



2023
ANNUAL REPORT

NASDAQ: [CARV](#)



July 28, 2023

Dear Carver Shareholder:

As we celebrate our 75th Anniversary, we are delighted to share with you the accomplishments of Carver Bancorp, Inc. (Nasdaq: CARV) and our wholly-owned subsidiary, Carver Federal Savings Bank (together “Carver”), for the past fiscal year. As one of the nation’s largest African-and Caribbean-American operated banks, we take immense pride in our unwavering commitment to driving economic empowerment in diverse communities across the Greater New York City area.

Service to the Community

Carver was founded in 1948 to serve African-American and Caribbean communities whose residents, businesses, and institutions had limited access to mainstream financial services and business capital. We have remained headquartered in Harlem ever since our founding. Our seven branches and four stand-alone 24/7 ATM centers are in traditionally low-to-moderate-income neighborhoods. After decades of public and private investment, many of these historically underserved communities have more recently experienced unprecedented growth and diversification of incomes, ethnicities, and economic opportunity.

Carver leads the way in community-driven finance as we continue to reinvest approximately 80 cents of every dollar on deposit back into the communities we serve.

As of March 31, 2023, Carver had approximately \$723.2 million in assets and 110 employees. Nearly all of our staff are full-time, and about 52% are female and 88% are people of color. We support diversity and inclusion as major strengths for growing our company and communities.

Driving Loan Growth

Our commitment to financial inclusion is reflected in the continued growth of our loan portfolio. Carver management delivered year-over-year net loan growth of approximately \$19 million, with net loans rising to \$592.7 million from \$573.9 for fiscal year-end 2023. We achieved these results during a period in which the Federal Reserve raised its target for the federal funds rate eight times. While these steady increases in interest rates appear to be abating, we have witnessed many customers refinance or sell real estate assets amid these dramatic rate hikes. While loan originations generally tend to temper or decrease during periods of rising interest rates, Carver has experienced total net loans receivable growth of 39.7% or \$168.5 million for the past five years. These achievements demonstrate our dedication to driving economic empowerment among small businesses across the Greater New York City area.

As we continue to diversify the bank's loan portfolio, Carver intends to increase its Commercial and Industrial (“C&I”) lending. We will focus on organic loan growth by financing local entrepreneurs and organizations throughout our marketplace. Our C&I lending portfolio increased to \$166.9 million, comprising 28.0% of the bank's gross loan portfolio in Fiscal Year 2023.

Capital Strength and Asset Quality

As a matter of prudent management, Carver targets the maintenance of capital ratios that **exceed** minimum regulatory requirements and are consistent with Carver's risk profile. The Bank's capital strength is exemplified by its common equity Tier 1 ratio of 12.47%, Tier 1 leverage ratio of 10.61%, total risk-based capital ratio of 13.37%, and Tier 1 risk-based capital ratio of 12.47% as of March 31, 2023. Our primary regulator, the Office of the Comptroller of the Currency (the “OCC”), requires Carver to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. Notably, the Bank maintained its disciplined underwriting standards and asset quality during a period of solid net loan growth.

In addition, one of our critical operating objectives is maintaining the highest asset quality. Through a variety of strategies, including, but not limited to, monitoring loan delinquencies and borrower workout arrangements, Carver remains proactive in addressing problem loans and non-performing assets.

Driving Net Interest Income Growth

Our disciplined approach to banking and positive momentum is exemplified by the continued growth of our net interest income, which increased by \$2.3 million, or 11.2%, to reach \$22.8 million for the fiscal year 2023, compared to \$20.5 million in the prior fiscal year period. Since 2019, our net interest income has risen by \$5.7 million, representing a 33% increase.

Capital Growth and Institutional Investors

Carver's institutional investors include JP Morgan Chase, Wells Fargo, Bank of America, American Express, and National Community Investment Fund. These institutions share our long-term commitment and passion for Carver's mission. Notably, over the past three years, Carver received more than \$43 million in new and conveyed capital, further improving our financial position.

Expanding Financial Services and Community Reinvestment

We continue to expand wealth-enhancing opportunities for our consumers, businesses, and the non-profit organizations that we support.

Over the past fiscal year, we introduced several new products and services designed to deepen customer relationships, diversify income for the Bank, and manage our overall cost of funds in a rising interest rate environment. These new services have engaged fintech partners to drive efficiency, scale, and favorable feedback/reviews from customers.

In addition, Carver has received its sixth consecutive "Outstanding" Community Reinvestment Act ("CRA") ratings from the Office of the Comptroller of the Currency. The OCC's latest assessment in March 2022 found that an impressive 90% of our loans were made within our assessment area, reaffirming our dedication to community development lending, investing, and service activities.

Community Banking and Competitive Edge

With a 75-year history in our market, Carver remains deeply connected through strong community involvement and relationships. Our products and personalized services align with community banking principles, positioning us to compete effectively.



Customer Testimonial

"We have seen the influence of Carver Bank and their commitment to supporting business owners, non-profits, and residents. They have a holistic approach to banking. Not to mention they remember my name when I enter the branch. That's a special part of them letting me know they care." ~ Princess Jenkins from The Brownstone

Empowering Small Businesses for a Sustainable Future

As a certified Minority Depository Institution ("MDI") and Community Development Financial Institution ("CDFI"), Carver plays a pivotal role in driving economic empowerment in our communities. Our new microloan program, bolstered by algorithm-based software, supports the capital needs of black and brown entrepreneurs and looks beyond traditional credit scores. By addressing long-standing challenges in accessing small-dollar loans, we empower small business entrepreneurs by providing vital capital ranging from \$5,000 to \$50,000, and fostering their growth and success.

Supporting Climate Initiatives for Women-Owned Businesses

In partnership with The Greater Harlem Chamber of Commerce, we proudly launched the *Minority Women-Owned Business Pitch Competition* during the Harlem Week festivities. This competition, held in September 2022, was developed to address the disproportionate negative impact of climate change on communities of color. The competition invited women entrepreneurs with businesses in the Greater New York Area to submit written business plans detailing their initiatives to enhance energy efficiency at their respective companies.

Two deserving minority women business owners were awarded \$5,000 each. Princess Jenkins from The Brownstone and Diane Da Costa from Simplee Beautiful emerged as the competition winners for their sustainable investment objectives aimed at reducing waste, saving energy, and lowering emissions.

Princess Jenkins plans to utilize the award to launch a digital catalog for 5,000 clients, saving over 200 trees and 100,000 sheets of paper per tree while boosting the brand's annual revenues. The award will also fund energy-efficient lighting to reduce costs and energy consumption.

Diane Da Costa will use the award to upgrade Simplee Beautiful's facilities with LED lighting, a new energy-efficient HVAC system, a new low-flow toilet system, and sustainable and biodegradable packaging for CBD wellness products. These upgrades will reduce energy consumption and water wastage, aligning with Simplee Beautiful's commitment to being a sustainable, energy-efficient, clean beauty salon and retail boutique.

Carver plans to expand its annual Minority Women-Owned Business Pitch Competition this year to help further drive sustainability in New York City's communities of color.

Fostering Entrepreneurship through Harlem Small Business Lab

Carver was proud to collaborate with M&T Bank in the Harlem Multicultural Small Business Lab Initiative. This initiative presents a remarkable opportunity for small business entrepreneurs to gain additional tools and capital to foster growth and sustainability. The program included a pitch competition with first place earning a \$16,000 prize, second place receiving \$12,000, and third place receiving \$7,000. This partnership with M&T Bank reinforces our dedication to supporting and empowering small businesses in the communities we serve.

Promoting Men's Health and Community Wellness

Carver was delighted to sponsor The Blue Jacket Fashion Show's prostate cancer screening initiative at the Schomburg Center for Research in Black Culture on February 1, 2023. The event featured the Mount Sinai Robert F. Smith Mobile Prostate Cancer Screening initiative, a community-based wellness effort committed to enabling early detection of prostate cancer for at-risk Black men. Through this initiative, in partnership with Mount Sinai Hospital and The Blue Jacket Fashion Show, we hope to raise prostate cancer awareness and funds for ZERO - The End of Prostate Cancer.

The Board of Directors and management thank Carver's shareholders, customers, and institutional partners for their unwavering support. Together, we are transforming lives and building a brighter future for all.

Thank you for your trust and commitment.

Sincerely,

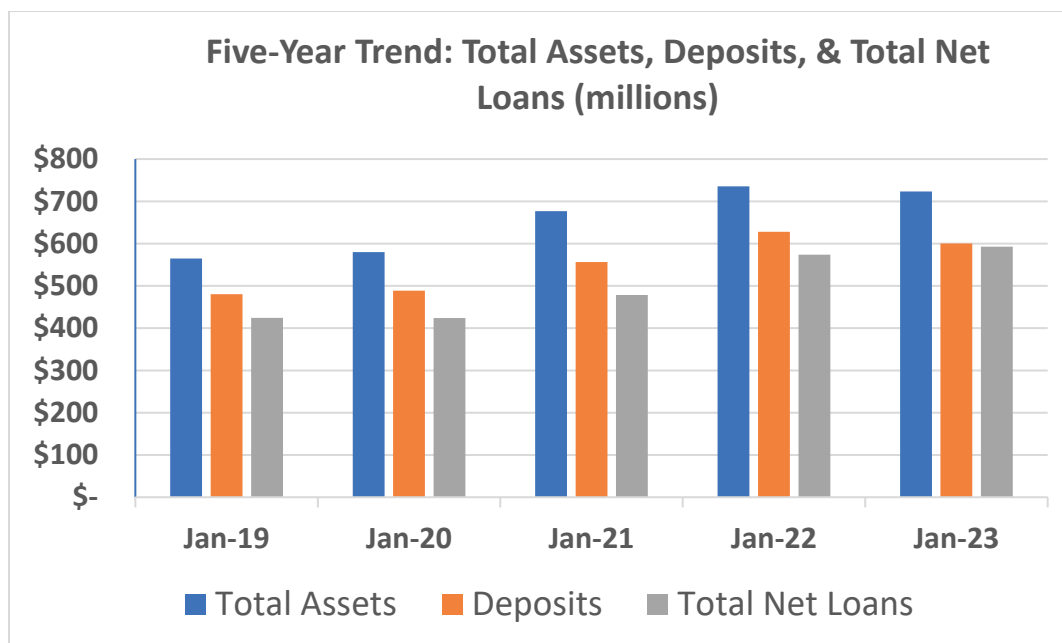


Michael T. Pugh
President and CEO

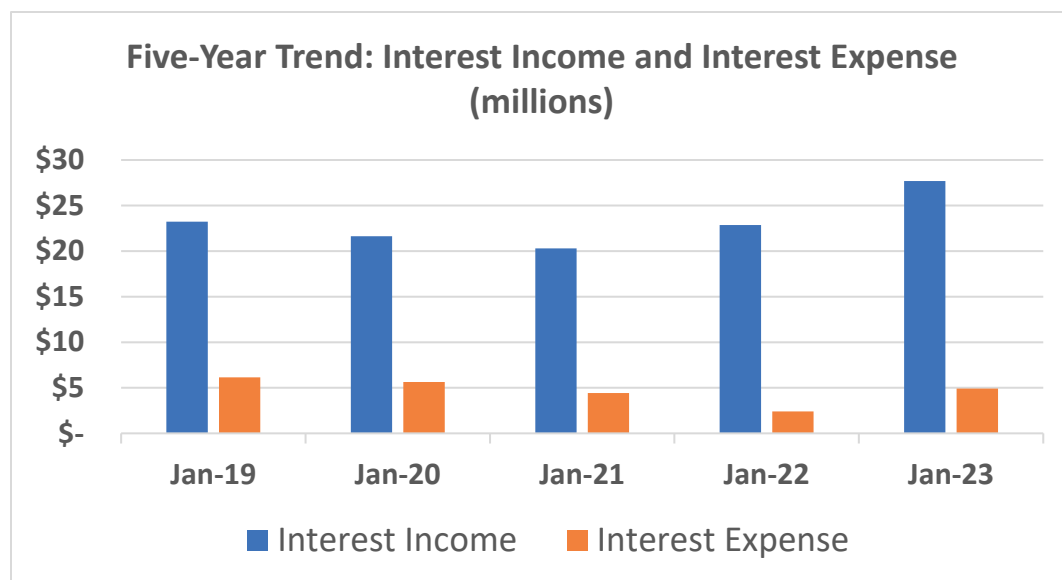


Lewis P. Jones III
Chairman of the Board

Financial Performance



| | Mar-23 | Mar-22 | Mar-21 | Mar-20 | Mar-19 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Total Assets | \$ 723.22 | \$ 735.31 | \$ 676.75 | \$ 579.87 | \$ 564.79 |
| Deposits | \$ 600.43 | \$ 628.12 | \$ 556.56 | \$ 488.82 | \$ 480.20 |
| Total Net Loans | \$ 592.67 | \$ 573.88 | \$ 478.41 | \$ 423.79 | \$ 424.18 |



| | Mar-23 | Mar-22 | Mar-21 | Mar-20 | Mar-19 |
|------------------|----------|----------|----------|----------|----------|
| Interest Income | \$ 27.70 | \$ 22.87 | \$ 20.31 | \$ 21.63 | \$ 23.23 |
| Interest Expense | \$ 4.91 | \$ 2.40 | \$ 4.42 | \$ 5.63 | \$ 6.14 |

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended March 31, 2023

OR

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: 001-13007

CARVER BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

13-3904174

(I.R.S. Employer Identification No.)

75 West 125th Street New York New York
(Address of Principal Executive Offices)

10027
(Zip Code)

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, par value \$0.01 per share | CARV | NASDAQ Capital Market |

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. Yes 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. Yes 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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

As of June 28, 2023 there were 4,441,167 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 30, 2022 (based on the closing sales price of \$4.00 per share of the registrant's common stock on September 30, 2022) was approximately \$16,905,676.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2023 Annual Meeting of Stockholders. (Part III)

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CARVER BANCORP, INC.
2023 ANNUAL REPORT ON FORM 10-K
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FORWARD-LOOKING STATEMENTS

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

- the ability of the Company to obtain approval from the Federal Reserve Bank of Philadelphia (the “Federal Reserve Bank”) to distribute interest payments owed to the holders of the Company's subordinated debt securities;
- the limitations imposed on the Company which require, among other things, written approval of the Federal Reserve Bank prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock, and the effect on operations resulting from such limitations;
- the impact of the recent bank closings of First Republic Bank, Silicon Valley Bank and Signature Bank and the risks related to continued disruption in the banking industry and financial markets;
- the market price and trading volume of our shares of common stock has been and may continue to be volatile, and purchasers of our securities could incur substantial losses;
- changes in the level of trends of delinquencies and write-offs and in our allowance and provision for loan losses;
- changes in interest rates, which may reduce net interest margin and net interest income;
- monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System;
- the results of examinations by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses, write down assets, change our regulatory capital position, limit our ability to borrow funds or maintain or increase deposits, or prohibit us from paying dividends, which could adversely affect our dividends and earnings;
- national and/or local changes in economic conditions, which could occur from numerous causes, including political changes, domestic and international policy changes, unrest, war and weather, inflation or deflation conditions in the real estate, securities markets or the banking industry, which could affect liquidity in the capital markets, the volume of loan originations, deposit flows, real estate values, the levels of non-interest income and the amount of loan losses;
- adverse changes in the financial industry and the securities, credit, national and local real estate markets (including real estate value);
- the continuing impact of the COVID-19 pandemic on our business and results of operation;
- changes in our existing loan portfolio composition (including reduction in commercial real estate loan concentration) and credit quality or changes in loan loss requirements;
- legislative or regulatory changes that may adversely affect the Company’s business, including but not limited to new capital regulations, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, and the resources we have available to address such changes;
- changes in the level of government support of housing finance;
- changes to state rent control laws, which may impact the credit quality of multifamily housing loans;
- our ability to control costs and expenses;

- the impairment of our investment securities;
- risks related to a high concentration of loans to borrowers secured by property located in our market area;
- increases in competitive pressure among financial institutions or non-financial institutions;
- unexpected outflows of uninsured deposits could require us to sell investment securities at a loss;
- changes in consumer spending, borrowing and savings habits;
- technological changes that may be more difficult to implement or more costly than anticipated;
- changes in deposit flows, loan demand, real estate values, borrowing facilities, capital markets and investment opportunities, which may adversely affect our business;
- changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies or the Financial Accounting Standards Board, could negatively impact the Company's financial results;
- litigation or regulatory actions, whether currently existing or commencing in the future, which may restrict our operations or strategic business plan;
- the ability to originate and purchase loans with attractive terms and acceptable credit quality; and
- the ability to attract and retain key members of management, and to address staffing needs in response to product demand or to implement business initiatives.

Because forward-looking statements are subject to numerous assumptions, risks and uncertainties, actual results or future events could differ possibly materially from those that the company anticipated in its forward-looking statements. The forward-looking statements contained in this Annual Report on Form 10-K are made as of the date of this Annual Report on Form 10-K, and the Company assumes no obligation to, and expressly disclaims any obligation to, update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements, except as legally required. For a discussion of additional factors that could adversely affect the Company's future performance, see "Item 1A - Risk Factors" and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

ITEM 1. BUSINESS.

OVERVIEW

Carver Bancorp, Inc., a Delaware corporation (the “Company”), is the holding company for Carver Federal Savings Bank (“Carver Federal” or the “Bank”), a federally chartered savings bank. The Company is headquartered in New York, New York. The Company conducts business as a unitary savings and loan holding company, and the principal business of the Company consists of the operation of its wholly-owned subsidiary, Carver Federal. Carver Federal was founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. The Bank remains headquartered in Harlem, and predominantly all of its seven branches and four stand-alone 24/7 ATM centers are located in low- to moderate-income neighborhoods. Many of these historically underserved communities have experienced unprecedented growth and diversification of incomes, ethnicity and economic opportunity, after decades of public and private investment.

Carver Federal is among the largest African-American operated banks in the United States. The Bank remains dedicated to expanding wealth-enhancing opportunities in the communities it serves by increasing access to capital and other financial services for consumers, businesses and non-profit organizations, including faith-based institutions. A measure of its progress in achieving this goal includes the Bank's sixth consecutive "Outstanding" rating, issued by the Office of the Comptroller of the Currency (the "OCC") following its most recent Community Reinvestment Act (“CRA”) examination in March 2022. The OCC found that 90% of Carver Federal's loans were made within our assessment area, and the Bank has demonstrated excellent responsiveness to its assessment area's needs through its community development lending, investing and service activities. The Bank had approximately \$723.2 million in assets and 110 employees as of March 31, 2023.

Carver Federal engages in a wide range of consumer and commercial banking services. The Bank provides deposit products, including demand, savings and time deposits for consumers, businesses, and governmental and quasi-governmental agencies in its local market area within New York City. In addition to deposit products, Carver Federal offers a number of other consumer and commercial banking products and services, including debit cards, online account opening and banking, online bill pay and telephone banking. Carver Federal also offers a suite of products and services for unbanked and underbanked consumers, branded as Carver Community Cash. This includes check cashing, wire transfers, bill payment, reloadable prepaid cards and money orders.

Carver Federal offers loan products covering a variety of asset classes, including commercial and multifamily mortgages, and business loans. The Bank finances mortgage and loan products through deposits or borrowings. Funds not used to originate mortgages and loans are invested primarily in U.S. government agency securities and mortgage-backed securities.

The Bank's primary market area for deposits consists of the areas served by its seven branches in the Brooklyn, Manhattan and Queens boroughs of New York City. The neighborhoods in which the Bank's branches are located have historically been low- to moderate-income areas. The Bank's primary lending market includes Kings, New York, Bronx and Queens Counties in New York City, and lower Westchester County, New York. Although the Bank's branches are primarily located in areas that were historically underserved by other financial institutions, the Bank faces significant competition for deposits and mortgage lending in its market areas. Management believes that this competition has become more intense as a result of increased examination emphasis by federal banking regulators on financial institutions' fulfillment of their responsibilities under the CRA and more recently due to the decline in demand for loans. Carver Federal's market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. The Bank's competition for loans comes principally from commercial banks, savings institutions and mortgage banking companies. The Bank's most direct competition for deposits comes from commercial banks, savings institutions and credit unions. Competition for deposits also comes from money market mutual funds, corporate and government securities funds, and financial intermediaries such as brokerage firms and insurance companies. Many of the Bank's competitors have substantially greater resources and offer a wider array of financial services and products. This, combined with competitors' larger presence in the New York market, add to the challenges the Bank faces in expanding its current market share and growing its near-term profitability.

Carver Federal's 74-year history in its market area, its community involvement and relationships, targeted products and services and personal service consistent with community banking, help the Bank compete with competitors that have entered its market.

The Bank formalized its many community focused investments on August 18, 2005, by forming Carver Community Development Corporation ("CCDC"). CCDC oversees the Bank's participation in local economic development and other community-based initiatives, including financial literacy activities. CCDC coordinates the Bank's development of an innovative approach to reach the unbanked customer market in Carver Federal's communities. Importantly, CCDC spearheads the Bank's applications for grants and other resources to help fund these important community activities. In this connection, Carver Federal has successfully competed with large regional and global financial institutions in a number of competitions for government grants and other awards.

GENERAL

Carver Bancorp, Inc.

The Company is the holding company for Carver Federal and its other active direct subsidiary, Carver Statutory Trust I (the "Trust"), a Delaware trust.

The principal business of the Company consists of the operation of its wholly-owned subsidiary, the Bank. The Company's administrative offices are located at 1825 Park Avenue, New York, New York 10034. The home office of the Bank is located at 75 West 125th Street, New York, New York 10027. The Company's telephone number is (718) 230-2900.

Carver Federal Savings Bank

Carver Federal was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally chartered mutual savings and loan association, at which time it obtained federal deposit insurance and became a member of the Federal Home Loan Bank of New York (the "FHLB-NY"). Carver Federal was founded as an African- and Caribbean-American operated institution to provide residents of underserved communities the ability to invest their savings and obtain credit. Carver Federal Savings and Loan Association converted to a federal savings bank in 1986 and changed its name at that time to Carver Federal Savings Bank.

On March 8, 1995, Carver Federal formed CFSB Realty Corp. as a wholly-owned subsidiary to hold real estate acquired through foreclosure pending eventual disposition. At March 31, 2023, this subsidiary had \$268 thousand in total assets. During the fourth quarter of the fiscal year ended March 31, 2003, Carver Federal formed Carver Asset Corporation ("CAC"), a wholly-owned subsidiary which qualifies as a real estate investment trust ("REIT") pursuant to the Internal Revenue Code of 1986, as amended. This subsidiary may, among other things, be utilized by Carver Federal to raise capital in the future. As of March 31, 2023, CAC owned mortgage loans carried at approximately \$5.3 million and total assets of \$129.3 million. On August 18, 2005, Carver Federal formed CCDC, a wholly-owned community development entity, to facilitate and develop innovative approaches to financial literacy, address the needs of the unbanked and participate in local economic development and other community-based activities. As part of its operations, CCDC monitors the portfolio of investments related to NMTC awards and makes application for additional awards.

Carver Statutory Trust I

Carver Statutory Trust (the "Trust") was formed in 2003 for the purpose of issuing \$13.0 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and \$0.4 million of common securities, which are wholly owned by Carver Bancorp, Inc. and the sole voting securities of the Trust. The Company has fully and unconditionally guaranteed the Capital Securities along with all obligations of the Trust under the trust agreement relating to the Capital Securities. In accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 810, "Consolidations," the Trust is not consolidated with the Company for financial reporting purposes. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments on the Carver Statutory Trust I capital securities through September 2016. Such payments were made in September 2016. Debenture interest payments had been deferred beginning with the December 2016 payment, which is permissible under the terms of the Indenture for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior approval from the Federal Reserve Bank. During the fourth quarter of fiscal year 2021, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through June 2021. Full payment was made on June 16, 2021. The Company deferred the September 17, 2021 interest payment, but has since had discussions with the Federal Reserve Bank of Philadelphia regarding future quarterly payments. A streamlined process has been developed for the Company to request regulatory approval to make debenture interest payments. On December 16, 2021, the Company paid the interest deferred from September 16, 2021 and the regular quarterly interest payment due on December 17, 2021. All quarterly interest payments subsequent to the June 2021 payment up to and including the June 2023 payment have been made.

The Company may rely on dividends from Carver Federal to pay cash dividends to its stockholders and to engage in share repurchase programs. In recent years, Carver has been successful in obtaining cash independently through its capital raising efforts, which may include cash from government grants or below market-rate loans. Under the prior Formal Agreement, the OCC regulated all capital distributions, including dividend payments, by Carver Federal to the Company. The Board of Governors of the Federal Reserve (the "FRB") regulates dividends paid by the Company. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in Carver Federal's failure to meet the OCC minimum capital requirements. Carver has suspended its regular quarterly cash dividend on its common stock.

