sales treatment for future assets sales to a QSPE. This proposed revision could be effective as early as April 2009.

In connection with the proposed changes to SFAS 140, the FASB also is proposing three key changes to the consolidation model in FIN 46(R). First, former QSPEs would now be included in the scope of FIN 46(R). In addition, the FASB supports amending FIN 46(R) to change the method of analyzing which party to a variable interest entity (VIE) should consolidate the VIE to a primarily qualitative determination of control instead of today s risks and rewards model. Finally, the proposed amendment is expected to require all VIEs and their primary beneficiaries to be reevaluated quarterly. The previous rules required reconsideration only when specified reconsideration events occurred.

NOTE 20. SUBSEQUENT EVENT

As outlined in SFAS No.142 the Goodwill impairment analysis involves a two-step test. The first step, used to identify potential impairment, involves comparing the fair value of the reporting unit to its carrying value including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. The second step involves calculating an implied fair value of goodwill for the reporting unit, in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of reporting unit goodwill, there is no impairment. If the carrying value of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment charge is recorded in earnings for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

Subsequent to the issuance of the Form 10-K for the year ended March 31, 2008 in the second quarter of fiscal 2009, the Company commenced an interim goodwill impairment analysis, based on indications that the fair value of the Company s reporting unit may have declined below its carrying value as a result of factors including the further decline in the Company s market capitalization relative to the book value of shareholders equity and the adverse market conditions impacting the financial services sector generally. This analysis, which incorporates the second step test noted above, was completed during the third fiscal quarter ended December 31, 2008. A valuation specialist was engaged to assist management in its fair value assessment of goodwill. As a result of the finalization of the goodwill impairment analysis the Company determined that goodwill was impaired and recorded an impairment charge of $7.1 million as of December 31, 2008.

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ITEM 9A. DISCLOSURE CONTROLS AND PROCEDURES.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the SEC). As of March 31, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective and timely in alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

Subsequent to the original filing of the March 31, 2007 Form 10-K, the Company s management, including the Company s Chief Executive Officer and acting Chief Accounting Officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Controller concluded that the Company s disclosure controls and procedures were not effective as of March 31, 2007 and that the Company s consolidated financial statements could not be relied on for the fiscal years ended March 31, 2007 and March 31, 2008. As a result of carrying out the remediation efforts described below, however, the Chief Executive Officer and Principal Accounting Officer concluded that the Company s disclosure controls and procedures were effective as of the date of this Form 10-K/A.

Material Weakness in Internal Control Over Financial Reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company s ability to initiate, authorize, record, process, or report external financial information reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company s annual or interim financial statements that is more than inconsequential will not be prevented or detected.

During the period covered by this annual report, the Company identified a material weakness in the internal control over financial reporting. Specifically, the Company s controls related to the reconciliation and review of automatic clearing house transactions and checks issued and received by the Bank s customers existed during fiscal 2007 but was not discovered until February 9, 2009. All charges to income occurred during the Company s 2007 fiscal year. As a result of this material weakness, the Company is amending this report on Form 10-K to restate its Consolidated Financial Statements for the fiscal years ended March 31, 2008 and 2007.

The restatements reflect the classification of the reconciliation matter presented in the affected Consolidated Financial Statements.

Changes in Internal Control Over Financial Reporting

Since the Company identified the material weakness of internal control over financial reporting described above, it has engaged in the following remediation efforts. The Company has completed an analysis of the controls over the suspense reconciliation review process which resulted in the above described restatements, and, as a result, it has redesigned and strengthened the internal control processes as it pertains to the preparation of the Consolidated Financial Statements.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

I. List of Documents Filed as Part of this Annual Report on Form 10-K/A
   A. The following consolidated financial statements are included in Item 8 of this annual report:
      1. Report of Independent Registered Public Accounting Firm
      2. Consolidated Statement of Financial Condition as of March 31, 2008 and 2007
      3. Consolidated Statements of Income for the years ended as of March 31, 2008, 2007 and 2006
      4. Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income for the years ended March 31, 2008, 2007 and 2006
      5. Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006
      6. Notes to Consolidated Financial Statements.
   B. Financial Statement Schedules. All financial statement schedules have been omitted, as the required information is either inapplicable or included under Item 8, Financial Statement and Supplementary Data .

II. Exhibits required by Item 601 of Regulation S-K:
   A. See Index of Exhibits on page E-1.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CARVER BANCORP, INC.
June 29, 2009	By: /s/ Deborah C. Wright Deborah C. Wright Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below on June 29, 2009 by the following persons on behalf of the Registrant and in the capacities indicated.

/s/ Deborah C. Wright	Chairman and Chief Executive Officer
Deborah C. Wright	(Principal Executive Officer)
/s/ Thomas Sperzel	Senior Vice President and Controller
Thomas Sperzel	(Principal Accounting Officer)
/s/ Carol Baldwin Moody	Director
Carol Baldwin Moody	
/s/ Dr. Samuel J. Daniel	Director
Samuel J. Daniel	
/s/ David L. Hinds	Director
David L. Hinds	
/s/ Robert Holland, Jr.	Lead Director
Robert Holland, Jr.	
/s/ Pazel Jackson	Director
Pazel G. Jackson, Jr.	
/s/ Edward B. Ruggiero	Director
Edward B. Ruggiero	
/s/ Robert R. Tarter	Director
Robert R. Tarter	

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EXHIBIT INDEX

23.1	Consent of KPMG LLP
31.1	Certifications of Chief Executive Officer
31.2	Certifications of Principal Accounting Officer
32.1	Written Statement of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
32.2	Written Statement of Principal Accounting Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350