At the Market Offering

During fiscal year 2022, the Company entered into a sales agreement with an agent to sell, from time to time, our common stock having an aggregate offering price of up to \$20.0 million, in an "at the market offering." As of March 31, 2022, we had sold an aggregate of 397,367 shares of our common stock pursuant to the terms of such sales agreement, for aggregate gross proceeds of approximately \$3.1 million. Aggregate net proceeds received were approximately \$3.0 million, after deducting expenses and commissions paid to the placement agent. There were no additional offerings during the twelve months ended March 31, 2023.

Formal Agreement

On January 18, 2023, the OCC notified the Bank that the Formal Agreement between the Bank and the OCC dated May 24, 2016 (the "Formal Agreement") was terminated, effective immediately. The formal agreement required the Bank to reduce its concentration of commercial real estate and required that the Bank undertake several actions to improve compliance matters and overall profitability. As a result of active participation and cooperation of management and the Board of Directors of the Bank and the Company, the issues that led to the formal agreement were successfully resolved, resulting in the OCC's termination of the agreement.

The Individual Minimum Capital Ratio letter issued by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio, remains in effect, as do the Company's resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

Human Capital Resources

At March 31, 2023, the Company had 110 employees, nearly all of whom are full-time and of which approximately 52% were female and 88% were minorities. The majority of our employees are based in New York. Our goal is to attract, develop, retain and plan for succession of key talent and executives to achieve strategic objectives. We are continually investing in our workforce to further emphasize diversity and inclusion and to foster our employees' growth and career development.

We offer a comprehensive benefits program to our employees and design our compensation programs to attract, retain and motivate employees, as well as to align with Company performance. None of the Company's employees are a member of a collective bargaining agreement and we consider our relations with our employees to be good.

We have implemented significant operating environmental changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with health and safety standards as required by federal, state and local government agencies, taking into consideration guidelines of the Centers for Disease Control and Prevention and other public health authorities. This includes implementing a hybrid working model where our employees work in the office 2 to 3 times a week, simultaneously, continuing to implement safety measures for employees while on-site.

The Company team members actively share their talents in their communities through volunteer activities in education, economic development, human and health services, and Community Reinvestment. Additionally, the Company's management team works with leaders of community organizations, community development organizations, and consumer financial education organizations to identify the credit, investment, and service needs of its community.

Available Information

The Company makes available on or through its internet website, <http://www.carverbank.com>, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. Such reports are available free of charge and as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (“SEC”). The SEC maintains an internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including the Company, at <http://www.sec.gov>.

In addition, certain other basic corporate documents, including the Company's Corporate Governance Principles, Code of Ethics, the charters of the Company's Finance and Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee and the date of the Company's annual meeting are posted on the Company's website. Printed copies of these documents are also available free of charge to any stockholder who requests them. Stockholders seeking additional information should contact the Corporate Secretary's office by mail at 1825 Park Avenue, New York, New York 10035 or by e-mail at corporatesecretary@carverbank.com. Information provided on the Company's website is not part of this annual report.

Lending Activities

General. Carver Federal's loan portfolio consists primarily of mortgage and business loans originated by the Bank's lending teams and secured by commercial real estate including multifamily, mixed-use and owner-occupied properties. Substantially all of the Bank's mortgage loans are secured by properties located within the Bank's market area. From time to time, the Bank may participate or purchase loans that comply with the Bank's underwriting standards from other financial institutions or in contiguous market geographies to achieve loan growth and strategic objectives, as well as asset and geographical diversification.

In recent years, Carver Federal has focused on the origination of commercial real estate loans extended primarily to multifamily, as well as owner-occupied and mixed-use commercial loans. These loans generally have higher yields and shorter maturities than one-to-four family residential properties, and include prepayment penalties that the Bank collects if the loans pay in full prior to the contractual maturity. The Bank's increased emphasis remains on effective portfolio management and monitoring of the commercial real estate and multifamily mortgage loans relative to the level of credit risk inherent in this market segment. In fiscal years 2019 and 2020, the Bank's recoveries on previously charged off loans exceeded its charge-offs to such an extent that additional provisions were not necessary. The provision recorded in fiscal year 2020 was primarily related to overdraft deposit charge-offs. During fiscal year 2021, Carver increased its qualitative factors and assessment criteria due to the ongoing pandemic. In fiscal year 2022, the Bank adjusted its qualitative factors and assessment criteria from high to medium based on improving economic factors, such as unemployment and overall increased activity due to less pandemic related restrictions. The increase in the qualitative reserves was related to the overall increase in our loan portfolio, partially offset by decreases in our quantitative reserve analysis as the rolling 20 quarter historical loss look back period improved for most of our loan categories. During fiscal year 2023, the Bank strengthened its qualitative factors and assessment criteria due to the economic climate in general and its impact on the New York City ("NYC") metropolitan area in which the Company operates. In spite of the strict analysis applied to our qualitative reserves, the Company's overall allowance declined moderately as the rolling 20 quarter loss look back period revealed little in recorded losses. Additionally, Carver Federal continually reviews the composition of its mortgage loan portfolio and underwriting standards to manage the risk in the portfolio.

Loan Portfolio Composition. Total loans receivable increased \$18.6 million, or 3.2%, to \$595.1 million at March 31, 2023, compared to \$576.5 million at March 31, 2022. Carver Federal's total loans receivable as a percentage of total assets increased to 82.3% at March 31, 2023, compared to 78.4% at March 31, 2022.

The following is a summary of loans receivable, net of allowance for loan losses, as of:

| <i>\$ in thousands</i> | March 31, 2023 | | March 31, 2022 | | March 31, 2021 | | March 31, 2020 | | March 31, 2019 | |
|---|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| Gross loans receivable: | | | | | | | | | | |
| One-to-four family | \$ 64,971 | 10.9 % | \$ 69,297 | 12.0 % | \$ 76,313 | 15.9 % | \$ 105,532 | 24.8 % | \$ 108,363 | 25.4 % |
| Multifamily | 177,995 | 29.9 % | 160,800 | 27.9 | 103,584 | 21.6 | 89,241 | 21.0 | 86,177 | 20.2 |
| Commercial real estate | 177,714 | 29.9 % | 174,270 | 30.2 | 150,114 | 31.2 | 141,761 | 33.3 | 130,812 | 30.7 |
| Business | 166,940 | 28.0 % | 170,497 | 29.6 | 148,020 | 30.8 | 85,425 | 20.1 | 96,430 | 22.6 |
| Consumer and other ⁽¹⁾ | 7,513 | 1.3 % | 1,623 | 0.3 | 2,439 | 0.5 | 3,213 | 0.8 | 4,023 | 0.9 |
| Total loans receivable | <u>\$595,133</u> | <u>100.0 %</u> | <u>\$576,487</u> | <u>100.0 %</u> | <u>\$480,470</u> | <u>100.0 %</u> | <u>\$425,172</u> | <u>100.0 %</u> | <u>\$425,805</u> | <u>100.0 %</u> |
| | | | | | | | | | | |
| Unamortized premiums, deferred costs and fees, net | 2,763 | | 3,017 | | 3,079 | | 3,560 | | 3,023 | |
| | | | | | | | | | | |
| Allowance for loan losses | <u>(5,229)</u> | | <u>(5,624)</u> | | <u>(5,140)</u> | | <u>(4,946)</u> | | <u>(4,646)</u> | |
| Total loans receivable, net | <u>\$592,667</u> | | <u>\$573,880</u> | | <u>\$478,409</u> | | <u>\$423,786</u> | | <u>\$424,182</u> | |

⁽¹⁾ Includes personal loans

One-to-four Family Residential Lending. Carver Federal occasionally purchases first mortgage loans secured by one-to-four family properties that serve generally as the primary residence of the owner. The Bank purchased \$4.0 million and \$11.3 million of one-to-four family residential loans during fiscal years 2023 and 2022, respectively. Approximately 23.6% of the one-to-four family residential mortgage loans maturing in greater than one year at March 31, 2023 were adjustable rate and approximately 76.4% were fixed-rate. One-to-four family residential real estate loans decreased \$4.3 million, or 6.2%, to \$65.0 million at March 31, 2023, compared to \$69.3 million at March 31, 2022.

Carver Federal's fixed-rate, one-to-four family residential mortgage loans are underwritten in accordance with applicable secondary market underwriting guidelines and requirements for sale. From time to time in the past, the Bank has sold such loans to Fannie Mae, the State of New York Mortgage Agency ("SONYMA") and other third parties. These loans are generally sold with limited recourse on a servicing retained basis except to SONYMA where the sale is made with servicing released. Carver Federal uses a servicing firm to sub-service mortgage loans, whether held in portfolio or sold with servicing retained. At March 31, 2023, the Bank, through its sub-servicer, serviced \$12.4 million in loans for FNMA and \$212 thousand for other third parties. The Bank has recorded \$152 thousand in related mortgage servicing rights.

The retention of adjustable-rate loans in Carver Federal's portfolio helps reduce Carver Federal's exposure to increases in prevailing market interest rates. However, there are credit risks resulting from potential increases in costs to borrowers in the event of upward repricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate loans may increase due to increases in interest costs to borrowers. Although adjustable-rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest rate sensitivity is limited by periodic and lifetime interest rate adjustment limitations. Accordingly, there can be no assurance that yields on the Bank's adjustable-rate loans will fully adjust to compensate for increases in the Bank's cost of funds.

The Bank previously originated or purchased a limited amount of subprime loans (which are defined by the Bank as those loans where the borrowers have FICO scores of 660 or less at origination). At March 31, 2023, the Bank had \$2.8 million in subprime loans, or 0.5% of its total loan portfolio, of which \$698 thousand are non-performing loans. No subprime loans were purchased during fiscal year 2023.

Multifamily Real Estate Lending. Traditionally, Carver Federal originates and purchases multifamily loans. There were no multifamily loan purchases during fiscal year 2023. The Bank purchased \$15.1 million and \$6.9 million of multifamily loans during fiscal years 2022 and 2021, respectively. Multifamily property lending entails additional risks compared to one-to-four family residential lending. For example, such loans are dependent on the successful operation of such buildings and can be significantly impacted by supply and demand conditions in the market for multifamily residential units. Carver Federal's multifamily real estate loan portfolio increased \$17.2 million, or 10.7%, to \$178.0 million in fiscal 2023, or 29.9% of Carver Federal's total loan portfolio at March 31, 2023.

In making multifamily real estate loans, the Bank primarily considers the property's ability to generate net operating income sufficient to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower, when applicable. Carver Federal's

multifamily real estate product guidelines generally require that the maximum loan-to-value ("LTV") at origination not exceed 75% based on the appraised value of the mortgaged property on all such loans. The Bank generally requires a debt service coverage ratio at origination of at least 1.20 on multifamily real estate loans, which requires the properties to generate cash flow after expenses and allowances in excess of the principal and interest payment. Carver Federal originates and purchases multifamily real estate loans, which are predominantly fixed rate for the first five years, then adjusts for the second five years, if applicable. These loans generally amortize on the basis of a 15-, 20-, 25-, or 30-year period and require a balloon payment after the first five years, or the borrower may have an option to extend the loan for additional periods. The Bank occasionally originates fixed rate loans with greater than five year terms on a limited basis. Personal guarantees may be obtained for additional comfort and support to these transactions.

To help ensure continued collateral protection and asset quality for the term of multifamily real estate loans, Carver Federal employs a risk rating system for its loans. All commercial loans, including multifamily real estate loans, are risk rated internally at the time of origination. Management continually monitors all commercial loans in order to update risk ratings when necessary (see "Asset Classification and Allowance for Loan and Lease Losses" for additional information on asset classification and risk ratings). In addition, to assist with ensuring that the Bank remains consistent with its established procedures and practices, and is effectively evaluating and monitoring changes in the credit profile of the borrower and the underlying collateral, an independent consulting firm reviews, evaluates and prepares a written report for a sample of our commercial loan relationships. Accordingly, on a triannual basis, the independent loan review company i) reviews 70% to 75% of the average commercial loan portfolio, ii) this includes all new and renewed loans greater than \$100,000, and iii) all criticized and classified loans. Summary reports documenting the loan reviews are then reviewed by management for changes in the credit profile of individual borrowers and the portfolio as a whole, and regularly presented to Senior Management and the Bank's Asset Liability and Interest Rate Risk Committee for risk assessment and monitoring.

Commercial Real Estate Lending. Commercial real estate lending consists predominantly of originating loans for the purpose of purchasing or refinancing office, mixed-use (properties used for both commercial and residential purposes), retail and church buildings in the Bank's market area. Mixed-use loans are secured by properties that are intended for both residential and business use and are classified as commercial real estate ("CRE"). The Bank purchased \$5.8 million, \$18.2 million and \$6.3 million of commercial real estate loans during fiscal years 2023, 2022 and 2021, respectively. Although Carver Federal has had a favorable loss track record associated with commercial real estate loans, these loans may entail additional risks compared with one-to-four family residential and multifamily lending. For example, such loans typically involve larger loan balances to single borrowers or groups of related borrowers and the payment experience on such loans typically is dependent on the successful operation of the commercial property or larger overall structure.

In originating CRE loans, the Bank primarily considers the ability of the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the borrower. Carver Federal's maximum LTV ratio on commercial real estate mortgage loans at origination is generally 75% based on the latest appraised fair market value of the mortgaged property. The Bank generally requires a debt service coverage ratio at origination of at least 1.20 on commercial real estate loans. The Bank also requires the assignment of rents associated with all tenant leases in the mortgaged property and personal guarantees may be obtained for additional security in connection with these transactions.

At March 31, 2023, commercial real estate mortgage loans totaled \$177.7 million, or 29.9% of the total loan portfolio. This balance reflects a year-over-year increase of \$3.4 million, or 2.0%, as a result of organic loan originations and purchases.

The Bank offers 5-year terms for our commercial mortgages. At times, we can offer greater than 5 years for terms of up to 15 years and amortization schedules up to 25 years; however, the interest rate generally resets every 5 years. Interest rates currently offered by the Bank are adjusted at the beginning of each adjustment period and are mostly based upon a fixed spread above the FHLB-NY corresponding regular advance rate.

Historically, Carver Federal has been a New York City metropolitan area leader in the origination of loans to churches. At March 31, 2023, loans to churches totaled \$39.7 million, or 6.7% of the Bank's gross loan portfolio. These loans generally have five-, seven-, or ten-year terms with 15-, 20- or 25-year amortization periods, a balloon payment due at the end of the term and generally have no greater than a 70% LTV ratio at origination. The Bank has also provided construction financing for churches in the past, and would have generally provided permanent financing upon completion of construction. There are currently 32 church loans in the Bank's loan portfolio and no new construction financing provided in 2023.

Loans secured by real estate owned by faith-based organizations generally are larger and involve greater risks than one-to-four family residential mortgage loans and standard commercial real estate transactions. Because payments on loans secured by such properties are often dependent on voluntary contributions by members of the church's congregation, repayment

of such loans may be subject to a greater extent to adverse conditions in the economy. The Bank seeks to minimize these risks in a variety of ways, including reviewing the organization's financial condition, limiting the size of such loans and establishing the quality of the collateral securing such loans. The Bank determines the appropriate amount and type of security for such loans based in part upon the governance structure of the particular organization, the length of time the church has been established in the community and a cash flow analysis to determine the church's ability to service the proposed loan. Carver Federal will obtain a first mortgage on the underlying real property and often requires personal guarantees of key members of the congregation and/or key person life insurance that generally includes the pastor at a minimum, depending on the church make-up. The Bank may also require the church to obtain key person life insurance on specific members of the church's leadership. While asset quality in the church loan category historically has been one of the strongest asset classes, recent economic conditions have produced higher delinquencies in this portfolio during the early stages of the pandemic, but have since normalized or leveled off. While management believes that Carver Federal will remain a leading lender to churches in its market area, Carver Federal will continue to conduct disciplined underwriting and maintain focused portfolio management.

Business Loans. Carver Federal's small business (Commercial and Industrial, or "C&I") lending portfolio increased \$3.6 million to \$166.9 million, comprising 28.0% of the Bank's gross loan portfolio in fiscal 2023. This includes \$568 thousand of PPP loans at March 31, 2023. The Bank purchased \$0.6 million and \$5.6 million business loans during fiscal years 2023 and 2022, respectively. In a strategic attempt to diversify the Bank's loan portfolio, Carver Federal continues to make efforts towards increased C&I lending activity, placing particular focus on organic loan growth through the financing of local entrepreneurs and organizations throughout its marketplace. Carver Federal provides revolving credit, working capital and term loan facilities to small businesses with annual sales of approximately \$1 million to \$25 million in various business segments, including educational, health care, personal services, light industrial, wholesale and trade contractors generally through select programs. Business loans are typically personally guaranteed by the owners and may also be secured by additional collateral, including real estate, equipment, accounts receivable and inventory.

Consumer and Other Loans. At March 31, 2023, the Bank had \$7.5 million in consumer and other loans, or 1.3%, of the Bank's gross loan portfolio. This includes \$1.1 million of graduate medical student loans purchased in fiscal 2017. During fiscal year 2023, the Bank purchased \$3.9 million consumer loans through strategic partnerships with Bankers Healthcare Group, LLC and Upstart Holdings, Inc.

Consumer loans are not typically secured by collateral and therefore involve more risk than first mortgage loans and all other transactions. Collection of a delinquent loan is dependent on the borrower's continuing financial stability and is more likely to be adversely affected by changes in employment, marital status, health and other personal financial factors. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered. These loans may also give rise to claims and defenses by a borrower against Carver Federal, including defenses against any applicable underlying collateral. In underwriting unsecured consumer loans other than secured credit cards, Carver Federal considers the borrower's credit history, an analysis of the borrower's income, expenses and ability to repay the loan. In the instances of underwriting for secured credit cards, the Bank generally only takes the value of the underlying collateral into consideration. See "Asset Quality-Non-performing Assets."

Loan Processing. Carver Federal's loan originations are derived from a number of sources, including referrals by realtors, builders, depositors, borrowers and mortgage brokers, as well as walk-in and dial-in customers. Loans are originated by the Bank's personnel who receive a base salary, commissions and other incentive compensation. Real estate, business and unsecured loan applications are forwarded to the Bank's Lending Department for processing, and to the Credit Group for underwriting pursuant to standards established in Carver Federal's Loan Policy. The underwriting and loan processing for residential one-to-four family loans are performed by an outsourced third party loan originator using lending standards established by the Bank.

A commercial real estate loan application is completed for all multifamily and non-residential income producing properties that the Bank finances. Prior to loan approval, the property is inspected by a loan officer. As part of the loan approval process, consideration is given to an independent appraisal, location, accessibility, stability of the neighborhood, environmental assessment, personal credit history and the financial capacity of the applicant(s).

Upon receipt of a completed loan application from a prospective borrower, a credit report and other verifications are ordered to confirm specific information relating to the loan applicant's income and credit standing. It is the Bank's policy to obtain an appraisal of the real estate intended to secure a proposed mortgage loan from an independent appraiser approved by the Bank, along with applicable appraisal reviews.

It is Carver Federal's policy to record a lien on the real estate securing the loan and to obtain a title insurance policy that insures that the property is free of prior encumbrances. Borrowers must also obtain hazard insurance policies prior to

closing and, when the property is in a flood zone or plain as designated by the Department of Housing and Urban Development, obtain flood insurance. Most borrowers are also required to make payments on a monthly basis, which can include principal and interest, along with mortgage payment escrows from which the Bank makes disbursements for items such as real estate taxes and hazard insurance. Written confirmation of the guarantee, as applicable, for SBA loans and evidence of the UCC filing is also required.

Business loan applications are completed for all business loans. Most business loans are secured by Uniform Commercial Code ("UCC") lien filings and in some cases, other collateral enhancements that can include real estate, marketable securities, along with personal guarantees, and/or guarantees by the United States Small Business Administration ("SBA"), as applicable. The loan approval process considers the credit history of the applicant, collateral, cash flow and purpose and stability of the business.

Loan Approval. Except for real estate and business loans in excess of \$6.0 million, mortgage and business loan approval authority has been delegated by the Bank's Board of Directors to the Board's Asset Liability and Interest Rate Risk Committee. The Asset Liability and Interest Rate Risk Committee has delegated to the Bank's Management Loan Committee, which consists of certain members of executive management, loan approval authority up to and including \$1.0 million for real estate and business loans. Real estate and business loans above \$6.0 million must be approved by the full Board. Purchased loans are subject to the same approval process as originated loans. One-to-four family mortgage loans that conform to FNMA, Federal Housing Administration and Federal Home Loan Mortgage Corporation ("FHLMC") standards and limits may be approved by the outsourced third party loan originator.

Loans-to-One-Borrower. Under the loans-to-one-borrower limits of the OCC, with certain limited exceptions, loans and extensions of credit to a single or related group of borrowers outstanding at one time generally may not exceed 15% of the unimpaired capital and surplus of a savings bank. The Bank includes all outstanding debt and any unfunded commitments under contractually binding commitments for purposes of its legal limit calculation. See "Regulation and Supervision-Federal Banking Regulation-Loans-to-One-Borrower Limitations." At March 31, 2023, the maximum loans-to-one-borrower under this test was \$12.0 million and the Bank had no relationships that exceeded this limit.

Loan Originations and Purchases. Loan originations were \$111.9 million in fiscal 2023 compared to \$151.5 million in fiscal 2022. There were \$14.3 million loan purchases during fiscal 2023 and \$50.1 million purchases in fiscal 2022.

The following table sets forth certain information with respect to Carver Federal's loan originations and advances, purchases and sales for the fiscal years ended March 31:

| <i>\$ in thousands</i> | 2023 | | 2022 | | 2021 | |
|--|------------|---------|------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Loans Originated: | | | | | | |
| One-to-four family | \$ — | — % | \$ — | — % | \$ 4,217 | 3.0 % |
| Multifamily | 43,023 | 34.1 % | 42,237 | 20.9 % | 15,936 | 11.2 % |
| Commercial real estate | 53,643 | 42.5 % | 79,403 | 39.4 % | 48,334 | 34.2 % |
| Business | 12,075 | 9.6 % | 29,391 | 14.6 % | 45,643 | 32.3 % |
| Consumer and others ⁽¹⁾ | 3,136 | 2.5 % | 508 | 0.2 % | 366 | 0.3 % |
| Total loans originated | 111,877 | 88.7 % | 151,539 | 75.1 % | 114,496 | 81.0 % |
| Loans purchased ⁽²⁾ | 14,289 | 11.3 % | 50,144 | 24.9 % | 26,814 | 19.0 % |
| Total loans originated and purchased | 126,166 | 100.0 % | 201,683 | 100.0 % | 141,310 | 100.0 % |
| Loans sold/participated ⁽³⁾ | (5,608) | | (6,080) | | — | |
| Net additions to loan portfolio | \$ 120,558 | | \$ 195,603 | | \$ 141,310 | |

⁽¹⁾ Comprised of personal loans.

⁽²⁾ Comprised of \$4.0 million one-to-four family, \$5.8 million commercial real estate, \$0.6 million business and \$3.9 million consumer loans.

⁽³⁾ Comprised of commercial real estate loans.

Loans purchased by the Bank entail certain risks not necessarily associated with loans the Bank originates. The Bank's purchased loans are generally acquired without recourse to the seller, with certain exceptions related to the seller's compliance with representations and warranties, and in accordance with the Bank's underwriting criteria for originations. In addition, purchased loans have a variety of terms, including maturities, interest rate caps and indices for adjustment of interest rates, that may differ from those offered at that time by the Bank. The Bank initially seeks to purchase loans in its market area. However, the Bank may purchase loans secured by property outside its market area to meet its financial objectives. The market areas in which the properties that secure the purchased loans are located may differ from Carver Federal's market area and may be

subject to economic and real estate market conditions that may significantly differ from those experienced in Carver Federal's market area. There can be no assurance that economic conditions in these out-of-state markets will not deteriorate in the future, resulting in increased loan delinquencies and loan losses among the loans secured by property in these areas.

In an effort to reduce risks, the Bank has sought to ensure that purchased loans satisfy the Bank's underwriting standards and do not otherwise have a higher risk of collection or loss than loans originated by the Bank. A review of each loan is conducted prior to purchase, and the Bank also requires appropriate documentation and further seeks to reduce its risk by requiring, in each buy/sell agreement, a series of warranties and representations as to the underwriting standards and the enforceability of the related legal documents. These warranties and representations remain in effect for the life of the loan. Any misrepresentation must be cured within 90 days of discovery or trigger certain repurchase provisions in the buy/sell agreement.

Loan Maturity Schedule. The following table sets forth information at March 31, 2023 regarding the amount of loans maturing in Carver Federal's portfolio, including scheduled repayments of principal, based on contractual terms to maturity. Demand loans, loans having no schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The table below does not include any estimate of prepayments, which significantly shorten the average life of all mortgage loans and may cause Carver Federal's actual repayment experience to differ significantly from that shown below:

| <i>\$ in thousands</i> | Loan Maturities | | | | |
|-------------------------|------------------------|-------------------|-------------------|------------------|-------------------|
| | <1 Yr. | 1-5 Yrs. | 5-15 Yrs | 15+ Yrs. | Total |
| Gross loans receivable: | | | | | |
| One-to-four family | \$ 52 | \$ 244 | \$ 13,467 | \$ 51,208 | \$ 64,971 |
| Multifamily | 2,143 | 46,181 | 116,197 | 13,474 | 177,995 |
| Commercial real estate | 27,928 | 47,496 | 86,536 | 15,754 | 177,714 |
| Business | 24,628 | 27,363 | 107,064 | 7,885 | 166,940 |
| Consumer | 1,092 | 2,956 | 3,465 | — | 7,513 |
| Total | <u>\$ 55,843</u> | <u>\$ 124,240</u> | <u>\$ 326,729</u> | <u>\$ 88,321</u> | <u>\$ 595,133</u> |

The following table sets forth as of March 31, 2023, amounts in each loan category that are contractually due after March 31, 2024 and whether such loans have fixed or adjustable interest rates. Scheduled contractual principal repayments of loans do not necessarily reflect the actual lives of such assets. The average life of long-term loans is substantially less than their contractual terms due to prepayments. In addition, due-on-sale clauses in mortgage loans generally give Carver Federal the right to declare a conventional loan due and payable in the event, among other things, that a borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are higher than rates on existing mortgage loans and tends to decrease when current mortgage loan market rates are lower than rates on existing mortgage loans:

| <i>\$ in thousands</i> | Due After March 31, 2024 | | |
|-------------------------|---------------------------------|-------------------|-------------------|
| | Fixed | Adjustable | Total |
| Gross loans receivable: | | | |
| One-to-four family | \$ 49,601 | \$ 15,318 | \$ 64,919 |
| Multifamily | 48,486 | 127,366 | 175,852 |
| Commercial real estate | 44,317 | 105,469 | 149,786 |
| Business | 18,615 | 123,697 | 142,312 |
| Consumer | 6,421 | — | 6,421 |
| Total | <u>\$ 167,440</u> | <u>\$ 371,850</u> | <u>\$ 539,290</u> |

Asset Quality

General. One of the Bank's key operating objectives continues to be to maintain a high level of asset quality. Through a variety of strategies, including, but not limited to, monitoring loan delinquencies and borrower workout arrangements, the Bank has been proactive in addressing problem loans and non-performing assets.

The underlying credit quality of the Bank's loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the adequacy of the value of the collateral securing the loan. For non-owner occupied non-residential real estate and multifamily real estate loans, the borrower's ability to pay typically is dependent on rental income, which can be impacted primarily by vacancies and general market conditions. For owner-occupied one-to-four family loans, a borrowers' ability to pay typically is dependent primarily on

employment and other sources of income. For owner occupied non-residential real estate, a borrower's ability to pay typically is dependent primarily on the success of the borrower's business. For all of the Bank's loans, a borrower's ability to pay is also impacted by general economic and other factors, such as unanticipated expenditures or changes in the financial markets. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, maintenance and collection or foreclosure delays.

Non-performing Assets. Non-performing assets consist of nonaccrual loans, loans held-for-sale, and property acquired in settlement of loans (OREO), including foreclosure. When a borrower fails to make a payment on a loan, the Bank and/or its loan servicers take prompt steps to have the delinquency cured and the loan restored to current status. This includes a series of actions such as phone calls, letters, customer visits and, if necessary, legal action. In the event the loan has a guarantee, the Bank may seek to recover on the guarantee, including, where applicable, from the Small Business Administration (“SBA”). Loans that remain delinquent are reviewed for reserve provisions and charge-off. The Bank's collection efforts continue after the loan is charged off, except when a determination is made that collection efforts have been exhausted or are not productive.

The Bank may from time to time agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (“TDR”). Loans modified in a TDR are typically placed on nonaccrual status until the Bank determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months. At March 31, 2023, loans classified as TDR totaled \$7.6 million, of which \$6.0 million were classified as performing.

The following table sets forth information with respect to Carver Federal's non-performing assets, which includes nonaccrual loans, loans held-for-sale, and property acquired in settlement of loans as of March 31:

| <i>\$ in thousands</i> | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-----------|-----------|----------|----------|-----------|
| Loans accounted for on a nonaccrual basis ⁽¹⁾ : | | | | | |
| Gross loans receivable: | | | | | |
| One-to-four family | \$ 4,001 | \$ 4,892 | \$ 3,524 | \$ 3,582 | \$ 4,488 |
| Multifamily | 71 | 515 | 369 | 375 | 3,214 |
| Commercial real estate | 7,190 | 4,601 | 918 | — | 476 |
| Business | 998 | 1,448 | 2,290 | 2,797 | 2,051 |
| Consumer | 1 | 25 | 90 | 22 | 65 |
| Total nonaccrual loans | 12,261 | 11,481 | 7,191 | 6,776 | 10,294 |
| Other non-performing assets ⁽²⁾ | | | | | |
| Real estate owned | 60 | 60 | 60 | 120 | 404 |
| Total other non-performing assets | 60 | 60 | 60 | 120 | 404 |
| Total non-performing assets ⁽³⁾ | \$ 12,321 | \$ 11,541 | \$ 7,251 | \$ 6,896 | \$ 10,698 |
| Nonaccrual loans to total loans | 2.05 % | 1.98 % | 1.49 % | 1.58 % | 2.40 % |
| Non-performing loans to total loans | 2.05 % | 1.98 % | 1.49 % | 1.58 % | 2.40 % |
| Non-performing assets to total assets | 1.70 % | 1.57 % | 1.07 % | 1.19 % | 1.90 % |

⁽¹⁾ Nonaccrual status denotes any loan where the delinquency exceeds 90 days past due, or in the opinion of management, the collection of contractual interest and/or principal is doubtful. Payments received on a nonaccrual loan are either applied to the outstanding principal balance or recorded as interest income, depending on assessment of the ability to collect on the loan.

⁽²⁾ Other non-performing assets generally represent loans that the Bank is in the process of selling and has designated held-for-sale or property acquired by the Bank in settlement of loans less costs to sell (i.e. through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value.

⁽³⁾ Troubled debt restructured loans performing in accordance with their modified terms for less than six months and those not performing in accordance with their modified terms are considered nonaccrual and are included in the nonaccrual category in the table above. TDR loans included in the nonaccrual category above totaled \$1.6 million at 2023, \$1.7 million at 2022, \$1.8 million at 2021, \$2.2 million at 2020, and \$3.2 million at 2019. TDR loans that have performed in accordance with their modified terms for a period of at least six months are generally considered performing loans and are not presented in the table above. Performing TDR loans were \$6.0 million at 2023, \$5.2 million at 2022, \$5.8 million at 2021, \$1.7 million at 2020, and \$2.2 million at 2019.

At March 31, 2023, total non-performing assets increased by \$780 thousand, or 6.8%, to \$12.3 million, compared to \$11.5 million at March 31, 2022, as a result of a \$780 thousand increase in nonaccrual loans, year over year. Nonaccrual loans at March 31, 2023 consisted of twelve one-to-four family, one multifamily, four commercial real estate, five business, and two consumer loans. Management believes that there may be losses associated with certain delinquent loans in the future, but also notes that the amount of losses may be reduced by the value of properties securing these delinquent loans and the Bank's loan

loss reserves. Other non-performing assets at year-end 2023 includes real estate owned assets consisting of one foreclosed residential property. At March 31, 2023, Carver had 9 loans secured by one-to-four family residential real estate properties in the process of foreclosure with a total outstanding balance of \$3.2 million.

Although we believe that substantially all risk elements at March 31, 2023 have been disclosed, other factors, including economic conditions, may cause borrowers to be unable to comply with the contractual repayment terms on certain real estate and commercial loans. For additional information about certain factors that may affect the future performance of the Company's loan portfolio, please see "Item 1A - Risk Factors" and "Forward Looking Statements."

Asset Classification and Allowances for Losses. Federal regulations and the Bank's policies require the classification of assets on the basis of credit quality on a quarterly basis. An asset is classified as "substandard" if it is determined to be inadequately protected by the current net worth and paying capacity of the obligor or the current value of the collateral pledged, if any. An asset is classified as "doubtful" if full collection is highly questionable or improbable. An asset is classified as "loss" if it is considered uncollectible, even if a partial recovery could be expected in the future. The regulations also provide for a "special mention" designation, described as assets that do not currently expose a savings institution to a sufficient degree of risk to warrant substandard classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful result in a higher level of allowances for loan losses recorded in accordance with ASC Subtopic 450-20 "Loss Contingencies." If an asset or portion thereof is classified as a loss, a savings institution must charge off any amount exceeding the fair value of collateral pursuant to loan impairment guidance in ASC Section 310-10-35. If a savings institution does not agree with an examiner's classification of an asset, it may appeal this determination to the OCC Regional Director.

The OCC, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan losses and lease losses ("ALLL"). The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of general valuation guidelines. Generally, the policy statement recommends that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management analyze all significant factors that affect the ability to collect the portfolio in a reasonable manner; and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. 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. Although management believes that adequate specific and general loan loss allowances have been established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may become necessary. For additional information regarding Carver Federal's ALLL policy, refer to Note 2 of Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies."

The Board has designated the Management Credit Review Committee for management to perform a review on a quarterly basis of the Bank's asset quality, determine and properly identify and monitor credit risk in the loan portfolio and determine that the Bank's allowance for loan and lease losses is proper and appropriate and submit their report to the Board for review. Carver Federal's methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific loans as well as losses that have not been identified but can be expected to occur. Further, management reviews the ratio of allowances to total loans and recommends adjustments to the level of allowances accordingly. Although management believes it uses the best information available to make determinations with respect to the allowances for losses, future adjustments may be necessary if economic conditions differ from the economic conditions in the assumptions used in making the initial determinations, or if circumstances pertaining to individual loans change, or new information pertaining to individual loans or the loan portfolio is identified. The Bank has a centralized loan servicing structure that relies upon outside servicers, each of which generates a monthly report of delinquent loans. The Asset Liability and Interest Rate Risk Committees of the Board establish policy relating to internal classification of loans and also provide input to the Credit Review Committee in its review of classified assets. In originating loans, Carver Federal recognizes that credit losses will occur and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan.

It is management's policy to maintain a general allowance for loan losses based on, among other things, regular reviews of delinquencies and loan portfolio quality, character and size, the Bank's and the industry's historical and projected loss experience and current and forecasted economic conditions and certain qualitative factors. In addition, considerable uncertainty exists as to the future improvement or deterioration of the real estate market. See "Lending Activities-Loan

Purchases and Originations.” Carver Federal increases its allowance for loan losses by charging provisions for possible losses against the Bank’s income. General allowances are established by management on at least a quarterly basis based on an assessment of risk in the Bank’s loans, taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, the state of the real estate market and economic conditions generally. Specific allowances are provided for individual loans, or portions of loans, when ultimate collection is considered improbable by management based on the current payment status of the loan and the fair value or net realizable value of the security for the loan. A loan is deemed impaired when it is probable the Bank will be unable to collect both principal and interest due according to the contractual terms of the loan agreement. Loans the Bank individually classifies as impaired include multifamily mortgage loans, commercial real estate loans, construction loans and business loans which have been classified by the Bank’s credit review officer as substandard, doubtful or loss for which it is probable that principal and interest will not be collected in accordance with the loan’s contractual terms, and certain loans modified in a troubled debt restructuring. A charge off is recognized on collateral dependent loans when the fair value of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. A valuation allowance for cash flow dependent loans is established when based upon a discounted cash flow analysis, impairment is demonstrated.

At the date of foreclosure or other repossession, the Bank transfers the property to real estate acquired in settlement of loans, or other real estate owned ("OREO"), at fair value less estimated selling costs. Fair value is defined as the amount in cash or cash-equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller. Any amount of cost in excess of fair value is charged off against the allowance for loan losses prior to the transfer of the property into OREO. Carver Federal records an allowance for estimated selling costs of the property immediately after foreclosure. Subsequent to taking possession of the property, management periodically evaluates the property and an allowance is established if the estimated fair value of the property, less estimated costs to sell, declines. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of real estate is recorded, providing the Bank did not provide financing for the sale.

The following table sets forth an analysis of Carver Federal’s allowance for loan losses at and for the years ended March 31:

| <i>\$ in thousands</i> | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|----------|----------|----------|----------|------------|
| Beginning Balance | \$ 5,624 | \$ 5,140 | \$ 4,946 | \$ 4,646 | \$ 5,126 |
| Less Charge-offs: | | | | | |
| One-to-four family | — | — | — | (12) | (151) |
| Multifamily | — | — | — | — | (164) |
| Commercial real estate | (586) | — | — | — | — |
| Business | — | — | (24) | (69) | (964) |
| Consumer and other | (141) | (257) | (54) | (102) | (19) |
| Total Charge-offs | \$ (727) | \$ (257) | \$ (78) | \$ (183) | \$ (1,298) |
| Add Recoveries: | | | | | |
| One-to-four family | 90 | 13 | 88 | 302 | 190 |
| Multifamily | — | — | — | — | 158 |
| Commercial real estate | 10 | — | — | — | — |
| Business | 127 | 102 | 278 | 160 | 705 |
| Consumer and other | 5 | 23 | 6 | 2 | 35 |
| Total Recoveries | \$ 232 | \$ 138 | \$ 372 | \$ 464 | \$ 1,088 |
| Net recoveries (charge-offs) | (495) | (119) | 294 | 281 | (210) |
| Provision for (recovery of) losses | | | | | |
| One-to-four family | (105) | (340) | (85) | (509) | 25 |
| Multifamily | (5) | 234 | (131) | 126 | (928) |
| Commercial real estate | 1,233 | 250 | 95 | 46 | (286) |
| Construction | — | — | — | — | — |
| Business | (1,485) | 540 | 34 | 146 | 586 |
| Consumer and other | 462 | 192 | 1 | 158 | 120 |
| Unallocated | — | (273) | (14) | 52 | 213 |
| Total provision for (recovery of) losses | 100 | 603 | (100) | 19 | (270) |
| Ending balance | \$ 5,229 | \$ 5,624 | \$ 5,140 | \$ 4,946 | \$ 4,646 |

Ratios:

| Net recoveries (charge-offs) to average loans outstanding: | | | | | |
|--|---------|----------|---------|---------|---------|
| One-to-four family | 0.13 % | 0.02 % | 0.10 % | 0.26 % | 0.03 % |
| Multifamily | — % | — % | — % | — % | (0.01)% |
| Commercial real estate | (0.33)% | — % | — % | — % | — % |
| Business | 0.08 % | 0.06 % | 0.23 % | 0.10 % | (0.26)% |
| Consumer and other | (5.60)% | (11.55)% | (1.62)% | (2.68)% | 0.34 % |
| Total loans | (0.09)% | (0.02)% | 0.06 % | 0.07 % | (0.05)% |
| Allowance to total loans | 0.87 % | 0.97 % | 1.06 % | 1.15 % | 1.08 % |
| Allowance to nonaccrual loans | 42.65 % | 48.99 % | 71.48 % | 72.99 % | 45.13 % |

The following table allocates the allowance for loan losses by asset category at March 31:

| <i>\$ in thousands</i> | 2023 | | 2022 | | 2021 | | 2020 | | 2019 | |
|------------------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|
| | Amount | % of Total ALLL | Amount | % of Total ALLL | Amount | % of Total ALLL | Amount | % of Total ALLL | Amount | % of Total ALLL |
| One-to-four family | \$ 716 | 13.7 % | \$ 731 | 13.0 % | \$ 1,058 | 20.6 % | \$ 1,055 | 21.3 % | \$ 1,274 | 27.4 % |
| Multifamily | 1,109 | 21.2 % | 1,114 | 19.8 % | 880 | 17.1 % | 1,011 | 20.5 % | 885 | 19.1 % |
| Commercial real estate | 1,814 | 34.7 % | 1,157 | 20.6 % | 907 | 17.6 % | 812 | 16.4 % | 766 | 16.5 % |
| Business | 1,139 | 21.8 % | 2,497 | 44.4 % | 1,855 | 36.1 % | 1,567 | 31.7 % | 1,330 | 28.6 % |
| Consumer and other | 449 | 8.6 % | 123 | 2.2 % | 165 | 3.2 % | 212 | 4.3 % | 154 | 3.3 % |
| Unallocated | 2 | — % | 2 | — % | 275 | 5.4 % | 289 | 5.8 % | 237 | 5.1 % |
| Total Allowance | \$ 5,229 | 100.0 % | \$ 5,624 | 100.0 % | \$ 5,140 | 100.0 % | \$ 4,946 | 100.0 % | \$ 4,646 | 100.0 % |

The changes in the ALLL by loan category was primarily due to the increase in commercial real estate and consumer loans and decrease in business loans during fiscal year 2023. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

Investment Activities

General. The Bank utilizes mortgage-backed and other investment securities in its asset/liability management strategy. In making investment decisions, the Bank considers, among other things, its yield and interest rate objectives, its interest rate and credit risk position and its liquidity and cash flow.

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. Securities are classified into one of three categories: trading, held-to-maturity, and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings. Debt securities for which the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. All other securities not classified as trading or held-to-maturity are classified as available-for-sale and reported at fair value with unrealized gains and losses included, on an after-tax basis, in a separate component of stockholders' equity. At March 31, 2023, the Bank had no securities classified as trading. At March 31, 2023, \$53.8 million, or 95.9% of the Bank's mortgage-backed and other investment securities, were classified as available-for-sale. The remaining \$2.3 million, or 4.1%, were classified as held-to-maturity.

The following table sets forth the amortized cost, fair value and weighted average yields of the Bank's investment portfolio at March 31, 2023, categorized by remaining period to contractual maturity:

| \$ in thousands | Due 1 - 5 Years | | | Due 5 - 10 Years | | | Due after 10 Years | | |
|--|-----------------|-----------------|------------------------|------------------|-----------------|------------------------|--------------------|-----------------|------------------------|
| | Amortized Cost | Fair Value | Weighted Average Yield | Amortized Cost | Fair Value | Weighted Average Yield | Amortized Cost | Fair Value | Weighted Average Yield |
| Available-for-Sale: | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| Government National Mortgage Association | \$ — | \$ — | — % | \$ — | \$ — | — % | \$ 341 | \$ 341 | 2.57 % |
| Federal Home Loan Mortgage Corporation | — | — | — % | — | — | — % | 21,651 | 17,600 | 1.62 % |
| Federal National Mortgage Association | — | — | — % | — | — | — % | 11,714 | 9,502 | 1.62 % |
| Total mortgage-backed securities | — | — | — % | — | — | — % | 33,706 | 27,443 | 1.63 % |
| U.S. Government Agency Securities | — | — | — % | 3,004 | 2,986 | 5.65 % | 6,360 | 6,340 | 5.65 % |
| Corporate Bonds | — | — | — % | — | — | — % | 5,269 | 3,092 | 2.61 % |
| Muni securities | — | — | — % | 2,676 | 2,345 | 2.67 % | 15,043 | 11,637 | 2.25 % |
| Total available-for-sale | <u>\$ —</u> | <u>\$ —</u> | <u>— %</u> | <u>\$ 5,680</u> | <u>\$ 5,331</u> | <u>4.34 %</u> | <u>\$ 60,378</u> | <u>\$48,512</u> | <u>2.37 %</u> |
| Held-to-Maturity: | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| Government National Mortgage Association | \$ 65 | \$ 64 | 3.49 % | \$ — | \$ — | — % | \$ 301 | \$ 299 | 4.34 % |
| Federal National Mortgage Association | 1,473 | 1,404 | 2.68 % | 444 | 419 | 2.19 % | 35 | 35 | — % |
| Total held-to-maturity | <u>\$ 1,538</u> | <u>\$ 1,468</u> | <u>2.71 %</u> | <u>\$ 444</u> | <u>\$ 419</u> | <u>2.19 %</u> | <u>\$ 336</u> | <u>\$ 334</u> | <u>3.89 %</u> |

Mortgage-Backed Securities. The Bank has invested in mortgage-backed securities to help achieve its asset/liability management goals and collateral needs. Although mortgage-backed securities generally yield less than whole loans, they present substantially lower credit risk, are more liquid than individual mortgage loans and may be used to collateralize obligations of the Bank. Because Carver Federal receives regular payments of principal and interest from its mortgage-backed securities, these investments provide more consistent cash flows than investments in other debt securities, which generally only pay principal at maturity. Mortgage-backed securities also help the Bank meet certain definitional tests for favorable treatment under federal banking and tax laws. See "Regulation and Supervision-Federal Banking Regulation-Qualified Thrift Lender Test" and "Federal and State Taxation."

Mortgage-backed securities constituted 4.1% of total assets at March 31, 2023, compared to 5.3% at March 31, 2022. Carver Federal maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association

("GNMA") pass-through certificates, FNMA mortgage-backed securities and FHLMC mortgage-backed securities. GNMA pass-through certificates are guaranteed as to the payment of principal and interest by the full faith and credit of the United States Government, while FNMA and FHLMC securities are each guaranteed by their respective agencies as to principal and interest. Mortgage-backed securities generally entitle Carver Federal to receive a pro-rata portion of the cash flows from an identified pool of mortgages. The cash flows from such pools are segmented and paid in accordance with a predetermined priority to various classes of securities issued by the entity. Carver Federal has also invested in pools of loans guaranteed as to principal and interest by the SBA.

The Bank seeks to manage interest rate risk by investing in adjustable-rate mortgage-backed securities, which at March 31, 2023, constituted \$491 thousand, or 1.6%, of the mortgage-backed securities portfolio. Mortgage-backed securities, however, expose Carver Federal to certain unique risks. In a declining rate environment, accelerated prepayments of loans underlying these securities expose Carver Federal to the risk that it will be unable to obtain comparable yields upon reinvestment of the proceeds. In the event the mortgage-backed security has been funded with an interest-bearing liability with maturity comparable to the original estimated life of the mortgage-backed security, the Bank's interest rate spread could be adversely affected. Conversely, in a rising interest rate environment, the Bank may experience a lower than estimated rate of repayment on the underlying mortgages, effectively extending the estimated life of the mortgage-backed security and exposing the Bank to the risk that it may be required to fund the asset with a liability bearing a higher rate of interest. For additional information regarding Carver Federal's mortgage-backed securities portfolio and its maturities refer to Note 3 of Notes to Consolidated Financial Statements, "Investment Securities."

Other Investment Securities. In addition to mortgage-backed securities, the Bank also invests in assets such as government and agency obligations, corporate bonds and mutual funds. Carver Federal is permitted under federal law to make certain investments, including investments in securities issued by various federal agencies and state and municipal governments, deposits at the FHLB-NY, certificates of deposit in federally insured institutions, certain bankers' acceptances and federal funds. The Bank may also invest, subject to certain limitations, in commercial paper having one of the two highest investment ratings of a nationally recognized credit rating agency, and certain other types of corporate debt securities and mutual funds (See Note 3 of Notes to Consolidated Financial Statements).

Other Earning Assets. Federal regulations require the Bank to maintain an investment in FHLB-NY stock and a sufficient amount of liquid assets which may be invested in cash and specified securities. For additional information, see "Regulation and Supervision-Federal Banking Regulation-Liquidity."

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). Securities that the Bank has the 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 Bank's portfolio are based on published or securities dealers' market values and are affected by changes in interest rates. On a quarterly basis, the Bank 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. Following FASB guidance, the amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security which management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other comprehensive income (loss). This guidance also requires additional disclosures about investments in an unrealized loss position and the methodology and significant inputs used in determining the recognition of other-than-temporary impairment. The Bank does not have any securities that are classified as having other-than-temporary impairment in its investment portfolio at March 31, 2023.

Sources of Funds

General. Deposits are the primary source of Carver Federal's funds for lending and other investment purposes. In addition to deposits, Carver Federal derives funds from loan principal repayments, loan and investment interest payments, maturing investments and fee income. Loan and mortgage-backed securities repayments and interest payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by prevailing market interest rates, pricing of deposits, competition and general economic conditions. Borrowed money may be used to supplement the Bank's available funds, and from time to time the Bank borrows funds from the FHLB-NY and has borrowed funds through trust preferred debt securities.

Deposits. Carver Federal attracts deposits from consumers, businesses, non-profit organizations and public entities through its seven branches principally from within its market area by offering a variety of deposit instruments, including passbook and statement accounts and certificates of deposit, which range in term from 6 months to five years. Deposit terms vary, principally on the basis of the minimum balance required, the length of time the funds must remain on deposit and the interest rate. Carver Federal also offers Individual Retirement Accounts. Carver Federal's policies are designed primarily to attract deposits from local residents and businesses through the Bank's branches. In fiscal year 2021 the Bank launched a program introducing new products and expanded its digital online account openings into nine states across the Northeast and in Washington D.C. Carver Federal also holds deposits from various governmental agencies or authorities and corporations.

Carver Federal utilizes brokered deposits as an additional funding source and to assist in the management of the Bank's interest rate risk. Carver Federal has obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, or when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Carver has obtained brokered deposits from a variety of brokerage firms. In addition, Carver has obtained brokered deposits through the Depository Trust Company. This allows us to better manage the maturity of our deposits and our interest rate risk. Carver Federal has also utilized brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor. As of March 31, 2023, Carver had a total of \$17.6 million in brokered deposits, compared to \$64.2 million as of March 31, 2022. Brokered deposits as of March 31, 2022 included \$46.4 million CDARS deposits.

As of March 31, 2023, the Bank has \$84.4 million of reciprocal deposits acquired through its participation in the Certificate of Deposit Account Registry Service ("CDARS"). The Bank's CDARS deposits totaled \$46.4 million as of March 31, 2022. The CDARS network arranges for placement of Carver Federal's customer funds into certificate of deposit accounts issued by other CDARS member banks. The certificate of deposit accounts are in increments of less than the individual FDIC insurance limit amount, to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows the Bank to maintain its customer relationship while still providing its customers with FDIC insurance for the full amount of their deposits, up to \$50 million per customer. In exchange, Carver Federal receives from other member banks their customers' deposits in like amounts. Depositors are allowed to withdraw funds early, with a penalty, from these accounts. Carver Federal may elect to participate in the program by making or receiving deposits without making or receiving a reciprocal deposit. As a result of the Dodd-Frank Act, the standard maximum deposit insurance amount is \$250,000.

Deposit interest rates, maturities, service fees and withdrawal penalties on deposits are established based on the Bank's funds acquisition and liquidity requirements, the rates paid by the Bank's competitors, current market rates, the Bank's growth goals and applicable regulatory restrictions and requirements. For additional information regarding the Bank's deposit accounts and the related weighted average interest rates paid, and amount and maturities of certificates of deposit in specified weighted average interest rate categories, refer to Note 8 of the Notes to Consolidated Financial Statements, "Deposits."

Borrowed Funds. While deposits are the primary source of funds for Carver Federal's lending, investment and general operating activities, Carver Federal is authorized to use advances from the FHLB-NY and securities sold under agreements to repurchase ("Repos") from approved primary dealers to supplement its supply of funds and to meet deposit withdrawal requirements. The FHLB-NY functions as a central bank providing credit for savings institutions and certain other member financial institutions. As a member of the FHLB system, Carver Federal is required to own stock in the FHLB-NY and is authorized to apply for advances. Advances are made pursuant to several different programs, each of which has its own interest rate and range of maturities. Advances from the FHLB-NY are secured by Carver Federal's stock in the FHLB-NY and a pledge of Carver Federal's mortgage loan and mortgage-backed and agency securities portfolios. The Bank takes into consideration the term of borrowed money with the repricing cycle of the mortgage loans on the balance sheet.

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 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 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 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. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures had been deferred beginning with the December 2016

payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval. During the fourth quarter of fiscal year 2021, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through June 2021. Full payment on the outstanding debenture interest was made on June 16, 2021. The Company deferred the September 17, 2021 interest payment, but has since had discussions with the Federal Reserve Bank of Philadelphia regarding future quarterly payments. A streamlined process has been developed for the Company to request regulatory approval to make debenture interest payments. On December 16, 2021, the Company paid the interest deferred from September 17, 2021 and the regular quarterly interest payment due on December 17, 2021. Subsequently, the Company made the regular quarterly interest payments on its outstanding debentures due on March 17, 2022, June 17, 2022, September 17, 2022, December 19, 2022 and March 17, 2023. The interest rate was 8.0% at March 31, 2023.

Carver relies, in part, on dividends from Carver Federal to pay cash dividends to its stockholders and to engage in share repurchase programs. In recent years, Carver has been successful in obtaining cash independently through its capital raising efforts. Under the prior Formal Agreement, the OCC regulated all capital distributions, including dividend payments, by Carver Federal to the Company, and the FRB regulates dividends paid by the Company. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in Carver Federal's failure to meet the OCC minimum capital requirements. Carver has suspended its regular quarterly cash dividend on its common stock.

REGULATION AND SUPERVISION

Enforcement Actions

On May 24, 2016, the Bank entered into a formal agreement (the "Formal Agreement") with the OCC to undertake certain compliance-related and other actions as further described in the Company's Report on Form 8-K as filed with the SEC on May 27, 2016. On January 18, 2023, the Bank was released from the Formal Agreement by the OCC as further described in the Company's Current Report on Form 8-K as filed with the SEC on January 23, 2023.

The OCC has established higher minimum capital requirements for the Bank. For further information with respect to the Individual Minimum Capital Ratios ("IMCR"), effective June 29, 2016, refer to "Capital and Liquidity - Carver Federal's Capital Position."

The Company continues to be subject to certain requirements pursuant to the Memorandum of Understanding dated October, 20, 2016 with the FRB. The Company must provide notice to the FRB prior to affecting any change in its directors or senior executive officers. The Company is also subject to the restrictions on golden parachute and indemnification payments, as set forth in 12 C.F.R. Part 359. Written approval of the Federal Reserve Bank is required prior to: (1) the declaration or payment of dividends by the Company to its stockholders, (2) the declaration or payment of dividends by the Bank to the Company, (3) any distributions of interest or principal by the Company on subordinated debentures or trust preferred securities, (4) any purchases or redemptions of the Company's stock and (5) the Company incurring, increasing or guaranteeing certain long-term debt outside the ordinary course of business. These limitations may affect our operations and financial performance.

General

The Bank is subject to extensive regulation, examination and supervision by its primary regulator, the OCC. The Bank's deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund. The Bank is a member of the FHLB-NY. The Bank must file reports with the OCC concerning its activities and financial condition, and it must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions. The Company, as a unitary savings and loan holding company, is subject to regulation, examination and supervision by the FRB and is required to file certain reports with, and otherwise comply with, the rules and regulations of the FRB and of the SEC under the federal securities laws. The OCC periodically performs safety and soundness examinations of the Bank and tests compliance with various regulatory requirements. The OCC has primary enforcement responsibility over federally chartered savings banks and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the FDIC has the authority to recommend to the Director of the OCC that enforcement action be taken with respect to a particular federally chartered savings bank and, if action is not taken by the Director, the FDIC has authority to take such action under certain circumstances.

The description of statutory provisions and regulations applicable to federally chartered savings banks and their holding companies and of tax matters set forth in this document does not purport to be a complete description of all such statutes and

regulations and their effects on the Bank and the Company. Any change in such laws and regulations whether by the OCC, the FDIC, the FRB or through legislation could have a material adverse impact on the Bank and the Company and their operations and stockholders.

Capital and Liquidity

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is authorized and, in some cases, required to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank would be placed in one of the following five categories based on the bank's regulatory capital: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. Generally, a capital restoration plan must be filed with the OCC within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion.

Under OCC regulations, a federally chartered savings bank is treated as well-capitalized if its total risk-based capital ratio is 10% or greater, its Tier 1 risk-based capital ratio is 8% or greater, its common equity Tier 1 capital ratio is 6.5% or greater, and its leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions as they deem necessary.

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, required that the OCC and other federal banking agencies revise their risk-based capital standards to ensure that the standards take into account interest rate risk ("IRR") concentration of risk and the risks of non-traditional activities. The OCC monitors the IRR of individual institutions through a variety of means, including an analysis of the change in net portfolio value ("NPV"). NPV is defined as the net present value of the expected future cash flows of an entity's assets and liabilities and, therefore, hypothetically represents the value of an institution's net worth. The OCC has also used this NPV analysis as part of its evaluation of certain applications or notices submitted by thrift institutions. In addition, OCC Bulletin 2010-1 provides guidance on the management of IRR and the responsibility of boards of directors in that area. The OCC, through its general oversight of the safety and soundness of savings associations, retains the right to impose minimum capital requirements on individual institutions to the extent the institution is not in compliance with certain written guidelines established by the OCC regarding NPV analysis.

Carver Federal's Capital Position. Federal regulations require depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8%, and a Tier 1 capital to total assets leverage ratio of 4%. Federal savings banks must also meet a tangible capital ratio of 1.5%.

For purposes of the regulatory capital requirements, a higher risk weight (150%) is assigned to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. Unrealized gains and losses on certain "available-for-sale" securities holdings are required to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Carver Federal has chosen to opt-out and, therefore, does not include accumulated other comprehensive income (AOCI) in its regulatory capital determinations. Additional constraints are also imposed on the inclusion in regulatory capital of certain mortgage-servicing assets, deferred tax assets and minority interests. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the OCC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions when deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

Legislation enacted in May 2018 required the federal banking agencies, including the OCC, to establish for qualifying institutions with assets of less than \$10 billion a “community bank leverage ratio” that ranges between 8 to 10% of consolidated assets. Institutions with capital complying with the ratio and otherwise meeting the specified requirements (including off-balance sheet exposures of 25% or less of total assets and trading assets and liabilities of 5% or less of total assets) and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. Such institutions are also considered "well-capitalized" for prompt corrective action purposes.

The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2020. Pursuant to federal legislation enacted in 2020, the community bank leverage ratio was temporarily lowered to 8% for 2020. Another rule was issued to increase the ratio to 8.5% for calendar year 2021 and to 9% thereafter. A qualifying bank may opt in and out of the community bank leverage ratio framework on its quarterly call report. A bank that ceases to meet any qualifying criteria is provided with a two-quarter grace period to comply with the community bank leverage ratio requirements or the general capital regulations by the federal regulators. As of March 31, 2023, the Bank has not opted into the alternative framework.

Carver Federal, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed minimum requirements and are consistent with Carver Federal’s risk profile. The IMCR established by the OCC on June 29, 2016, as a result of the previously described Formal Agreement, requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. While the Formal Agreement was terminated on January 18, 2023, the IMCR remains in effect. At March 31, 2023, Carver Federal exceeded the capital regulatory requirements and its IMCR requirements with a common equity Tier 1 ratio of 12.47%, Tier 1 leverage ratio of 10.61%, total risk-based capital ratio of 13.37% and a Tier 1 risk-based capital ratio of 12.47%.

Limitation on Capital Distributions. There are various restrictions on a bank's ability to make capital distributions, including cash dividends, payments to repurchase or otherwise acquire its shares and other distributions charged against capital. A savings institution that is the subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the FRB at least 30 days before making a capital distribution and receive the FRB's nonobjection. The Bank must also file an application or notice for prior approval with the OCC if the total amount of its capital distributions (including each proposed distribution), for the applicable calendar year would exceed the Bank's net income for that year plus the Bank's retained net income for the previous two years, if the Bank is not an "eligible savings association" as defined in OCC regulations or the capital distributions would violate a prohibition contained in any statute, regulation or agreement.

The Bank may be prohibited from making capital distributions and its application or notice disapproved if:

- (1) the Bank would be undercapitalized following the distribution;
- (2) the proposed capital distribution raises safety and soundness concerns; or
- (3) the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Liquidity. The Bank maintains a liquidity policy to maintain sufficient liquidity to ensure its safe and sound operations. In the normal course of business, the levels of liquid assets during any given period are dependent on operating, investing and financing activities. Cash and due from banks, federal funds sold and repurchase agreements with maturities of three months or less are the Bank's most liquid assets. 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, including interest payments on our subordinated debt securities.

Standards for Safety and Soundness

Standards for Safety and Soundness. The OCC has adopted guidelines prescribing safety and soundness standards. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. OCC regulations authorize the OCC to order an institution that has been given notice that it is not satisfying these safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement an accepted compliance plan, the OCC must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized association is subject under the “prompt corrective action” provisions of federal law. If

an institution fails to comply with such an order, the OCC may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Enforcement. The OCC has primary enforcement responsibility over the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

TARP

The Emergency Economic Stabilization Act of 2008 (“EESA”) was signed into law on October 3, 2008 and authorized the U.S. Department of the Treasury (“Treasury”) to establish the Troubled Asset Relief Program (“TARP”) to purchase certain troubled assets from financial institutions, including banks and thrifts.

On October 14, 2008, the Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the “TARP CPP”), the Treasury made \$250 billion of capital available (from the \$700 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. On January 20, 2009, the Company announced that it completed the sale of \$18.98 million in preferred stock to the Treasury in connection with Carver's participation in the TARP CPP.

The Treasury announced in February 2010 the implementation of the Community Development Capital Initiative (“CDCI”). This new capital program invested lower cost capital in CDFIs that lend to small businesses in the country's most economically depressed communities. On August 27, 2010, Carver completed with the Treasury the exchange of the \$18.98 million of TARP preferred stock for an equivalent amount of CDCI Series B preferred stock. On October 28, 2011, the U.S. Treasury exchanged the CDCI Series B preferred stock for 2,321,286 shares of Company common stock.

On August 6, 2020, the Company entered into a Share Purchase Agreement with the Treasury to repurchase the 2,321,286 shares of Company common stock held by the Treasury. As a result, the Company is no longer a participant in the CDCI program and is not bound by any TARP restrictions as the Treasury is no longer a common stockholder of the Company. For more information concerning the Bank's repurchase of treasury shares, see Note 12 of the Notes to the Consolidated Financial Statements.

Other Supervision and Regulation

Activity Powers. The Bank derives its lending and investment powers from the Home Owners' Loan Act (“HOLA”), as amended, and federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that may engage in certain activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage. The Bank's authority to invest in certain types of loans or other investments is limited by federal law. These investment powers are subject to various limitations, including (1) a prohibition against the acquisition of any corporate debt security that is not rated in one of the four highest rating categories, (2) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property, (3) a limit of 20% of an association's assets on commercial loans, with the amount of commercial loans in excess of 10% of assets being limited to small business loans, (4) a limit of 35% of an association's assets on the aggregate amount of consumer loans and acquisitions of certain debt securities, (5) a limit of 5% of assets on non-conforming loans (certain loans in excess of the specific limitations of HOLA), and (6) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property.

Loans-to-One Borrower Limitations. The Bank is generally subject to the same limits on loans-to-one borrower as a national bank. With specified exceptions, the Bank's total loans or extension of credit to a single borrower or group of related borrowers may not exceed 15% of the Bank's unimpaired capital and unimpaired surplus, which does not include accumulated other comprehensive income. The Bank currently complies with applicable loans-to-one borrower limitations. At March 31, 2023, the Bank's limit on loans-to-one borrower based on its unimpaired capital and surplus was \$12.0 million.

Qualified Thrift Lender Test. Under HOLA, the Bank must comply with a Qualified Thrift Lender (“QTL”) test. Under this test, the Bank is required to maintain at least 65% of its “portfolio assets” in certain “qualified thrift investments” on a monthly basis in at least nine months of the most recent twelve-month period. “Portfolio assets” means, in

general, an association's total assets less the sum of (a) specified liquid assets up to 20% of total assets, (b) goodwill and other intangible assets and (c) the value of property used to conduct the Bank's business. "Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities and consumer loans. If the Bank fails the QTL test, it must operate under certain restrictions on its activities. The Dodd-Frank Act made noncompliance potentially subject to agency enforcement action for violation of law. At March 31, 2023, the Bank maintained approximately 97% of its portfolio assets in qualified thrift investments. The Bank had also met the QTL test in each of the prior 12 months and was, therefore, a qualified thrift lender.

Branching. Subject to certain limitations, federal law permits the Bank to establish branches in any state of the United States. The authority for the Bank to establish an interstate branch network would facilitate a geographic diversification of the Bank's activities. This authority under federal law and regulations preempts any state law purporting to regulate branching by federal savings associations.

Community Reinvestment Act ("CRA") Under the CRA, as amended, and implemented by OCC regulations, the Bank has a continuing and affirmative obligation to help meet the credit needs of its entire community, including those in low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for the Bank nor does it limit the Bank's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does, however, require the primary regulator, in connection with its examination of the Bank, to assess the Bank's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the Bank.

While CRA modernization is underway, the current evaluation system focuses on three tests:

- (1) a lending test, to evaluate the institution's record of making loans in its assessment areas;
- (2) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and
- (3) a service test, to evaluate the institution's delivery of banking services through its branches, ATM centers and other offices.

The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received an "Outstanding" CRA rating in its most recent examination conducted in March 2022.

Regulations require that Carver Federal publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreements in place at this time.

In June 2020, the OCC issued amendments to its CRA evaluations. The final rule clarified and expanded the activities that qualify for CRA credit, updated where activities count for such credit and, according to the agency, sought to create a more consistent and objective method for evaluating CRA performance. The final rule was issued effective October 1, 2020 with compliance of some key changes earmarked for implementation by January 1, 2023. However, small banks were not expected to be impacted by the 2020 Rule. Subsequently, in May 2022, based on substantial industry feedback, the OCC rescinded its 2020 Rule in favor of a more comprehensive, realistic, and interagency approach to CRA modernization with Notice of Proposed Rulemaking comments ending as of August 2022. Implementation of new rules and evaluation methodology has been delayed to 2024. CRA modernization endeavors to address inequities in access to credit for low- and moderate-income individuals and communities by strengthening the legacy legislation, while also adapting to changes in the banking industry specifically acknowledging the use of mobile and digital banking in regulatory evaluations.

Transactions with Related Parties. The Bank's authority to engage in transactions with its "affiliates" is limited by federal regulations and by Sections 23A and 23B of the Federal Reserve Act. In general, these transactions must be on terms which are as favorable to the Bank as comparable transactions with non-affiliates. Additionally, certain types of these transactions are restricted to an aggregate percentage of the Bank's capital. Collateral in specified amounts must usually be provided by affiliates to receive loans from the Bank. In addition, OCC regulations prohibit a savings bank from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to its directors, executive officers, and 10% shareholders ("insiders"), as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that all loans or

extensions of credit to insiders (a) be made on terms that are substantially the same as and follow credit underwriting procedures that are not less stringent than those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features and (b) not exceed certain limitations, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board. The aggregate amount of related party deposits were \$4.9 million and there was one related party loan totaling \$30 thousand at March 31, 2023.

Assessment. The OCC charges assessments to recover the cost of examining savings associations and their affiliates. These assessments are based on three components: the size of the association, on which the basic assessment is based; the association's supervisory condition, which results in an additional assessment based on a percentage of the basic assessment for any savings institution with a composite rating of 3, 4, or 5 in its most recent safety and soundness examination; and the complexity of the association's operations, which results in an additional assessment based on a percentage of the basic assessment for any savings association that managed over \$1 billion in trust assets, serviced for others loans aggregating more than \$1 billion, or had certain off-balance sheet assets aggregating more than \$1 billion. For fiscal 2023, Carver paid \$203 thousand in regulatory assessments.

Insurance of Deposit Accounts

Under the FDIC's risk-based assessment system, institutions deemed less risky pay lower assessments. Assessments for institutions of less than \$10 billion of assets are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years.

The Dodd-Frank Act required the FDIC to revise its procedures to base assessments upon each insured institution's total assets less tangible equity instead of deposits. The current assessment range (inclusive of possible adjustments) for insured institutions of less than \$10 billion of total assets is 2.5 basis points to 32 basis points.

The FDIC has authority to further increase insurance assessments and therefore management cannot predict what insurance assessment rates will be in the future. A significant increase in insurance premiums may have an adverse effect on the operating expenses and results of operations of the Bank. For fiscal 2023, Carver paid \$389 thousand in FDIC insurance.

Anti-Money Laundering and Customer Identification

The Bank is subject to federal regulations implementing the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"). The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act ("BSA"), Title III of the USA PATRIOT Act took measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the United States Commodity Exchange Act of 1936, as amended.

Title III of the USA PATRIOT Act and the related federal regulations imposed the following requirements with respect to financial institutions:

- Establish a Board approved policy and perform a risk assessment of BSA, Anti-Money Laundering and Office of Foreign Assets Control;
- Designate a qualified BSA officer;
- Establish an effective training program;
- Establish anti-money laundering programs;
- Establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;
- Establish enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and

- Prohibit correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks

In addition, bank regulators were directed to consider a holding company's effectiveness in combating money laundering when ruling on certain corporate applications.

Federal Home Loan Bank System

The Bank is a member of the FHLB-NY, which is one of the eleven regional banks composing the FHLB System. Each regional bank provides a central credit facility primarily for its member institutions. The Bank, as a FHLB-NY member, is required to acquire and hold shares of capital stock in the FHLB-NY in specified amounts. The Bank was in compliance with this requirement with an investment in the capital stock of the FHLB-NY at March 31, 2023 of \$2.3 million. Any advances from the FHLB-NY must be secured by specified types of collateral, and all long-term advances may be obtained only for the purpose of providing funds for residential housing finance.

FHLB-NY is required to provide funds for the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of earnings that the FHLB-NY can pay as dividends to its members and could also result in the FHLB-NY imposing a higher rate of interest on advances to its members. If dividends were reduced, or interest on future FHLB-NY advances increased, the Bank's net interest income would be adversely affected. Dividends from FHLB-NY to the Bank amounted to \$73 thousand and \$26 thousand for fiscal years 2023 and 2022, respectively. The dividend rate paid on FHLB-NY stock at March 31, 2023 was 7.75%.

Privacy Protection

Carver Federal is subject to OCC regulations implementing the privacy protection provisions of federal law. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares “nonpublic personal information” to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the Bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not exempted, the Bank is required to provide its customers with the ability to opt-out of having the Bank share their nonpublic personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

The Bank is subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the Gramm-Leach-Bliley Act, as amended (“GLB”). The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. The Bank has a policy to comply with the foregoing guidelines.

Holding Company Regulation

The Company is a savings and loan holding company regulated by the FRB. As such, the Company is registered with and subject to FRB examination and supervision, as well as certain reporting requirements. The FRB has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings institution.

The GLB restricts the powers of new unitary savings and loan holding companies. Unitary savings and loan holding companies that are “grandfathered,” i.e., unitary savings and loan holding companies in existence or with applications filed with the regulator on or before May 4, 1999, such as the Company, retain their authority under the prior law. All other unitary savings and loan holding companies are limited to financially related activities permissible for financial holding companies and certain other activities specified by FRB regulations. GLB also prohibits nonfinancial companies from acquiring grandfathered unitary savings and loan holding companies.

Restrictions Applicable to All Savings and Loan Holding Companies. Federal law prohibits a savings and loan holding company, including the Company, directly or indirectly, from acquiring:

- (1) control (as defined under the HOLA), of another savings institution (or a holding company parent) without prior FRB approval;
- (2) through merger, consolidation, or purchase of assets, another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company), without prior FRB approval; or
- (3) control of any depository institution not insured by the FDIC.

A savings and loan holding company may not acquire as a separate subsidiary an insured institution that has a principal office outside of the state where the principal office of its subsidiary institution is located, except:

- (1) in the case of certain emergency acquisitions approved by the FDIC;
- (2) if such holding company controls a savings institution subsidiary that operated a home or branch office in such additional state as of March 5, 1987; or
- (3) if the laws of the state in which the savings institution to be acquired is located specifically authorize a savings institution chartered by that state to be acquired by a savings institution chartered by the state where the acquiring savings institution or savings and loan holding company is located or by a holding company that controls such a state chartered association.

In evaluating applications by holding companies to acquire savings associations, the FRB must consider issues such as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

The FRB has promulgated consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to their subsidiary depository institutions, including a community bank leverage ratio alternative. However, holding companies with less than \$3.0 billion of consolidated assets, such as the Company, are generally not subject to consolidated capital requirements unless otherwise advised by the FRB.

The FRB promulgated regulations implementing the “source of strength” policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of dividends’ previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Federal Securities Laws

The Company is subject to the periodic reporting, proxy solicitation, tender offer, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Delaware Corporation Law

The Company is incorporated under the laws of the State of Delaware. Thus, it is subject to regulation by the State of Delaware and the rights of its shareholders are governed by the General Corporation Law of the State of Delaware.

FEDERAL AND STATE TAXATION

Federal Taxation

General. The Company and the Bank currently file a consolidated federal income tax return on the basis of a taxable year ending March 31 using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions, including in particular the Bank's tax reserve for bad debts. The Bank has a subsidiary which files a REIT tax return which reports its income for tax purposes on the basis of a taxable year ending December 31. The REIT does not join in the consolidated return and it pays tax on its undistributed taxable income. The REIT has and intends to continue to distribute its taxable income and therefore not pay tax at the REIT level. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Distributions. To the extent that the Bank makes "non-dividend distributions" to shareholders, such distributions will be considered to result in distributions from the Bank's "base year reserve," i.e., its reserve as of March 31, 1988, to the extent thereof and then from its supplemental reserve for losses on loans, and an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not constitute non-dividend distributions and, therefore, will not be included in the Bank's taxable income.

The amount of additional taxable income created from a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, approximately 1.2 times the non-dividend distribution would be includable in gross income for federal income tax purposes, assuming a 21% federal corporate income tax rate.

In December 2017, "The Tax Cuts and Jobs Act" was signed into law. At March 31, 2018, the Company made a reasonable estimate and recorded a remeasurement of the Company's net deferred income tax assets and liabilities based on the new reduced U.S. corporate income tax rate. The impact on the net deferred tax asset before valuation allowances was a reduction of \$3.1 million, which was offset by a corresponding decrease in the valuation allowance of the same amount. The Company recorded a benefit of \$0.3 million for alternative minimum tax credits which, under the new tax law, are refundable. As of March 31, 2022, the Company had a pending AMT credit refund of \$143 thousand, related to the AMT credits, from its filed fiscal year 2020 federal tax return. The refund was received during fiscal year 2023.

State and Local Taxation

State of New York. The Bank and the Company (including the REIT) file tax returns on a combined basis and are subject to New York State franchise tax on their entire net income or one of several alternative bases, whichever results in the highest tax. "Entire net income" means federal taxable income with adjustments. If, however, the application of an alternative tax (based on capital allocated to New York or a fixed minimum fee) results in a greater tax, the alternative tax will be imposed. The Company was subject to tax based upon capital for New York State for fiscal 2023. In addition, New York State imposes a tax surcharge of 30% of the New York State Franchise Tax allocable to business activities carried on in the Metropolitan Commuter Transportation District. For fiscal 2023, the New York State franchise tax rate computed on capital was 0.1875%.

New York City. The Bank and the Company (including the REIT) file on a combined basis and are also subject to a similarly calculated New York City banking corporation tax on capital allocated to New York City. For fiscal 2023, the New York City banking corporation tax rate computed on capital is 0.15%.

Delaware Taxation. As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

ITEM 1A. RISK FACTORS.

The material risks that management believes affect the Company are described below. You should carefully consider the risks as described below, together with all of the information included herein. The risks described below are not the only risks the Company faces. Additional risks not presently known also may have a material adverse effect on the Company's results of operations and financial condition.

Risks Related to Lending Activities

Our loan portfolio exhibits a high degree of risk.

We have a significant amount of commercial real estate loans that have a higher risk of default and loss than single-family residential mortgage loans. Commercial real estate loans amount to \$177.7 million, or 29.9% of our loan portfolio at March 31, 2023. Commercial real estate loans generally are considered to involve a higher degree of risk due to a variety of factors, including generally larger loan balances and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at the stated maturity date. Repayment of commercial real estate loans generally is dependent on income being generated by the rental property or underlying business in amounts sufficient to cover operating expenses and debt service. Failure to adequately underwrite and monitor these loans may result in significant losses to Carver Federal.

The allowance for loan losses could be insufficient to cover Carver's actual loan losses.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to the allowance would materially decrease net income.

In addition, the OCC periodically reviews the allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. A material increase in the allowance for loan losses or loan charge-offs as required by the regulatory authorities would have a material adverse effect on the Company's financial condition and results of operations. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional impaired loans and leases and other factors, both within and outside of our control. Additions to the allowance could have a negative impact on our results of operations.

Risks Related to Laws and Regulation and Their Enforcement

Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company's expenses and affect the Company's operations.

The Company anticipates increased regulatory scrutiny, in the course of routine examinations and otherwise, and new regulations directed towards banks, designed to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition and the level of uninsured deposits. As a result, the Bank could face increased scrutiny by regulators and the investor community.

Carver is subject to more stringent capital requirements, which may adversely impact the Company's return on equity, or constrain it from paying dividends or repurchasing shares.

Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management personnel if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. Regardless of the federal regulatory minimum requirements, Carver was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. At March 31, 2023, the Bank's capital level exceeded the regulatory requirements and its

IMCR requirements with a Tier 1 leverage ratio of 10.61%, Common Equity Tier 1 capital ratio of 12.47%, Tier 1 risk-based capital ratio of 12.47%, and a total risk-based capital ratio of 13.37%. The application of these capital requirements, including the higher IMCR requirements, could, among other things, result in lower returns on equity, result in regulatory actions if we are unable to comply with such requirements and could limit the Bank's ability to pay dividends to the Company.

There can be no assurance that our regulator will approve payment of our deferred interest on our outstanding trust preferred securities.

Carver is a unitary savings and loan association holding company regulated by the FRB and almost all of its operating assets are owned by Carver Federal. Carver relies, in part, on dividends from the Bank to pay cash dividends to its stockholders, and to engage in share repurchase programs. Under the prior Formal Agreement, the OCC regulated all capital distributions, including dividend payments, by the Bank to the Company, and the FRB regulates dividends paid by the Company. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend, for among other reasons, that would result in the Bank's failure to meet the OCC minimum capital requirements. Carver has suspended its regular quarterly cash dividend on its common stock. There are no assurances that dividend payments to the Company will resume.

Debenture interest payments on the Carver Statutory Trust I capital securities had been deferred, which is permissible under the terms of the Indenture for up to twenty consecutive quarterly periods, as the Company was prohibited from making payments without prior approval from the Federal Reserve Bank. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures had been deferred beginning with the December 2016 payment, per the terms of the agreement. During the fourth quarter of fiscal year 2021, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through June 2021. Full payment on the outstanding debenture interest was made on June 16, 2021. The Company deferred the September 17, 2021 interest payment, but has since had discussions with the Federal Reserve Bank of Philadelphia regarding future quarterly payments. A streamlined process has been developed for the Company to request regulatory approval to make the debenture interest payments. Quarterly interest payments are now current, up to and including the most recent one, which was due on March 17, 2023. However, there can be no assurance that our regulators will approve future payments on our outstanding trust preferred securities.

The Company and the Bank operate in a highly regulated industry, which limits the manner and scope of business activities.

Carver Federal is subject to extensive supervision, regulation and examination by the OCC, as the Bank's chartering authority and, to a lesser extent, by the FDIC, as insurer of its deposits. The Company is subject to extensive supervision, regulation and examination by the FRB, as regulator of the holding company. As a result, Carver Federal and the Company are limited in the manner in which Carver Federal and the Company conducts its business, undertakes new investments and activities and obtains financing. This regulatory structure is designed primarily for the protection of the deposit insurance funds and depositors, and not to benefit the Company's stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, Carver Federal must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose "clawback" policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

The Financial Accounting Standards Board, the SEC and other regulatory entities, periodically change the financial accounting and reporting guidance that governs the preparation of the Company's consolidated financial statements. These changes can be difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply new or revised guidance retroactively.

Risks Related to the Economic Conditions

Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system.

The recent high-profile bank failures involving First Republic Bank, Silicon Valley Bank and Signature Bank have generated significant market volatility among publicly traded bank holding companies. These market developments have negatively impacted customer confidence in the safety and soundness of banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in banks and the banking system more broadly.

Carver's results of operations are affected by economic conditions in the New York metropolitan area.

At March 31, 2023, a significant majority of the Bank's lending portfolio was concentrated in the New York metropolitan area. As a result of this geographic concentration, Carver's results of operations are largely dependent on economic conditions in this area. Decreases in real estate values could adversely affect the value of property used as collateral for loans to our borrowers. Adverse changes in the economy caused by inflation, recession, unemployment, state or local real estate laws and regulations or other factors beyond the Bank's control may also continue to have a negative effect on the ability of borrowers to make timely mortgage or business loan payments, which would have an adverse impact on earnings.

The soundness of other financial institutions could negatively affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Risks Related to the COVID-19 Outbreak

The ongoing COVID-19 pandemic and measures intended to prevent its spread could adversely affect the Company's business activities, financial condition, and results of operations.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have affected the macroeconomic environment, both nationally and in the Company's market area. Federal and state agencies may pass measures to address the economic and social consequences of the pandemic that could impact the Company's financial results and have a destabilizing effect on financial markets, key market indices, and overall economic activity. Prolonged measures by public health or other governmental authorities encouraging or requiring significant restrictions on travel, assembly or other core business practices could harm the Bank's business and that of its customers, in particular small to medium-sized business customers. Although the Company has business continuity plans and other safeguards in place, there is no assurance that they will be effective. A decline in economic conditions generally and a prolonged negative impact on small to medium-sized businesses, in particular, due to the COVID-19 pandemic, could result in a material adverse effect on the Company's business, financial condition, and results of operations and may heighten many of the known risks described herein and in other filings with the SEC.

Risks Related to Market Interest Rates

Changes in interest rates may adversely affect our profitability and financial condition.

We derive our income mainly from the difference or "spread" between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income. From an

interest rate risk perspective, for many years the Company was asset sensitive, which indicated that assets were generally re-pricing faster than liabilities. For the past few years, Carver has been liability sensitive, which indicates that liabilities generally re-price faster than assets. In a rising rate environment, liability sensitivity is not preferable as it results in a reduction to our net interest margin.

In response to improving economic conditions, the Federal Open Market Committee ("FOMC") had slowly increased its federal funds rate target from a range of 0.00% - 0.25% that was in effect for several years to the target range of 2.25% - 2.50% that was in effect at March 31, 2019. However, as the result of the COVID-19 pandemic and the related adverse local and economic consequences, the target range was decreased to the range of 0.00% - 0.25% at March 31, 2020. Citing strong job gains, a falling unemployment rate and "elevated" inflation, the Federal Reserve approved the first interest rate hike in more than three years on March 16, 2022, increasing the target range to 0.25% - 0.50%. The Federal Reserve approved its eighth consecutive interest rate hike in February 2023, raising the overnight borrowing rate 25 basis points to a target range of 4.5% to 4.75%, the highest it has been in 15 years. While this quarter-point rate increase was the smallest adjustment since March 2022 and inflation seems to have eased, rates will likely continue to increase, although at potentially smaller increments.

Interest rates also affect how much money we lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. A rising rate environment can also negatively impact the Company if the higher debt service costs on adjustable-rate loans lead to borrowers' inability to pay contractual obligations. In addition, changes in interest rates can affect the average life of loans and securities. For example, a reduction in interest rates generally results in increased prepayments of loans and mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk, because we generally are not able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities in a declining rate environment.

Changes in market interest rates also impact the value of our interest-earning assets and interest-bearing liabilities. In particular, the unrealized gains and losses on securities available for sale are reported, net of taxes, as accumulated other comprehensive income which is a component of stockholders' equity. Consequently, declines in the fair value of these instruments resulting from changes in market interest rates may adversely affect stockholders' equity.

Rising interest rates have decreased the value of the Company's held-to-maturity securities portfolio, and the Company would realize losses if it were required to sell such securities to meet liquidity needs.

As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including a significant portion of the Company's, resulting in unrealized losses embedded in the U.S. banks' securities portfolios. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a Bank Term Funding Program available to eligible depository institutions secured by U.S. treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise.

Risks Related to the Bank's Business

Uncertainty surrounding the elimination of LIBOR and the proposed transition to SOFR may adversely affect our business.

The U.S. dollar-denominated London Interbank Offered Rate ("LIBOR") is used to calculate interest rates for numerous types of debt obligations, including personal and commercial loans, interest rate swaps, and other derivative products, making it a primary metric in the global banking system. The U.K. Financial Conduct Authority ("FCA") has determined that LIBOR should no longer be used as a benchmark rate. In anticipation of the elimination of LIBOR, the U.S. Federal Reserve established the Alternative Reference Rates Committee ("ARRC") to select a replacement index for U.S. Dollar LIBOR. ARRC, comprised of a group of large domestic banks and regulators, has voted to use a benchmark, known as the Secured Overnight Financing Rate ("SOFR"). SOFR is based on short-term loans backed by Treasury securities, known as repurchase agreements or "repo" trades. ARRC has announced a paced transition plan for this new rate, including specific steps and timelines designed to encourage adoption of SOFR. As of March 31, 2023, we have exposure to approximately \$15.9 million of financial assets and liabilities, including off-balance sheet instruments, which are LIBOR-based. We do not yet know

whether, and if so the extent to which, the elimination of LIBOR and the transition to SOFR will have any material impact on these instruments.

Risks Related to the Bank's Operations

Failure to maintain effective systems of internal and disclosure controls could have a material adverse effect on the Company's results of operation and financial condition.

Effective internal and disclosure controls are necessary for the Company to provide reliable financial reports and effectively prevent fraud, and to operate successfully as a public company. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results would be harmed. As part of the Company's ongoing monitoring of internal controls, it may discover material weaknesses or significant deficiencies in its internal controls that require remediation. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company continually works on improving its internal controls. However, the Company cannot be certain that these measures will ensure that it implements and maintains adequate controls over its financial processes and reporting. Any failure to maintain effective controls or to timely implement any necessary improvement of the Company's internal and disclosure controls could, among other things, result in losses from fraud or error, harm the Company's reputation, or cause investors to lose confidence in the Company's reported financial information, all of which could have a material adverse effect on the Company's results of operation and financial condition.

A lack of liquidity could adversely affect the Company's financial condition and results of operations.

Liquidity is essential to the Company's business. The Company relies on its ability to generate deposits and effectively manage the repayment of its liabilities to ensure that there is adequate liquidity to fund operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. The Company's most important source of funds is its deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk adjusted return, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as current negative trends in the banking sector, the level of and/or composition of our uninsured deposits, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the FRB or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Company would lose a relatively low-cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and/or loans, brokered deposits, borrowings from the FHLB of New York and/or FRB discount window, and unsecured borrowings. The Company also may borrow funds from third-party lenders, such as other financial institutions. The Company's access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Company's business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company or the financial sector in general. Any decline in available funding could adversely impact the Company's ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

Carver may not be able to utilize its income tax benefits.

The Company's ability to utilize the deferred tax asset generated by New Markets Tax Credit income tax benefits as well as other deferred tax assets depends on its ability to meet the NMTC compliance requirements and its ability to generate sufficient taxable income from operations in the future. Since the Bank has not generated sufficient taxable income to utilize tax credits as they were earned, a deferred tax asset has been recorded in the Company's financial statements. For additional information regarding Carver's NMTC, refer to Item 7, "Variable Interest Entities."

The future recognition of Carver's deferred tax asset is highly dependent upon Carver's ability to generate sufficient taxable income. A valuation allowance is required to be maintained for any deferred tax assets that we estimate are more likely

than not to be unrealizable, based on available evidence at the time the estimate is made. In assessing Carver's need for a valuation allowance, we rely upon estimates of future taxable income. Although we use the best available information to estimate future taxable income, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances influencing our projections. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory rates, and future taxable income levels. The Company determined that it would not be able to realize all of its net deferred tax assets in the future, as such a charge to income tax expense in the second quarter of fiscal 2011 was made. Conversely, if the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, the Company would decrease the recorded valuation allowance through a decrease in income tax expense in the period in which that determination was made.

On June 29, 2011, the Company raised \$55 million of equity. The capital raise triggered a change in control under Section 382 of the Internal Revenue Code. Generally, Section 382 limits the utilization of an entity's net operating loss carry forwards, general business credits, and recognized built-in losses upon a change in ownership. The Company is subject to an annual limitation of approximately \$0.9 million. The Company has a net deferred tax asset ("DTA") of approximately \$26.6 million. Based on management's calculations, the Section 382 limitation has resulted in previous reductions of the deferred tax asset of \$5.8 million. The Company also continues to maintain a valuation allowance for the remaining net deferred tax asset of \$26.6 million. The Company is unable to determine how much, if any, of the remaining DTA will be utilized.

Risks associated with cyber-security could negatively affect our earnings.

The financial services industry has experienced an increase in both the number and severity of reported cyber attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions

We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches.

We also rely on the integrity and security of a variety of third party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption.

Our customers are also the target of cyber attacks and identity theft. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses.

The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and subject us to additional regulatory scrutiny, and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

System failure or breaches of Carver's network security could subject it to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure Carver and its third-party service providers use has been, and in the future, could be vulnerable to unforeseen problems. Carver's operations are dependent upon its ability to protect its computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in Carver's operations could have a material adverse effect on its financial condition and results of operations. Computer break-ins, phishing and other disruptions may occur, and in infrequent cases have occurred, and could jeopardize the security of information stored in and transmitted through Carver's computer systems and network infrastructure, which may result in significant liability to Carver and may cause existing and potential customers to refrain from doing business with Carver. Although Carver, with the help of third-party service providers, intends to continue to implement security technology and establish operational procedures designed to prevent such damage, its security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms Carver and its third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on Carver's financial condition and results of operations.

It is possible that a significant amount of time and money may be spent to rectify the harm caused by a breach or hack. While Carver has general liability insurance, there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to Carver's reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on Carver's business and consumer laws may require reimbursement of customer loss.

We are subject to risks and losses resulting from fraudulent activities that could adversely impact our financial performance and results of operations.

As a bank, we are susceptible to fraudulent activity that has been, and in the future may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, checking transactions, and debit cards that we have issued to our customers and through our online banking portals.

The Company's business could suffer if it fails to retain skilled people.

The Company's success depends on its ability to attract and retain key employees reflecting current market opportunities and challenges. Competition for the best people is intense, and the Company's size and limited resources may present additional challenges in being able to retain the best possible employees, which could adversely affect the results of operations.

Risks Related to Future Stock Issuances

We may be limited in our ability to access sufficient funding through a public or private equity offering or convertible debt offering.

Nasdaq rules impose restrictions on our ability to raise funds through a private offering of our common stock, convertible debt or similar instruments without obtaining stockholder approval. Under Nasdaq rules, an offering of more than 20% of our total shares outstanding at a price per share less than (i) the closing price of our common stock on the Nasdaq Capital Market immediately preceding the signing of the binding agreement, or (ii) the average closing price of our common stock on the Nasdaq Capital Market for the five trading days immediately preceding the signing of the binding agreement requires stockholder approval unless the offering qualifies as a "public offering" for purposes of the Nasdaq rules. As of March 31, 2023, we had 4,295,607 shares of common stock outstanding. SEC rules impose restrictions on our ability to raise funds through the registered offering of our securities pursuant to a "shelf" registration statement on Form S-3. Under SEC rules, we are prohibited from selling securities under such a registration statement if the aggregate market value of the securities sold thereunder in any twelve-month period exceeds one-third of the market value of our outstanding common stock held by non-affiliates. During fiscal year 2022, the Company entered into a sales agreement, with an agent to sell, from time to time, our common stock having an aggregate offering price of up to \$20.0 million, in one or more "at the market offerings." During fiscal year 2022, we had sold an aggregate of 397,367 shares of our common stock pursuant to the terms of such sales agreement, for aggregate gross proceeds of approximately \$3.1 million. Aggregate net proceeds received were approximately \$3.0 million, after deducting expenses and commissions paid to the placement agent. There were no additional offerings during the twelve months ended March 31, 2023. In the future, we may be limited in our ability to access sufficient funding through a public or private equity offering or convertible debt offering.

A future issuance of stock could dilute the value of our common stock.

We may sell additional shares of common stock, or securities convertible into or exchangeable for such shares, in subsequent public or private offerings. As of March 31, 2023, there were 4,295,607 shares of our common stock outstanding. Future issuance of any new shares could cause further dilution in the value of our outstanding shares of common stock. We cannot predict the size of future issuances of our common stock, or securities convertible into or exchangeable for such shares, or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock or the perception that such sales could occur, may adversely affect prevailing market prices of our common stock.

Risks Related to the Competitive Matters

Strong competition within the Bank's market areas could adversely affect profits and slow growth.

The New York metropolitan area has a high density of financial institutions, of which many are significantly larger than Carver Federal and with greater financial resources. Additionally, various large out-of-state financial institutions may continue to enter the New York metropolitan area market. All are considered competitors to varying degrees.

Carver Federal faces intense competition both in making loans and attracting deposits. Competition for loans, both locally and in the aggregate, comes principally from mortgage banking companies, commercial banks, savings banks and savings and loan associations. Most direct competition for deposits comes from commercial banks, savings banks, savings and loan associations and credit unions. The Bank also faces competition for deposits from money market mutual funds and other corporate and government securities funds, as well as from other financial intermediaries, such as brokerage firms and insurance companies. Market area competition is a factor in pricing the Bank's loans and deposits, which could reduce net interest income. Competition also makes it more challenging to effectively grow loan and deposit balances. The Company's profitability depends upon its continued ability to successfully compete in its market areas.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 2. PROPERTIES.

The Bank currently conducts its business through one administrative office and seven branches (including the Harlem West 125th Street Main branch) and four separate ATM locations. The following table sets forth certain information regarding Carver Federal's offices and other material properties at March 31, 2023. The Bank believes that such facilities are suitable and adequate for its operational needs.

| Branches | Address | City/State | Year Opened | Owned or Leased | Lease Expiration Date |
|-------------------------------------|---------------------------|-------------------|--------------------|------------------------|------------------------------|
| Main Branch | 75 West 125th Street | New York, NY | 1996 | Leased | 2/2028 |
| Crown Heights Branch | 1009-1015 Nostrand Avenue | Brooklyn, NY | 1975 | Leased | 12/2025 |
| St. Albans Branch | 115-02 Merrick Boulevard | Jamaica, NY | 1996 | Leased | 2/2026 |
| Malcolm X Blvd. Branch | 142 Malcolm X Boulevard | New York, NY | 2001 | Leased | 4/2026 |
| Atlantic Terminal Branch | 4 Hanson Place | Brooklyn, NY | 2003 | Leased | 4/2024 |
| Flatbush Branch | 833 Flatbush Avenue | Brooklyn, NY | 2009 | Leased | 8/2027 |
| Restoration Plaza | 1392 Fulton Street | Brooklyn, NY | 2009 | Leased | 10/2023 |
| <u>ATM Machines</u> | | | | | |
| Atlantic Terminal Mall | 139 Flatbush Avenue | Brooklyn, NY | 2004 | Leased | 4/2024 |
| Atlantic Center | 625 Atlantic Avenue | Brooklyn, NY | 2006 | Leased | 3/2024 |
| Brooklyn Navy Yard | 141-07 Flushing Avenue | Brooklyn, NY | 2019 | Leased | 10/2023 |
| City College | 160 Convent Avenue | New York, NY | 2022 | Leased | 7/2026 |
| <u>Administrative Office</u> | | | | | |
| 1825 Park Avenue | 1825 Park Avenue | New York, NY | 2018 | Leased | 12/2028 |

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and the Bank or one of its wholly-owned subsidiaries are parties to various legal proceedings incident to their business. At March 31, 2023, certain claims, suits, complaints and investigations (collectively "proceedings") involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. There were no legal proceedings pending or known to be contemplated against us that in the opinion of

management, would be expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

PART II

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

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol "CARV". At March 31, 2023, there were 4,295,607 shares of common stock outstanding, held by approximately 496 stockholders of record.

As previously disclosed in a Current Report on Form 8-K filed with the SEC on October 29, 2010, the Company's Board of Directors announced that Carver suspended payment of the quarterly cash dividend on its common stock.

Under OCC regulations, the Bank will not be permitted to pay dividends to the Company on its capital stock if its regulatory capital would be reduced below applicable regulatory capital requirements or if its stockholders' equity would be reduced below the amount required to be maintained for the liquidation account, which was established in connection with the Bank's conversion to stock form. The OCC capital distribution regulations applicable to savings institutions (such as the Bank) that meet their regulatory capital requirements permit, after not less than 30 days prior notice to and non-objection by the FRB, capital distributions during a calendar year that do not exceed the Bank's net income for that year plus its retained net income for the prior two years. For information concerning the Bank's liquidation account, see Note 12 of the Notes to the Consolidated Financial Statements.

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of March 31, 2023, 11,744 shares of its common stock have been repurchased in open market transactions at an average price of \$235.80 per share (as adjusted for 1-for-15 reverse stock split that occurred on October 27, 2011). The Company reissued shares as restricted stock in accordance with their management recognition plan. No shares were repurchased pursuant to the stock repurchase program during fiscal 2023. As a result of the Company's participation in the TARP CDCI, the Treasury's prior approval was required to make further repurchases. The Treasury converted its preferred stock into common stock, which the Treasury continued to hold. On August 6, 2020, the Company repurchased all 2,321,286 shares of its common stock held by the Treasury for an aggregate purchase price of \$2.5 million. The purchase price was funded by a third party grant. As of this date, the Company is not bound by the TARP CDCI restrictions as the Treasury is no longer a common stockholder of the Company.

Carver has the following equity compensation plans:

(1) The 2006 Stock Incentive Plan became effective in September 2006 and provides for discretionary option grants, stock appreciation rights and restricted stock to those employees and directors so selected by the Compensation Committee.

(2) The Carver Bancorp, Inc. 2014 Equity Incentive Plan became effective in September 2014 and provides for discretionary option grants, stock appreciation rights and restricted stock to those officers and directors selected by the Company's Compensation Committee.

Additional information regarding Carver's equity compensation plans is incorporated by reference from the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" in the Proxy Statement (as defined below in Item 10).

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

There were no unregistered securities to report which have not been previously included in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

ITEM 6. [RESERVED]

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 the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements presented elsewhere in this report.

Executive Summary

Carver concluded fiscal 2023 with a net loss of \$4.4 million, compared to a net loss of \$0.8 million for the prior year period. The change in our results of operations was primarily driven by a decrease in non-interest income and an increase in non-interest expense, partially offset by an increase in net interest income after recoveries of loan losses compared to the prior fiscal year.

The business climate continues to present significant challenges as banks continue to absorb heightened regulatory costs and compete for limited loan demand. Significant increases in food and energy prices resulted from swift increases in the rate of inflation. Additionally, the Federal Reserve has increased the federal funds rate at each of its meetings since March 2022, and while the rate was held steady at the most recent meeting in June 2023, it has indicated that it will likely increase again later this year. For Carver, the economic climate of New York City ("the City"), in particular, impacts our business as the City lags behind the rest of New York State and the nation both in restoring pandemic job losses and in rebounding to pre-pandemic levels of unemployment. The City's unemployment rate remains high at 5.4%, exceeding the national average, as employment in the arts and entertainment, food and hospitality sectors continue to remain below their pre-pandemic highs.

In March 2023, the FDIC was appointed as receiver for Silicon Valley Bank and Signature Bank after they experienced runs on deposits and other liquidity constraints. At the time, Silicon Valley Bank and Signature Bank were the 16th and 29th largest banks in the United States, respectively, as measured by total assets as of December 31, 2022. Following the failures of Silicon Valley Bank and Signature Bank, on May 1, 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. The closures of those banks led to industry-wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding confidence in the banking system. In response to these recent developments, the Company took a number of preemptive actions, which included proactive outreach to clients and steps to maximize its funding sources. As a result, the Company's liquidity position remains adequate. The impact of market volatility from the adverse developments in the banking industry along with continued high inflation and rising interest rates, will depend on future developments, which are highly uncertain and difficult to predict.

The Company is closely monitoring its asset quality, liquidity, and capital positions, as well as the credit risk in its loan portfolio. Management is actively working to minimize the current and future impact of this situation, and is continuing to make adjustments to operations where appropriate or necessary to mitigate risk. However, these factors and events may have negative effects on the business, financial condition, and results of operations of the Company and its customers.

At the Market Offering

During fiscal year 2022, we entered into a sales agreement with an agent to sell, from time to time, our common stock having an aggregate offering price of up to \$20.0 million, in an "at the market offering." During fiscal year 2022, the Company sold an aggregate of 397,367 shares of common stock pursuant to the terms of such sales agreement, resulting in aggregate gross proceeds of approximately \$3.1 million and net proceeds of \$3.0 million, after deducting expenses and commissions paid to the placement agent. There were no additional offerings during the twelve months ended March 31, 2023.

Subsequent Events

On April 12, 2023, the Company entered into an agreement with a third party, in which the third party would provide the Company with an unsecured long-term, below-market-rate loan in the amount of \$2.5 million to finance eligible loans offered through the Bank's community investment initiatives and loan programs focused on Minority and Women-owned Business Enterprises and consumers across the greater New York City region.

In April 2023, the Bank was awarded a \$2.5 million grant as part of the U.S. Department of the Treasury's Community Development Financial Institutions Fund's Equitable Recovery Program ("CDFI ERP"). The funds will be used towards financing programs and activities to help low- and moderate income communities recover from the COVID-19 pandemic in accordance with the terms and requirements of the CDFI ERP.

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:

| <i>\$ in thousands</i> | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-----------|-----------|-----------|-----------|-----------|
| Selected Financial Condition Data: | | | | | |
| Assets | \$723,224 | \$735,314 | \$676,748 | \$578,770 | \$563,713 |
| Total loans receivable, net | 592,667 | 573,880 | 478,409 | 423,786 | 424,182 |
| Investment securities | 56,161 | 72,850 | 94,314 | 75,980 | 90,982 |
| Cash and cash equivalents | 42,552 | 61,018 | 75,591 | 47,540 | 31,228 |
| Deposits | 600,429 | 628,117 | 556,559 | 488,815 | 480,196 |
| Advances from the FHLB-NY and other borrowed money | 51,090 | 15,949 | 37,222 | 13,573 | 21,403 |
| Equity | 45,224 | 55,087 | 52,301 | 48,894 | 47,136 |
| Number of deposit accounts | 29,615 | 29,950 | 33,400 | 30,496 | 31,447 |
| Number of branches | 7 | 7 | 7 | 7 | 8 |
| Operating Data: | | | | | |
| Interest income | 27,700 | 22,865 | 20,307 | 21,627 | 23,230 |
| Interest expense | 4,911 | 2,399 | 4,420 | 5,631 | 6,141 |
| Net interest income before provision for (recovery of) loan losses | 22,789 | 20,466 | 15,887 | 15,996 | 17,089 |
| Provision for (recovery of) loan losses | 100 | 603 | (100) | 19 | (270) |
| Net interest income after provision for (recovery of) loan losses | 22,689 | 19,863 | 15,987 | 15,977 | 17,359 |
| Non-interest income | 3,595 | 7,354 | 6,198 | 3,739 | 4,649 |
| Non-interest expense | 30,685 | 28,064 | 26,081 | 25,139 | 27,944 |
| (Loss) income before income tax (benefit) expense | (4,401) | (847) | (3,896) | (5,423) | (5,936) |
| Income tax (benefit) expense | — | — | — | — | — |
| Net (loss) income attributable to Carver Bancorp, Inc. | (4,401) | (847) | (3,896) | (5,423) | (5,936) |
| Basic (loss) earnings per common share | (1.03) | (0.24) | (1.14) | (1.47) | (1.60) |
| Diluted (loss) earnings per common share | (1.03) | (0.24) | (1.14) | (1.47) | (1.60) |
| Selected Statistical Data: | | | | | |
| Return on average assets ⁽¹⁾ | (0.62)% | (0.12)% | (0.58)% | (0.95)% | (0.96)% |
| Return on average stockholders' equity ⁽²⁾⁽¹⁰⁾ | (8.98)% | (1.54)% | (8.24)% | (10.51)% | (12.93)% |
| Return on average stockholders' equity, excluding AOCI ⁽²⁾⁽¹⁰⁾ | (7.28)% | (1.49)% | (8.25)% | (10.52)% | (12.31)% |
| Net interest margin ⁽³⁾ | 3.33 % | 3.01 % | 2.49 % | 2.95 % | 2.80 % |
| Average interest rate spread ⁽⁴⁾ | 3.11 % | 2.88 % | 2.30 % | 2.69 % | 2.57 % |
| Efficiency ratio ⁽⁵⁾ | 116.30 % | 100.88 % | 118.09 % | 127.38 % | 128.55 % |
| Operating expense to average assets ⁽⁶⁾ | 4.34 % | 3.98 % | 3.91 % | 4.39 % | 4.51 % |
| Average stockholders' equity to average assets ⁽⁷⁾⁽¹⁰⁾ | 6.93 % | 7.77 % | 7.09 % | 9.00 % | 7.41 % |
| Average stockholders' equity, excluding AOCI, to average assets ⁽⁷⁾⁽¹⁰⁾ | 8.55 % | 8.05 % | 7.08 % | 9.00 % | 7.79 % |
| Dividend payout ratio ⁽⁸⁾ | — | — | — | — | — |
| Asset Quality Ratios: | | | | | |
| Non-performing assets to total assets ⁽⁹⁾ | 1.70 % | 1.57 % | 1.07 % | 1.19 % | 1.90 % |
| Non-performing loans to total loans receivable ⁽⁹⁾ | 2.05 % | 1.98 % | 1.49 % | 1.58 % | 2.40 % |
| Allowance for loan losses to total loans, excluding PPP loans | 0.88 % | 1.00 % | 1.15 % | 1.15 % | 1.08 % |

(1) Net income (loss) divided by average total assets.

(2) Net income (loss) divided by average total stockholders' equity.

(3) Net interest income divided by average interest-earning assets.

(4) Combined weighted average interest rate earned less combined weighted average interest rate cost.

(5) Operating expense divided by sum of net interest income and non-interest income.

(6) Non-interest expense divided by average total assets.

(7) Average stockholders' equity divided by average assets for the period ended.

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

(9) Non-performing assets consist of nonaccrual loans and real estate owned.

(10) See Non-GAAP Financial Measures disclosure below for comparable GAAP measures.

Non-GAAP Financial Measures

In addition to evaluating the Company's results of operations in accordance with U.S. generally accepted accounting principles ("GAAP"), management routinely supplements their evaluation with an analysis of certain non-GAAP financial measures, such as the return on average stockholders' equity excluding average accumulated other comprehensive income (loss) ("AOCI"), and average stockholders' equity excluding AOCI to average assets. Management believes these non-GAAP financial measures provide information that is useful to investors in understanding the Company's underlying operating performance and trends, and facilitates comparisons with the performance of other banks and thrifts.

Return on average stockholders' equity, excluding AOCI measures how efficiently we generate profits from the resources provided by our net assets. Return on average stockholders' equity, excluding AOCI is calculated by dividing annualized net income (loss) attributable to Carver by average stockholders' equity, excluding AOCI. Management believes that this performance measure and average stockholders' equity, excluding AOCI to average assets explains the results of the Company's ongoing businesses in a manner that allows for a better understanding of the underlying trends in the Company's current businesses. For purposes of the Company's presentation, AOCI includes the changes in the market or fair value of its investment portfolio. These fluctuations have been excluded due to the unpredictable nature of this item and is not necessarily indicative of current operating or future performance.

| <i>\$ in thousands</i> | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|------------------|------------------|------------------|------------------|------------------|
| Average Stockholders' Equity | | | | | |
| Average Stockholders' Equity | \$ 48,984 | \$ 54,858 | \$ 47,306 | \$ 51,609 | \$ 45,920 |
| Average AOCI | (11,467) | (1,940) | 57 | 43 | (2,315) |
| Average Stockholders' Equity, excluding AOCI | <u>\$ 60,451</u> | <u>\$ 56,798</u> | <u>\$ 47,249</u> | <u>\$ 51,566</u> | <u>\$ 48,235</u> |
| Return on Average Stockholders' Equity | (8.98)% | (1.54)% | (8.24)% | (10.51)% | (12.93)% |
| Return on Average Stockholders' Equity, excluding AOCI | (7.28)% | (1.49)% | (8.25)% | (10.52)% | (12.31)% |
| Average Stockholders' Equity to Average Assets | 6.93 % | 7.77 % | 7.09 % | 9.00 % | 7.41 % |
| Average Stockholders' Equity, excluding AOCI, to Average Assets | 8.55 % | 8.05 % | 7.08 % | 9.00 % | 7.79 % |

Critical Accounting Estimates

Various elements of accounting estimates, 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 and lease losses is the most critical accounting estimates. These estimates are important to the presentation of Carver's financial condition and results of operations, and involve a high degree of complexity, requiring management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. Such assumptions and estimates are susceptible to significant changes in today's economic environment. Changes in these judgments, assumptions or estimates could result in material differences in the Company's results of operations or financial condition.

Allowance for Loan and Lease Losses

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes based on the current environment. In a continued effort to combat inflation, the Federal Reserve approved its eighth consecutive interest rate hike in February 2023, raising the overnight borrowing rate 25 basis points to a target range of 4.5% to 4.75%, the highest it has been in 15 years. While this quarter-point rate increase is the smallest adjustment since March 2022 and inflation seems to have eased, rates will likely continue to increase, although at potentially smaller increments. A rising rate environment can negatively impact the Company if the higher debt service costs on adjustable-rate loans lead to borrowers' inability to pay contractual obligations. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans. As such, there can never be assurance that the ALLL accurately reflects the actual loss potential inherent in a loan portfolio.

General Reserve Allowance

Carver's maintenance of a general reserve allowance in accordance with ASC Subtopic 450-20 includes the Bank's evaluation of the risk to loss potential of homogeneous pools of loans based upon historical loss factors and a review of nine different environmental factors that are then applied to each pool. The main pools of loans ("Loan Type") are:

- One-to-four family
- Multifamily
- Commercial Real Estate
- Business Loans
- Consumer (including Overdraft Accounts)

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The Bank estimates its historical charge-offs via a lookback analysis. The actual historical loss experience by major loan category is expressed as a percentage of the outstanding balance of all loans within the category. As the loss experience for a particular loan category increases or decreases, the level of reserves required for that particular loan category also increases or decreases. The Bank's historical charge-off rate reflects the period over which the charge-offs were confirmed and recognized, not the period over which the earlier losses occurred. That is, the charge-off rate measures the confirmation of losses over a period that occurs after the earlier actual losses. During the period between the loss-causing events and the eventual confirmations of losses, conditions may have changed. There is always a time lag between the period over which average charge-off rates are calculated and the date of the financial statements. During that period, conditions may have changed. Another factor influencing the General Reserve is the Bank's loss emergence period ("LEP") assumptions which represent the Bank's estimate of the average amount of time from the point at which a loss is incurred to the point at which the loss is confirmed, either through the identification of the loss or a charge-off. Based upon adequate management information systems and effective methodologies for estimating losses, management has established a LEP floor of one year on all pools. In some pools, such as in its Commercial Real Estate, Multifamily and Business pools, the Bank demonstrates a LEP in excess of 12 months. The Bank also recognizes losses in accordance with regulatory charge-off criteria.

Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen, some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (***Policy & Procedures***).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (***Economy***).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (***Nature & Volume***).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (***Management***).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (***Problem Assets***).
6. Changes in the quality of the loan review system (***Loan Review***).
7. Changes in the value of underlying collateral for collateral dependent loans (***Collateral Values***).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (***Concentrations***).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (***External Forces***).

Specific Reserve Allowance

Carver also maintains a specific reserve allowance for criticized and classified loans individually reviewed for impairment in accordance with ASC Subtopic 310-10 guidelines. The amount assigned to the specific reserve allowance is individually determined based upon the loan. The ASC Subtopic 310-10 guidelines require the use of one of three approved methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

1. The present value of expected future cash flows discounted at the loan's effective interest rate,
2. The loan's observable market price; or
3. The fair value of the collateral if the loan is collateral dependent.

The Bank may choose the appropriate ASC Subtopic 310-10 measurement on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral dependent loan. Guidance requires impairment of a collateral dependent loan to be measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

All substandard and doubtful loans and any other loans that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment in accordance with ASC Subtopic 310-10. Loans rated Substandard have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These loans are inadequately protected by the current sound worth, paying capacity of the obligor, or of the collateral pledged, if any. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Carver also performs impairment analysis for all TDRs. If it is determined that it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, the loan is categorized as impaired. Loans determined to be impaired are evaluated to determine the amount of impairment based on one of the three measurement methods noted above. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

An unallocated loan loss allowance is appropriate when it reflects an estimate of probable loss, determined in accordance with GAAP and is properly supported.

Financial institutions were not required to comply with ASC 326, "Financial Instruments - Credit Loss," which updates the guidance on recognition and measurement of credit losses for financial assets until the earlier of the end of the President's declaration of a National Emergency or December 31, 2020. The new methodology requirements, known as the current expected credit loss model ("CECL"), will require entities to adopt an impairment model based on expected losses, rather than incurred losses. The Consolidated Appropriations Act, 2021, that was enacted in December 2020, provided for a further extension of the required CECL adoption date to January 1, 2022. For smaller reporting companies, as defined by the SEC, the FASB further extended the CECL implementation date. The new effective date is for fiscal years beginning after December 15, 2022 (for the Company, the fiscal year ending March 31, 2024), including interim periods within those fiscal years.

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 assets, and the credit quality of earning assets. Management's asset/liability objectives are to maintain a strong, stable net interest margin, to utilize the Company's 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 long-term 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.

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 Company's assets and liabilities, and the market value of all interest-earning assets, other than those which are short-term in maturity. Based upon the Company's nature of operations, it is not subject to foreign currency exchange or commodity price risk. The Company does not own any trading assets.

The Company 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, it 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, the Company had a negative one-year gap equal to 12.70% of total rate sensitive assets at March 31, 2023. As a result, the Company's net interest income may be negatively affected by rising interest rates and may be positively affected by falling interest rates. While the Company, as a liability-sensitive institution, may benefit from a falling interest rate environment, the rising rates over the past fiscal year have not yet been projected to end, indicating another period in which compressed margins may negatively impact net interest income.

The following table sets forth information regarding the projected maturities, prepayments and repricing of the major rate-sensitive asset and liability categories of the Company as of March 31, 2023. Maturity repricing dates have been projected by applying estimated prepayment rates based on the current rate environment. The repricing and other assumptions are not necessarily representative of the Company'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:

| <i>\$ in thousands</i> | <3 Mos. | 3-12 Mos. | 1-3 Yrs. | 3-5 Yrs. | 5-10 Yrs. | 10+ Yrs. | Non-Interest Bearing | Total |
|--|-------------------|-------------------|------------------|------------------|------------------|--------------------|----------------------|-------------------|
| Rate Sensitive Assets: | | | | | | | | |
| Loans | \$ 34,082 | \$ 70,837 | \$158,945 | \$ 87,466 | \$190,630 | \$ 52,339 | \$ — | \$ 594,299 |
| Short-term investments | 40,583 | — | — | — | — | — | — | 40,583 |
| Long-term investments | 917 | 3,058 | 7,215 | 7,246 | 13,645 | 29,473 | — | 61,554 |
| Other assets | — | — | — | — | — | — | 26,788 | 26,788 |
| Total assets | <u>\$ 75,582</u> | <u>\$ 73,895</u> | <u>\$166,160</u> | <u>\$ 94,712</u> | <u>\$204,275</u> | <u>\$ 81,812</u> | <u>\$ 26,788</u> | <u>\$ 723,224</u> |
| Rate Sensitive Liabilities: | | | | | | | | |
| Non-maturity deposits | \$ 43,567 | \$ 44,029 | \$ 25,529 | \$ 18,312 | \$ 41,011 | \$249,285 | \$ — | \$ 421,733 |
| Term deposits | 59,913 | 80,401 | 36,238 | 2,151 | — | — | — | 178,703 |
| Borrowings | 10,000 | — | 25,000 | 2,500 | — | — | — | 37,500 |
| Other liabilities | — | — | — | — | — | — | 40,064 | 40,064 |
| Equity | — | — | — | — | — | — | 45,224 | 45,224 |
| Total liabilities and equity | <u>\$113,480</u> | <u>\$124,430</u> | <u>\$ 86,767</u> | <u>\$ 22,963</u> | <u>\$ 41,011</u> | <u>\$249,285</u> | <u>\$ 85,288</u> | <u>\$ 723,224</u> |
| Interest sensitivity gap | <u>\$(37,898)</u> | <u>\$(50,535)</u> | <u>\$ 79,393</u> | <u>\$ 71,749</u> | <u>\$163,264</u> | <u>\$(167,473)</u> | <u>\$(58,500)</u> | <u>\$ —</u> |
| Cumulative interest sensitivity gap | \$ (37,898) | \$ (88,433) | \$ (9,040) | \$62,709 | \$225,973 | \$ 58,500 | \$ — | \$ — |
| Ratio of cumulative gap to total rate sensitive assets | (5.44)% | (12.70)% | (1.30)% | 9.00 % | 32.45 % | 8.40 % | — | — |

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 the Company's portfolio contain conditions that restrict the periodic change in interest rate.

Economic Value of Equity (“EVE”) Analysis. As part of its efforts to maximize net interest income while managing risks associated with changing interest rates, management also uses the EVE methodology. EVE 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. At March 31, 2023, the Company did not report any holdings in financial derivative contracts.

Under this methodology, interest rate risk exposure is assessed by reviewing the estimated changes in EVE that would hypothetically occur if interest rates rapidly rise or fall along the yield curve. Projected values of EVE at both higher and lower interest rate risk 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, 2023, is an analysis of the Company's interest rate risk as measured by changes in EVE for instantaneous parallel shifts of +300/-300 basis points change in market interest rates. Such limits have been established with consideration of the impact of various rate changes and the Company's current capital position.

| <i>\$ in thousands</i> | Change in Rate | Economic Value of Equity | | |
|------------------------|----------------|--------------------------|-----------|----------|
| | | \$ Amount | \$ Change | % Change |
| | +300 bps | 86,000 | 14,000 | 19.4 % |
| | +200 bps | 84,000 | 12,000 | 16.7 % |
| | +100 bps | 79,000 | 7,000 | 9.7 % |
| | 0 bps | 72,000 | | |
| | -100 bps | 61,000 | (11,000) | (15.3)% |
| | -200 bps | 44,000 | (28,000) | (38.9)% |
| | -300 bps | 22,000 | (50,000) | (69.4)% |

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE requires 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 models presented assume that the composition of our 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 the repricing of specific assets and liabilities. Accordingly, although the EVE table provides an indication of the Company'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 the Company's net interest income and may differ from actual results.

Average Balance, Interest and Average Yields and Rates

The following table sets forth certain information relating to Carver Federal's average interest-earning assets and average interest-bearing liabilities, and their related average yields and costs for the years ended March 31, 2023, 2022, and 2021. 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:

| \$ in thousands | 2023 | | | 2022 | | | 2021 | | |
|--|-------------------|-----------------|---------------------|-------------------|-----------------|---------------------|-------------------|-----------------|---------------------|
| | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost |
| Interest-Earning Assets: | | | | | | | | | |
| Loans ⁽¹⁾ | \$ 576,249 | \$25,073 | 4.35 % | \$ 516,687 | \$21,335 | 4.13 % | \$ 456,112 | \$18,552 | 4.07 % |
| Mortgage-backed securities | 32,512 | 619 | 1.90 % | 45,371 | 710 | 1.56 % | 41,513 | 708 | 1.71 % |
| Investment securities | 35,467 | 929 | 2.62 % | 42,278 | 714 | 1.69 % | 50,727 | 953 | 1.88 % |
| Other investments | 40,575 | 1,079 | 2.66 % | 75,833 | 106 | 0.14 % | 90,857 | 94 | 0.10 % |
| Total interest-earning assets | 684,803 | 27,700 | 4.04 % | 680,169 | 22,865 | 3.36 % | 639,209 | 20,307 | 3.18 % |
| Non-interest-earning assets | 22,068 | | | 25,526 | | | 27,704 | | |
| Total assets | <u>\$ 706,871</u> | | | <u>\$ 705,695</u> | | | <u>\$ 666,913</u> | | |
| Interest-Bearing Liabilities: | | | | | | | | | |
| Deposits | | | | | | | | | |
| Interest-bearing checking | \$ 56,437 | \$ 55 | 0.10 % | \$ 53,180 | \$ 30 | 0.06 % | \$ 37,313 | \$ 30 | 0.08 % |
| Savings and clubs | 111,508 | 166 | 0.15 % | 112,094 | 123 | 0.11 % | 107,820 | 235 | 0.22 % |
| Money market | 185,473 | 1,728 | 0.93 % | 155,719 | 378 | 0.24 % | 125,867 | 525 | 0.42 % |
| Certificates of deposit | 141,125 | 1,756 | 1.24 % | 152,803 | 1,349 | 0.88 % | 192,637 | 2,974 | 1.54 % |
| Mortgagors deposits | 2,969 | 3 | 0.10 % | 2,786 | 10 | 0.36 % | 2,257 | 6 | 0.27 % |
| Total deposits | 497,512 | 3,708 | 0.75 % | 476,582 | 1,890 | 0.40 % | 465,894 | 3,770 | 0.81 % |
| Borrowed money | 27,864 | 1,203 | 4.32 % | 22,923 | 509 | 2.22 % | 38,005 | 650 | 1.71 % |
| Total interest-bearing liabilities | 525,376 | 4,911 | 0.93 % | 499,505 | 2,399 | 0.48 % | 503,899 | 4,420 | 0.88 % |
| Non-interest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 105,312 | | | 123,493 | | | 85,890 | | |
| Other liabilities | 27,199 | | | 27,839 | | | 29,818 | | |
| Total liabilities | 657,887 | | | 650,837 | | | 619,607 | | |
| Stockholders' equity | 48,984 | | | 54,858 | | | 47,306 | | |
| Total liabilities & equity | <u>\$ 706,871</u> | | | <u>\$ 705,695</u> | | | <u>\$ 666,913</u> | | |
| Net interest income | | <u>\$22,789</u> | | | <u>\$20,466</u> | | | <u>\$15,887</u> | |
| Average interest rate spread | | | <u>3.11 %</u> | | | <u>2.88 %</u> | | | <u>2.30 %</u> |
| Net interest margin | | | <u>3.33 %</u> | | | <u>3.01 %</u> | | | <u>2.49 %</u> |
| Ratio of average interest-earning assets to interest-bearing liabilities | | | <u>130.35 %</u> | | | <u>136.17 %</u> | | | <u>126.85 %</u> |

⁽¹⁾ Includes nonaccrual loans.

⁽²⁾ Includes FHLB-NY stock.

Rate/Volume Analysis

The following table sets forth information regarding the extent to which changes in interest rates and changes in volume of interest related assets and liabilities have affected the Company's interest income and expense during the fiscal years ended March 31, 2023, 2022, and 2021. 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). Changes in rate/volume variance are allocated proportionately between changes in rate and changes in volume.

| <i>\$ in thousands</i> | 2023 vs. 2022 Increase (Decrease) due to | | | 2022 vs. 2021 Increase (Decrease) due to | | |
|--------------------------------------|---|----------|----------|---|----------|----------|
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest-Earning Assets: | | | | | | |
| Loans | \$ 2,459 | \$ 1,279 | \$ 3,738 | \$ 2,464 | \$ 319 | \$ 2,783 |
| Mortgage-backed securities | (201) | 110 | (91) | 66 | (64) | 2 |
| Investment securities | (115) | 330 | 215 | (159) | (80) | (239) |
| Other investments | (49) | 1,022 | 973 | (16) | 28 | 12 |
| Total interest-earning assets | 2,094 | 2,741 | 4,835 | 2,355 | 203 | 2,558 |
| Interest-Bearing Liabilities: | | | | | | |
| Deposits | | | | | | |
| Interest-bearing checking | 1 | 24 | 25 | 13 | (13) | — |
| Savings and clubs | (1) | 44 | 43 | 9 | (121) | (112) |
| Money market savings | 72 | 1,278 | 1,350 | 125 | (272) | (147) |
| Certificates of deposit | (103) | 510 | 407 | (615) | (1,010) | (1,625) |
| Mortgagors deposits | 1 | (8) | (7) | 2 | 2 | 4 |
| Total deposits | (30) | 1,848 | 1,818 | (466) | (1,414) | (1,880) |
| Borrowed money | 110 | 584 | 694 | (258) | 117 | (141) |
| Total interest-bearing liabilities | 80 | 2,432 | 2,512 | (724) | (1,297) | (2,021) |
| Net change in net interest income | \$ 2,014 | \$ 309 | \$ 2,323 | \$ 3,079 | \$ 1,500 | \$ 4,579 |

Comparison of Financial Condition at March 31, 2023 and 2022

Assets

At March 31, 2023, total assets were \$723.2 million, reflecting a decrease of \$12.1 million, or 1.6%, from total assets of \$735.3 million at March 31, 2022. The decrease was primarily attributable to decreases of \$18.4 million in cash and cash equivalents and \$16.7 million in the Bank's investment portfolio, partially offset by increases of \$18.8 million in the Bank's net loan portfolio and \$5.0 million in other assets.

Total cash and cash equivalents decreased \$18.4 million, or 30.2%, from \$61.0 million at March 31, 2022 to \$42.6 million at March 31, 2023. The decrease in cash was primarily due to a \$27.7 million decrease in deposits and increased net loan activity, partially offset by an increase of \$35.2 million in borrowings and \$10.7 million in paydowns received on investment securities.

Total investment securities decreased \$16.7 million, or 22.9%, to \$56.2 million at March 31, 2023, compared to \$72.9 million at March 31, 2022 due to scheduled principal payments received of approximately \$8.1 million and a \$5.5 million increase in unrealized losses in the available-for-sale portfolio. In addition, there was an early payoff of a \$2.5 million mortgage-backed security in the held-to-maturity portfolio during the second quarter of the fiscal year.

Gross portfolio loans increased \$18.4 million to \$597.9 million at March 31, 2023, compared to \$579.5 million at March 31, 2022, primarily due to new loan originations of \$111.9 million and loan pool purchases of \$14.3 million. These were partially offset by attrition and payoffs of \$101.7 million and loans participated of \$4.0 million. The unexpected high level of payoffs was primarily due to commercial real estate borrowers who perceived the rising rate environment, coupled with high inflation, as the right time to exit contractual debt.

Other assets increased \$5.0 million to \$12.2 million at March 31, 2023, compared to \$7.2 million at March 31, 2022, primarily due to the purchase of a \$5.0 million bank-owned life insurance policy during the first quarter of fiscal year 2023 as a channel to add the Company's non-interest income revenue by means of an investment considered safe and sound by the Company's regulators.

Liabilities and Equity

Liabilities

Total liabilities decreased \$2.2 million, or 0.3%, to \$678.0 million at March 31, 2023, compared to \$680.2 million at March 31, 2022, primarily due to decreases in total deposits and other liabilities, partially offset by an increase in advances from the FHLB-NY.

Deposits decreased \$27.7 million, or 4.4%, to \$600.4 million at March 31, 2023, compared to \$628.1 million at March 31, 2022. The decline was primarily related to a large withdrawal by one customer, who had previously informed Carver of the intended withdrawal due to concerns regarding a large deposit concentration with one bank. This was partially offset by increases in certificate of deposit accounts due to an increase in interest rates, coupled with significant outreach efforts from the retail team. As of March 31, 2023 and 2022, the aggregate amount of uninsured deposits (deposits in amounts greater than or equal to \$250,000, which is the maximum amount for federal deposit insurance) was \$116.8 million and \$187.4 million, respectively. These uninsured balances disclosed do not consider that FDIC insurance can be further extended by claimant within certain law firm deposit accounts. In addition, as of March 31, 2023, the aggregate amount of all our uninsured certificates of deposit was \$25.8 million. We have no deposits that are uninsured for any reason other than being in excess of the maximum amount for federal deposit insurance. See Note 8 to Consolidated Financial Statements for additional information on our deposits.

Advances from the FHLB-NY and other borrowed money increased \$35.2 million to \$51.1 million at March 31, 2023, compared to \$15.9 million at March 31, 2022. The Bank secured a \$25.0 million 2-year advance from the FHLB-NY during the fourth quarter of fiscal year 2023. In addition, the Bank secured a \$10.0 million overnight advance from the FHLB-NY on March 31, 2023. At March 31, 2023, the Bank had \$35.0 million outstanding advances from the FHLB-NY.

Other liabilities decreased \$8.5 million to \$13.3 million at March 31, 2023, compared to \$21.8 million at March 31, 2022 due to a decrease in outstanding teller checks from the prior fiscal year that cleared during the first quarter.

Equity

Total equity decreased \$9.9 million, or 18.0%, to \$45.2 million at March 31, 2023, compared to \$55.1 million at March 31, 2022. The decrease was due to a net loss of \$4.4 million, coupled with an increase of \$5.5 million in unrealized losses on securities available-for-sale for the twelve month period ended March 31, 2023.

Comparison of Operating Results for the Years Ended March 31, 2023 and 2022

Net Loss

The Company reported a net loss of \$4.4 million for fiscal year 2023, compared to a net loss of \$0.8 million for the prior year period. The change in our results was primarily driven by a decrease in non-interest income and an increase in non-interest expense, partially offset by an increase in net interest income after provision for loan losses compared to the prior fiscal year.

Net Interest Income

Net interest income increased \$2.3 million, or 11.2%, to \$22.8 million for fiscal year 2023, compared to \$20.5 million for the prior year period. The increase was attributable to a \$4.8 million increase in interest income, partially offset by a \$2.5 million increase in interest expense for the period.

Interest income increased \$4.8 million, or 21.0%, to \$27.7 million, compared to \$22.9 million for the prior year period. Interest income on loans increased \$3.8 million, or 17.8%, primarily due to a \$59.6 million, or 11.5%, increase in average loan balances coupled with an increase in the average yield on the portfolio of 22 basis points. Interest income on money market investments increased \$1.0 million to \$1.1 million, compared to \$0.1 million for the prior year period, due to an increase in interest rates on the Bank's interest-bearing account at the Federal Reserve Bank. Interest income on investment securities was also higher, despite a decrease in average balances, due to an increase in yields compared to the prior year period.

Interest expense increased \$2.5 million to \$4.9 million, compared to \$2.4 million for the prior year period. The higher interest rate environment is reflected in the average cost of interest-bearing deposits and borrowing costs for the comparative period. Interest expense on deposits increased \$1.8 million, or 94.7%, primarily due to an increase in the average rates paid on money market and certificate of deposit accounts. Interest expense on borrowings increased \$0.7 million from the prior fiscal year, mostly due to an increase in the average borrowing rates.

Provision for Loan Losses

The Bank recorded a \$100 thousand provision for loan loss for fiscal year 2023, compared to a \$603 thousand provision for loan loss for the prior year period. For the year ended March 31, 2023, net charge-offs of \$495 thousand were recognized, compared to net charge-offs of \$119 thousand in the prior year period. Total charge-offs of \$727 thousand were recognized for fiscal year 2023, compared to total charge-offs of \$257 thousand for the prior fiscal year. At March 31, 2023, nonaccrual loans totaled \$12.3 million, or 1.7% of total assets, compared to \$11.5 million, or 1.6% of total assets at March 31, 2022. The ALLL was \$5.2 million at March 31, 2023, which represents a ratio of the ALLL to nonaccrual loans of 42.6%, compared to 49.0% at March 31, 2022. The ratio of the allowance for loan losses to total loans receivable, excluding PPP loans, was 0.9% at March 31, 2023, compared to 1.0% at March 31, 2022.

Non-interest Income

Non-interest income for the twelve months ended March 31, 2023 decreased \$3.8 million, or 51.4%, to \$3.6 million compared to \$7.4 million in the prior year period. Non-interest income in the prior year included \$2.1 million grant income recognized from the Bank's awards through the CDFI Fund's Bank Enterprise Award and Rapid Response Program. In addition, the Bank recognized a \$107 thousand gain on the sale of a nonperforming loan during the current fiscal year. Other non-interest income includes correspondent banking fees, related to the Bank's servicing of PPPLF activity for a correspondent bank, that was \$2.4 million higher in the prior fiscal year, compared to the current year period. The decline in fees was due to the winding down of the PPP program.

Non-interest Expense

Non-interest expense for the twelve months ended March 31, 2023 increased \$2.6 million, or 9.3%, to \$30.7 million compared to \$28.1 million for the prior year period. Employee compensation and benefits were higher compared to the prior year period due to agency fees and the increased use of consultants for temporary assistance in the underwriting department as the Company sought to add permanent staff due to increased loan volume. Net equipment expense increased as a result of additional hardware/software maintenance contracts put in place for new business strategies being implemented and data processing expense was higher due to upgraded cybersecurity systems and an improved remote work environment.

Income Taxes

The Company did not have any federal, state and local income tax expense as of March 31, 2023 and 2022. State and local capital tax expenses of \$215 thousand and \$202 thousand for fiscal years 2023 and 2022, respectively, were included in other non-interest expense on the statements of operations.

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.

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, including interest payments on our subordinated debt securities. Additionally, Carver Federal has other sources of liquidity including the ability to borrow from the Federal Home Loan Bank of New York ("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. Net borrowings increased \$35.1 million during fiscal year 2023 as the Bank secured a \$25.0 million 2-year advance from the FHLB-NY during the fourth quarter of fiscal year 2023. In addition, the Bank secured a \$10.0 million overnight advance from the FHLB-NY on March 31, 2023. At March 31, 2023, based on available collateral held at the FHLB-NY, Carver Federal had the ability to borrow an additional \$6.3 million on a secured basis, utilizing mortgage-related loans and securities as collateral. The Bank has the ability to pledge additional loans as collateral in order to borrow up to 30% of its total assets. The Bank repaid its remaining \$3 thousand outstanding advance under its PPP liquidity facility ("PPPLF") at the Federal Reserve during the first quarter of fiscal year

2023. The Company also had \$13.4 million in long-term subordinated debt securities and \$2.5 million in low interest loans outstanding as of March 31, 2023.

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, 2023 and 2022, assets qualifying for short-term liquidity, including cash and cash equivalents, totaled \$42.6 million and \$61.0 million, respectively.

During fiscal year 2022, the Company entered into a sales agreement with an agent to sell, from time to time, our common stock having an aggregate offering price of up to \$20.0 million, in an "at the market offering." During fiscal year 2022, we have sold an aggregate of 397,367 shares of our common stock pursuant to the terms of such sales agreement, for aggregate gross proceeds of approximately \$3.1 million. Aggregate net proceeds received were approximately \$3.0 million, after deducting expenses and commissions paid to the placement agent. There were no additional offerings during the twelve months ended March 31, 2023.

The most significant potential 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. Carver Federal is also at risk to deposit outflows due to a competitive interest rate environment.

The Consolidated Statements of Cash Flows present the change in cash from operating, investing and financing activities. During fiscal year 2023, total cash and cash equivalents decreased \$18.4 million to \$42.6 million reflecting \$10.5 million and \$15.3 million cash used in operating and investing activities, respectively, partially offset by cash provided by financing activities of \$7.3 million. Net cash used in operating activities totaled \$10.5 million, which was primarily due to a \$8.4 million decrease in other liabilities related to an outstanding teller check from the prior fiscal year that cleared during the first quarter of the current fiscal year. Net cash used in investing activities of \$15.3 million was attributable to loan originations and purchases, net of principal repayments and payoffs, and the purchase of a \$5.0 million bank-owned life insurance policy during the first quarter, partially offset by investment paydowns. Net cash provided by financing activities of \$7.3 million resulted from an increase of \$35.0 million in FHLB-NY advances and other borrowings, partially offset by a net decrease in deposits of \$27.7 million.

Potential Mortgage Representation and Warranty Liabilities

During the period 2004 through 2009, the Bank originated 1-4 family residential mortgage loans and sold the loans to the FNMA. The loans were sold to FNMA with the standard representations and warranties for loans sold to the GSE's. The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral. The Bank has not received a request to repurchase any of these loans since the second quarter of fiscal 2015, and there have not been any additional requests from FNMA for loans to be reviewed. At March 31, 2023 the Bank continues to service 79 loans with a principal balance of \$12.4 million for FNMA that were sold with standard representations and warranties.

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. These reserves are reported in the consolidated statement of financial condition as a component of other liabilities. The reserves totaled \$95 thousand as of March 31, 2023. The table below summarizes changes in our representation and warranty reserves in fiscal 2023:

| <i>\$ in thousands</i> | March 31, 2023 |
|---|-----------------------|
| Representation and warranty repurchase reserve, as of March 31, 2022 ⁽¹⁾ | \$ 123 |
| Net adjustment to reserve for repurchase losses ⁽²⁾ | (28) |
| Representation and warranty repurchase reserve, as of March 31, 2023 ⁽¹⁾ | <u>\$ 95</u> |

⁽¹⁾ Reported in consolidated statements of financial condition as a component of other liabilities.

⁽²⁾ Component of other non-interest expense.

Additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserves and the ultimate amount of losses incurred is found in "Note 15 Commitments and Contingencies."

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 to meet the financing needs of its customers and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit. The Bank also has contractual obligations related to operating leases. At March 31, 2023, the Bank had \$244.5 million in outstanding commitments to extend credit and standby letters of credit. See Note 15 of Notes to Consolidated Financial Statements for the Bank's outstanding lending commitments and contractual obligations at March 31, 2023.

The Bank has contractual obligations at March 31, 2023 as follows:

| <i>\$ in thousands</i> | Payments due by period | | | | |
|--|------------------------|---------------------|------------------|------------------|----------------------|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
| Contractual Obligations | | | | | |
| Certificates of deposit | \$ 179,012 | \$ 133,313 | \$ 40,828 | \$ 3,884 | \$ 987 |
| Debt obligations: | | | | | |
| FHLB advances | \$ 35,013 | \$ 10,001 | \$ 25,012 | \$ — | \$ — |
| Other borrowings | 2,690 | 24 | 114 | 2,552 | — |
| Guaranteed preferred beneficial interest in junior subordinated debentures | 13,447 | — | — | — | 13,447 |
| Total debt obligations | 51,150 | 10,025 | 25,126 | 2,552 | 13,447 |
| Operating lease obligations: | | | | | |
| Lease obligations for rental properties | 14,289 | 2,921 | 5,392 | 4,700 | 1,276 |
| Total contractual obligations | <u>\$ 244,451</u> | <u>\$ 146,259</u> | <u>\$ 71,346</u> | <u>\$ 11,136</u> | <u>\$ 15,710</u> |

Variable Interest Entities ("VIEs")

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp Inc. for financial reporting purposes in accordance with the FASB's ASC Topic 810 regarding the consolidation of variable interest entities. Carver Statutory Trust I was formed in 2003 for the purpose of issuing \$13 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and \$0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp Inc., and using the proceeds to acquire junior subordinated debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities. The Company does not consolidate the accounts and related activity of Carver Statutory Trust I because it is not the primary beneficiary of the entity. At March 31, 2023, the Company's maximum exposure to the Trust is \$13.4 million, which is the Company's liability to the Trust and includes the Company's investment in the Trust.

Regulatory Capital Position

The Bank must satisfy minimum capital standards established by the OCC. For a description of the OCC capital regulation, see "Item 1-Regulation and Supervision-Federal Banking Regulation-Capital Requirements." Regardless of Basel III's minimum requirements, Carver, as a result of the Formal Agreement, was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. The Formal Agreement was terminated on January 18, 2023. The IMCR remains in effect.

At March 31, 2023, the Bank's capital level exceeded the regulatory requirements and its IMCR requirements with a common equity Tier 1 ratio, Tier 1 leverage ratio, Tier 1 risk-based capital ratio, and total risk-based capital ratio of 12.47%, 10.61%, 12.47% and 13.37%, respectively. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See discussion of Market Risk-Interest Rate Sensitivity Analysis in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Carver Bancorp, Inc.
New York, NY

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Carver Bancorp, Inc. (the “Company”) as of March 31, 2023, and 2022, the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for each of the two years in the period ended March 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended March 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for loan losses

As described in Notes 2 and 4 to the Company’s consolidated financial statements, the Company has a gross loan portfolio of \$597.9 million and related allowance for loan losses of \$5.2 million as of March 31, 2023. The allowance for loan losses includes a general reserve of \$4.9 million and a specific reserve of \$0.3 million. In calculating the general reserve component of the allowance for loan losses, the Company segregates the loan portfolio by loan pools and utilizes nine qualitative factors in addition to quantitative factors (historical loss experience).

We identified the qualitative factors used by management to estimate the general reserve portion of the allowance for loan losses, specifically the economic factor, as a critical audit matter. Significant management judgment is required in the

evaluation of the economic factor, which include consideration of local and national economic trends. Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the reasonableness of assumptions used by management in forming the economic factor, by assessing whether the assumptions reflected relevant considerations and were reasonable and reliable for the purpose used.
- Evaluating the appropriateness of the data used by management in developing the economic factor by comparing it to third-party data and evaluating any contradictory evidence identified.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2016.

New York, NY

June 29, 2023

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| <i>\$ in thousands except per share data</i> | March 31, 2023 | March 31, 2022 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 42,298 | \$ 60,764 |
| Money market investments | 254 | 254 |
| Total cash and cash equivalents | <u>42,552</u> | <u>61,018</u> |
| Investment securities: | | |
| Available-for-sale, at fair value | 53,843 | 67,596 |
| Held-to-maturity, at amortized cost (fair value of \$2,221 and \$5,276 at March 31, 2023 and March 31, 2022, respectively) | 2,318 | 5,254 |
| Total investment securities | <u>56,161</u> | <u>72,850</u> |
| Loans receivable: | | |
| Real estate mortgage loans | 423,349 | 407,835 |
| Commercial business loans | 166,908 | 170,031 |
| Consumer loans | 7,639 | 1,638 |
| Loans, net of deferred fees and costs | <u>597,896</u> | <u>579,504</u> |
| Allowance for loan losses | (5,229) | (5,624) |
| Total loans receivable, net | <u>592,667</u> | <u>573,880</u> |
| Premises and equipment, net | 3,174 | 3,775 |
| Federal Home Loan Bank of New York ("FHLB-NY") stock, at cost | 2,266 | 584 |
| Accrued interest receivable | 1,911 | 2,414 |
| Right-of-use assets | 12,311 | 13,637 |
| Other assets | 12,182 | 7,156 |
| Total assets | <u>\$ 723,224</u> | <u>\$ 735,314</u> |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Non-interest bearing checking | \$ 109,401 | \$ 107,472 |
| Interest-bearing deposits | | |
| Interest-bearing checking | 49,473 | 57,985 |
| Savings | 109,210 | 112,305 |
| Money market | 150,348 | 208,122 |
| Certificates of deposit | 178,694 | 139,255 |
| Escrow | 3,303 | 2,978 |
| Total interest-bearing deposits | <u>491,028</u> | <u>520,645</u> |
| Total deposits | 600,429 | 628,117 |
| Advances from the FHLB-NY and other borrowed money | 51,090 | 15,949 |
| Operating lease liability | 13,173 | 14,393 |
| Other liabilities | 13,308 | 21,768 |
| Total liabilities | <u>678,000</u> | <u>680,227</u> |
| EQUITY | | |
| Preferred stock (par value \$0.01 per share: 13,201 and 13,751 Series D shares, with a liquidation preference of \$1,000 per share, issued and outstanding at March 31, 2023 and 2022, respectively) | 13,201 | 13,751 |
| Preferred stock (par value \$0.01 per share: 3,177 Series E shares, with a liquidation preference of \$1,000 per share, issued and outstanding at March 31, 2023 and 2022) | 3,177 | 3,177 |
| Preferred stock (par value \$0.01 per share: 9,000 Series F shares, with a liquidation preference of \$1,000 per share, issued and outstanding at March 31, 2023 and 2022, respectively) | 9,000 | 9,000 |
| Common stock (par value \$0.01 per share: 10,000,000 shares authorized; 6,799,410 and 6,720,618 issued; 4,295,607 and 4,216,815 shares outstanding at March 31, 2023 and 2022, respectively) | 68 | 67 |
| Additional paid-in capital | 82,805 | 82,165 |
| Accumulated deficit | (47,904) | (43,503) |
| Treasury stock, at cost (2,503,803 shares at March 31, 2023 and 2022) | (2,908) | (2,908) |
| Accumulated other comprehensive loss | (12,215) | (6,662) |
| Total equity | <u>45,224</u> | <u>55,087</u> |
| Total liabilities and equity | <u>\$ 723,224</u> | <u>\$ 735,314</u> |

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| <i>\$ in thousands except per share data</i> | Years Ended March 31, | |
|---|------------------------------|-----------------|
| | 2023 | 2022 |
| Interest income: | | |
| Loans | \$ 25,073 | \$ 21,335 |
| Mortgage-backed securities | 619 | 710 |
| Investment securities | 929 | 714 |
| Money market investments | 1,079 | 106 |
| Total interest income | <u>27,700</u> | <u>22,865</u> |
| Interest expense: | | |
| Deposits | 3,708 | 1,890 |
| Advances and other borrowed money | 1,203 | 509 |
| Total interest expense | <u>4,911</u> | <u>2,399</u> |
| Net interest income | 22,789 | 20,466 |
| Provision for loan losses | 100 | 603 |
| Net interest income after provision for loan losses | <u>22,689</u> | <u>19,863</u> |
| Non-interest income: | | |
| Depository fees and charges | 2,197 | 2,141 |
| Loan fees and service charges | 480 | 243 |
| Gain on sale of loans, net | 107 | — |
| Grant income | 439 | 2,089 |
| Other | 372 | 2,881 |
| Total non-interest income | <u>3,595</u> | <u>7,354</u> |
| Non-interest expense: | | |
| Employee compensation and benefits | 13,186 | 11,516 |
| Net occupancy expense | 4,604 | 4,460 |
| Equipment, net | 2,240 | 1,806 |
| Data processing | 2,562 | 2,205 |
| Consulting fees | 505 | 505 |
| Federal deposit insurance premiums | 389 | 363 |
| Other | 7,199 | 7,209 |
| Total non-interest expense | <u>30,685</u> | <u>28,064</u> |
| Loss before income tax expense | (4,401) | (847) |
| Income tax expense | — | — |
| Net loss | <u>\$ (4,401)</u> | <u>\$ (847)</u> |
| Loss per common share: | | |
| Basic | \$ (1.03) | \$ (0.24) |
| Diluted | \$ (1.03) | \$ (0.24) |

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| <i>\$ in thousands</i> | Years Ended March 31, | |
|--|------------------------------|-------------------|
| | 2023 | 2022 |
| Net loss | \$ (4,401) | \$ (847) |
| Other comprehensive loss, net of tax: | | |
| Change in unrealized loss of securities available-for-sale, net of income tax expense of \$0 (due to full valuation allowance) | (5,553) | (3,487) |
| Less: Reclassification adjustment for realized gains on sales of available-for-sale securities, net of income tax expense of \$0 (due to full valuation allowance) | — | — |
| Total other comprehensive loss, net of tax | (5,553) | (3,487) |
| Total comprehensive loss, net of tax | <u>\$ (9,954)</u> | <u>\$ (4,334)</u> |

See accompanying notes to consolidated financial statements

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

| <i>\$ in thousands</i> | Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Treasury Stock | Accumulated Other Comprehensive Loss | Total Equity |
|--|--------------------|-----------------|----------------------------------|------------------------|-------------------|---|------------------|
| Balance—March 31, 2021 | 25,778 | 58 | 75,204 | (42,656) | (2,908) | (3,175) | 52,301 |
| Net loss | — | — | — | (847) | — | — | (847) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (3,487) | (3,487) |
| Conversion of Series D preferred stock to common stock | (3,850) | 4 | 3,846 | — | — | — | — |
| Issuance of common stock, net of issuance costs | — | 4 | 2,994 | — | — | — | 2,998 |
| Issuance of Series F preferred stock | 4,000 | — | — | — | — | — | 4,000 |
| Stock based compensation expense | — | 1 | 121 | — | — | — | 122 |
| Balance—March 31, 2022 | 25,928 | 67 | 82,165 | (43,503) | (2,908) | (6,662) | 55,087 |
| Net loss | — | — | — | (4,401) | — | — | (4,401) |
| Other comprehensive loss, net of tax | — | — | — | — | — | (5,553) | (5,553) |
| Conversion of Series D preferred stock to common stock | (550) | 1 | 549 | — | — | — | — |
| Stock based compensation expense | — | — | 91 | — | — | — | 91 |
| Balance—March 31, 2023 | \$ 25,378 | \$ 68 | \$ 82,805 | \$ (47,904) | \$ (2,908) | \$ (12,215) | \$ 45,224 |

See accompanying notes to consolidated financial statements

CARVER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>\$ in thousands</i> | Years Ended March 31, | |
|---|------------------------------|------------------|
| | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (4,401) | \$ (847) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Provision for loan losses | 100 | 603 |
| Stock based compensation expense | 91 | 122 |
| Depreciation and amortization expense | 1,058 | 1,029 |
| Gain on sale of loans, net | (107) | — |
| Amortization and accretion of loan premiums and discounts and deferred charges | (202) | (335) |
| Amortization and accretion of premiums and discounts - securities | 397 | 609 |
| Decrease in accrued interest receivable | 503 | 226 |
| Decrease (increase) in other assets | 480 | (1,301) |
| (Decrease) increase in other liabilities | (8,432) | 7,046 |
| Net cash (used in) provided by operating activities | (10,513) | 7,152 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from principal payments, maturities and calls of investments: Available-for-sale | 7,812 | 14,775 |
| Proceeds from principal payments, maturities and calls of investments: Held-to-maturity | 2,927 | 2,524 |
| Purchase of bank-owned life insurance | (5,000) | — |
| Loans held-for-investment, net of (originations) and repayments/payoffs and maturities | (9,934) | (51,977) |
| Loans purchased from third parties | (14,289) | (50,257) |
| Proceeds from participation loans sold | 4,000 | 6,080 |
| Proceeds from sale of loans | 1,129 | — |
| Purchase of FHLB-NY stock | (1,682) | (32) |
| Purchase of premises and equipment | (225) | (192) |
| Net cash used in investing activities | (15,262) | (79,079) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net (decrease) increase in deposits | (27,688) | 71,558 |
| Increase in short-term borrowings | 10,000 | — |
| Increase in long-term borrowings | 25,000 | 2,500 |
| Repayment of long-term borrowings | (3) | (23,702) |
| Issuance of common stock | — | 2,998 |
| Issuance of preferred stock | — | 4,000 |
| Net cash provided by financing activities | 7,309 | 57,354 |
| Net decrease in cash and cash equivalents | (18,466) | (14,573) |
| Cash and cash equivalents at beginning of period | 61,018 | 75,591 |
| Cash and cash equivalents at end of period | \$ 42,552 | \$ 61,018 |
| Supplemental cash flow information: | | |
| Noncash financing and investing activities | | |
| Recognition of right-of-use asset | \$ 1,103 | \$ — |
| Recognition of operating lease liability | 1,103 | — |
| Recognition of finance lease asset | 183 | — |
| Recognition of finance lease liability | 183 | — |
| Conversion of preferred stock to common stock | 550 | 3,850 |
| Cash paid for: | | |
| Interest | \$ 4,621 | \$ 5,520 |
| Income taxes | 193 | 211 |

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 “Company” or “Registrant”), was incorporated in May 1996 and its principal wholly-owned subsidiaries are Carver Federal Savings Bank (the “Bank” or “Carver Federal”) and Alhambra Holding Corp., an inactive Delaware corporation. Carver Federal’s wholly-owned subsidiaries are CFSB Realty Corp., Carver Community Development Corporation (“CCDC”) and CFSB Credit Corp., which is currently inactive. The Bank has a real estate investment trust, Carver Asset Corporation (“CAC”), that was formed in February 2004.

“Carver,” the “Company,” “we,” “us” or “our” refers to the Company along with its consolidated subsidiaries. The Bank was chartered in 1948 and began operations in 1949 as Carver Federal Savings and Loan Association, a federally-chartered mutual savings and loan association. The Bank converted to a federal savings bank in 1986. On October 24, 1994, the Bank converted from a mutual holding company structure to stock form and issued 2,314,375 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 Company.

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 seven branches located throughout the City of New York that primarily serve the communities in which they operate.

In September 2003, the 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 Company. In accordance with Accounting Standards Codification (“ASC”) 810, “Consolidation,” Carver Statutory Trust I is unconsolidated for financial reporting purposes. 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 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 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. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments were made in September 2016. Interest on the debentures had been deferred beginning with the December 2016 payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval. During the fourth quarter of fiscal year 2021, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through June 2021. Full payment was made on June 16, 2021. The Company deferred the September 17, 2021 interest payment, but has since had discussions with the Federal Reserve Bank of Philadelphia regarding future quarterly payments. A streamlined process has been developed for the Company to request regulatory approval to make debenture interest payments. On December 16, 2021, the Company paid the deferred interest that was due on September 17, 2021 and the regular quarterly interest payment due on December 17, 2021. All quarterly interest payments subsequent to the June 2021 payment up to and including the June 2023 payment have been made. The interest rate was 7.96% and the total amount of deferred interest was \$44 thousand at March 31, 2023.

Carver may rely on dividends from Carver Federal to pay cash dividends to its stockholders and to engage in share repurchase programs. In recent years, Carver has been successful in obtaining cash independently through its capital raising efforts, which may include cash from government grants or below market-rate loans. Under the prior Formal Agreement, the OCC regulated all capital distributions, including dividend payments, by Carver Federal to Carver, and the FRB regulates dividends paid by Carver. As the subsidiary of a savings and loan association holding company, Carver Federal must file a notice or an application (depending on the proposed dividend amount) with the OCC (and a notice with the FRB) prior to the declaration of each capital distribution. The OCC will disallow any proposed dividend that, among other reasons, would result in Carver Federal’s failure to meet the OCC minimum capital requirements. Carver has suspended Carver’s regular quarterly cash dividend on its common stock.

Regulation

On October 23, 2015, the Board of Directors of the Company adopted resolutions requiring, among other things, written approval from the Federal Reserve Bank of Philadelphia prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock.

On May 24, 2016, the Bank entered into a Formal Agreement ("the Agreement") with the OCC to undertake certain compliance-related and other actions. As a result of the Agreement, the Bank was required to obtain the approval of the OCC prior to effecting any change in its directors or senior executive officers, paying dividends and entering into any "golden parachute payments" as that term is defined under 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359. As a result of the Formal Agreement, Carver was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. The Agreement was terminated on January 18, 2023. The IMCR remains in effect.

The Company continues to be subject to similar requirements that the Bank was subject to under the Agreement. The Company must provide notice to the FRB prior to effecting any change in its directors or senior executive officers. The Company is also subject to restrictions on golden parachute and indemnification payments, as set forth in 12 C.F.R. Part 359. Written approval of the Federal Reserve Bank is required prior to (1) the declaration or payment of dividends by the Company to its stockholders, (2) the declaration or payment of dividends by the Bank to the Company, (3) any distributions of interest or principal by the Company on subordinated debentures or trust preferred securities, (4) any purchases or redemptions of the Company's stock and (5) the Company incurring, increasing or guaranteeing certain long-term debt outside the ordinary course of business. These limitations could affect our operations and financial performance.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidated financial statement presentation

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

The Company's subsidiary, Carver Statutory Trust I, is not consolidated with Carver Bancorp, Inc. for financial reporting purposes. Carver Statutory Trust I was formed in 2003 for the purpose of issuing \$13 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and \$0.4 million of common securities (which are the only voting securities of Carver Statutory Trust I), which are 100% owned by Carver Bancorp, Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of Carver Statutory Trust I under the trust agreement relating to the Capital Securities.

Variable interest entities ("VIEs") are consolidated, as required, when Carver has controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both (a) the power to direct activities of a VIE that most significantly impact the entities economic performance; and (b) the obligation to absorb losses of the entity that could benefit from the activities that could potentially be significant to the VIE.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). 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, realization of deferred tax assets, assessment of other-than-temporary impairment of securities, and the fair value of financial instruments. 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. Current market conditions increase the risk and complexity of the judgments in these estimates.

Recent Events

The business climate continues to present significant challenges as banks continue to absorb heightened regulatory costs and compete for limited loan demand. Significant increases in food and energy prices resulted from swift increases in the rate of inflation. Additionally, the Federal Reserve has increased the federal funds rate at each of its meetings since March 2022, and while the rate was held steady at the most recent meeting in June 2023, it has indicated that it will likely increase again later this year. For Carver, the economic climate of New York City (“the City”), in particular, impacts our business as the City lags behind the rest of New York State and the nation both in restoring pandemic job losses and in rebounding to pre-pandemic levels of unemployment. The City's unemployment rate remains high at 5.4%, exceeding the national average, as employment in the arts and entertainment, food and hospitality sectors continue to remain below their pre-pandemic highs.

In March 2023, the FDIC was appointed as receiver for Silicon Valley Bank and Signature Bank after they experienced runs on deposits and other liquidity constraints. At the time, Silicon Valley Bank and Signature Bank were the 16th and 29th largest banks in the United States, respectively, as measured by total assets as of December 31, 2022. Following the failures of Silicon Valley Bank and Signature Bank, on May 1, 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. The closures of those banks led to industry-wide concerns related to liquidity, deposit outflows, unrealized securities losses and eroding confidence in the banking system. In response to these recent developments, the Company took a number of preemptive actions, which included proactive outreach to clients and steps to maximize its funding sources. As a result, the Company's liquidity position remains adequate. The impact of market volatility from the adverse developments in the banking industry along with continued high inflation and rising interest rates, will depend on future developments, which are highly uncertain and difficult to predict.

The Company is closely monitoring its asset quality, liquidity, and capital positions, as well as the credit risk in its loan portfolio. Management is actively working to minimize the current and future impact of this unusual situation, and is continuing to make adjustments to operations where appropriate or necessary to mitigate risk. However, these factors and events may have negative effects on the business, financial condition, and results of operations of the Company and its customers.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, amounts due from depository institutions and other short-term instruments with an original maturity of three months or less. The amounts due from depository institutions include an interest-bearing account held at the Federal Reserve Bank 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.

Investment Securities

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

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 or trading, securities are classified as available-for-sale based upon management's ability to sell in response to actual or anticipated changes in interest rates, 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 if available. If quoted or dealer prices are not available, fair value is estimated using quoted or dealer prices for similar securities.

Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings.

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized holding loss. Unrealized holding gains or losses for securities available-for-sale are excluded from earnings and reported net of deferred income taxes in accumulated other comprehensive loss, a component of Stockholders' Equity. The amount of an other-than-temporary impairment when there are credit and non-credit losses on a debt security that management does not intend to sell, and for which it is more likely than not that the Bank will not be required to sell the security prior to the recovery of the non-credit impairment, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings. The remaining difference between the debt security's amortized cost basis and its fair value would be included in other

comprehensive income (loss). There were no other-than-temporary impairment charges recorded during the fiscal year ended March 31, 2023. Gains or losses on sales of securities of all classifications are recognized based on the specific identification method.

Loans Held-for-Sale

Loans are only transferred to held-for-sale classification upon the determination by Carver to sell a loan. Held-for-sale loans are carried at the lower of cost or fair value. The initial charge-off, if any is required, will be taken upon the transfer to held-for-sale and absorbed through Carver's loan loss reserve. Subsequent changes in fair value are recognized in earnings as a valuation allowance. The valuation methodology for loans held-for-sale varies based upon the circumstances. Held-for-sale values may be based upon accepted offer amounts, appraised value of underlying mortgaged premises, prior loan loss experience of Carver in connection with recent loan sales for the loan type in question, and/or other acceptable valuation methods.

Loans Receivable

Loans receivable are carried at unpaid principal balances plus unamortized premiums, certain deferred direct loan origination costs and deferred loan origination fees and discounts, less the allowance for loan losses and charge-offs.

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

Loans are placed on nonaccrual status when they are past due 90 days or more as to contractual obligations or when other circumstances indicate that collection is not probable. When a loan is placed on nonaccrual status, any interest accrued but not received is reversed against interest income. Payments received on a nonaccrual loan are either applied to protective advances, the outstanding principal balance or recorded as interest income, depending on an assessment of the ability to collect the loan. A nonaccrual loan may be restored to accrual status when principal and interest payments have been brought current and the loan has performed in accordance with its contractual terms for a reasonable period (generally six months).

If the Bank determines, after considering factors such as payment status and collateral value, that a loan is impaired, the Bank next determines the amount of the impairment. The amount of impairment on collateral dependent loans is charged off within the given fiscal quarter. Generally the amount of the loan and negative escrow in excess of the appraised value less estimated selling costs, for the fair value of collateral valuation method, is charged off. For all other loans, impairment is measured as described below in Allowance for Loan and Lease Losses.

Allowance for Loan and Lease Losses ("ALLL")

The adequacy of the Bank's ALLL is determined in accordance with ASC Subtopics 450-20 "Loss Contingencies" and 310-10 "Accounting by Creditors for Impairment of a Loan." Management reviews the Bank's loan portfolio to identify and review individual problem situations that may affect a borrower's ability to repay. In addition, management reviews the overall portfolio quality through an analysis of delinquency and non-performing loan data, estimates of the value of underlying collateral, current charge-offs and other factors that may affect the portfolio, including an assessment of current and expected economic conditions and changes in the size and composition of the loan portfolio.

The ALLL reflects management's evaluation of the loans presenting identified loss potential, as well as the risk inherent in various components of the portfolio. There is significant judgment applied in estimating the ALLL. These assumptions and estimates are susceptible to significant changes based on the current environment. Further, any change in the size of the loan portfolio or any of its components could necessitate an increase in the ALLL even though there may not be a decline in credit quality or an increase in potential problem loans.

The Bank utilizes an internal loan classification system as a means of reporting problem loans within its loan categories. Loans may be classified as "Pass," "Special Mention," "Substandard," "Doubtful," and "Loss." Loans rated Pass have demonstrated satisfactory asset quality, earning history, liquidity, and other adequate margins of creditor protection. They represent a moderate credit risk and some degree of financial stability. Loans are considered collectible in full, but perhaps require greater than average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failure. Loans rated Special Mention have potential weaknesses that deserve management's close attention. If left uncorrected,

these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Loans rated Substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans rated Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Loans classified as Loss are those considered uncollectible with insignificant value and are charged off immediately to the allowance for loan losses.

One-to-four family residential loans and consumer and other loans are rated non-performing if they are delinquent in payments ninety or more days, a troubled debt restructuring with less than six months contractual performance or past maturity. All other one-to-four family residential loans and consumer and other loans are performing loans.

General Reserve Allowance

Carver's maintenance of a general reserve allowance includes the Bank's evaluation of the risk to potential loss on homogeneous pools of loans based upon historical loss factors and a review of nine different environmental factors that are then applied to each pool. The pools of loans ("Loan Type") are:

- One-to-four family
- Multifamily
- Commercial Real Estate
- Business Loans
- Consumer (including Overdraft Accounts)

The Bank next applies to each pool a risk factor that determines the level of general reserves for that specific pool. The Bank estimates its historical charge-offs via a lookback analysis. The actual historical loss experience by major loan category is expressed as a percentage of the outstanding balance of all loans within the category. As the loss experience for a particular loan category increases or decreases, the level of reserves required for that particular loan category also increases or decreases. The Bank's historical charge-off rate reflects the period over which the charge-offs were confirmed and recognized, not the period over which the earlier losses occurred. That is, the charge-off rate measures the confirmation of losses over a period that occurs after the earlier actual losses. During the period between the loss-causing events and the eventual confirmations of losses, conditions may have changed. There is always a time lag between the period over which average charge-off rates are calculated and the date of the financial statements. During that period, conditions may have changed. Another factor influencing the General Reserve is the Bank's loss emergence period ("LEP") assumptions which represent the Bank's estimate of the average amount of time from the point at which a loss is incurred to the point at which the loss is confirmed, either through the identification of the loss or a charge-off. Based upon adequate management information systems and effective methodologies for estimating losses, management has established a LEP floor of one year on all pools. In some pools, such as Commercial Real Estate, Multifamily and Business pools, the Bank demonstrates a LEP in excess of 12 months.

Because actual loss experience may not adequately predict the level of losses inherent in a portfolio, the Bank reviews nine qualitative factors to determine if reserves should be adjusted based upon any of those factors. As the risk ratings worsen, some of the qualitative factors tend to increase. The nine qualitative factors the Bank considers and may utilize are:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses (***Policy & Procedures***).
2. Changes in relevant economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments (***Economy***).
3. Changes in the nature or volume of the loan portfolio and in the terms of loans (***Nature & Volume***).
4. Changes in the experience, ability, and depth of lending management and other relevant staff (***Management***).
5. Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified loans (***Problem Assets***).
6. Changes in the quality of the loan review system (***Loan Review***).
7. Changes in the value of underlying collateral for collateral dependent loans (***Collateral Values***).
8. The existence and effect of any concentrations of credit and changes in the level of such concentrations (***Concentrations***).
9. The effect of other external forces such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio (***External Forces***).

The following discussion describes the general risks associated with the Bank's lending activities:

- One-to-four family - Carver Federal purchases first mortgage loans secured by one-to-four family properties that serve as the primary residence of the owner. The loans are underwritten in accordance with applicable secondary market underwriting guidelines and requirements for sale. These loans present a moderate level of risk due primarily to general economic conditions. During fiscal year 2021, the Bank also started purchasing non-qualified mortgages for one-to-four family residential loans. The Bank has approved guidelines for these loans.
- Multifamily - Carver Federal originates and purchases recourse and non-recourse multifamily loans. These loans can be affected by economic conditions and the value of the underlying properties. The Bank primarily considers the property's ability to generate net operating income sufficient to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the owner/guarantor.
- Commercial - Commercial real estate ("CRE") lending consists predominantly of originating loans for the purpose of purchasing or refinancing office, mixed-use properties, retail and church buildings in the Bank's market area. Mixed-use loans are secured by properties that are intended for both commercial and residential use, but predominantly commercial, and are classified as CRE. In originating CRE loans, the Bank primarily considers the ability of the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the property and the Bank's lending experience with the owner/guarantor. The Bank also requires the assignment of rents of all tenants' leases in the mortgaged property and personal guarantees may be obtained for additional security from these borrowers. CRE loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the complexities involved in valuing the underlying collateral.
- Business - The Bank originates and purchases business and SBA loans primarily to businesses located in its primary market area and surrounding areas. Business loans are typically personally guaranteed by the owners and may also be secured by additional collateral, including real estate, equipment and inventory. Business loans are also subject to increased risk from the effect of general economic conditions. SBA loans are guaranteed by the U.S. government based on the percentage of each individual program.
- Consumer - The Consumer portfolio includes student loans to medical students enrolled in several Caribbean schools, as well as unsecured consumer loans purchased from or originated through strategic partnerships with Bankers Healthcare Group, LLC and Upstart Holdings, Inc..

Specific Reserve Allowance

Carver also maintains a specific reserve allowance for criticized and classified loans individually reviewed for impairment. The amount assigned to the specific reserve allowance is individually determined based upon the loan. Carver uses one of three methods to estimate the amount to be reserved and/or charged off for such credits. The three methods are as follows:

1. The present value of expected future cash flows discounted at the loan's effective interest rate;
2. The loan's observable market price; or
3. The fair value of the collateral if the loan is collateral dependent.

The Bank may choose the appropriate method on a loan-by-loan basis for an individually impaired loan, except for an impaired collateral dependent loan. Impairment of a collateral dependent loan is measured using the fair value of collateral method. A loan is considered "collateral dependent" when the repayment of the debt will be provided solely by the underlying collateral, and there are no other available and reliable sources of repayment.

All substandard and doubtful loans and any other loans that the Chief Credit Officer deems appropriate for review, are identified and reviewed for individual evaluation for impairment. Carver also performs impairment analysis for all troubled debt restructurings ("TDRs"). All TDRs are classified as impaired. For non-TDRs, if it is determined that it is probable the Bank will be unable to collect all amounts due according with the contractual terms of the loan agreement, the loan is categorized as impaired. Loans determined to be impaired are evaluated to determine the amount of impairment based on one of the three measurement methods noted above. In accordance with guidance, if there is no impairment amount, no reserve is established for the loan.

An unallocated loan loss allowance is appropriate when it reflects an estimate of probable loss, determined in accordance with GAAP, and is properly supported.

Troubled Debt Restructured Loans

TDRs are those loans where the borrower is experiencing financial difficulty and a concession is made. A concession could include extension of the terms of the loan, reduced interest rates, capitalization of interest, a significant delay in payment terms and forgiveness of accrued interest and/or principal. Once an obligation has been restructured because of such credit problems, it continues to be considered a TDR until paid in full. For a collateral dependent loan, the Bank records an impairment charge when the current estimated fair value (less estimated costs of disposal) of the property that collateralizes the impaired loan, if any, is less than the recorded investment in the loan. For all other TDRs, the Bank records a specific valuation allowance reserve equal to the difference between the present value of estimated future cash flows under the restructured terms discounted at the loan's original effective interest rate, and the loan's recorded investment. TDR loans remain on nonaccrual status until they have performed in accordance with the restructured terms for a period of at least six months.

Representation and Warranty Reserve

During the period 2004 through 2009, the Bank originated 1-4 family residential mortgage loans and sold the loans to the Federal National Mortgage Association ("FNMA"). The loans were sold to FNMA with the standard representations and warranties for loans sold to the Government Sponsored Entities (GSEs). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral.

Management has established a representation and warranty reserve for losses associated with the repurchase of mortgage loans sold by the Bank to FNMA that we consider to be both probable and reasonably estimable. These reserves are reported in the consolidated statement of financial condition as a component of other liabilities. The calculation of the reserve is based on estimates, which are uncertain, and require the application of judgment. In establishing the reserves, we consider a variety of factors, including those loans that are under review by FNMA that have not yet received a repurchase request. The Bank tracks the FNMA claims monthly and evaluates the reserve on a quarterly basis.

Segment Reporting

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 are located in New York City. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in New York's real estate market conditions. Qualitative factors in the ALLL calculation considers the Bank's concentration risk.

Premises and Equipment

Premises and equipment are comprised of land, at cost, and buildings, building improvements, furnishings and equipment and leasehold improvements, at cost less accumulated depreciation and amortization. Depreciation and amortization charges are included in Non-Interest Expense in the consolidated statements of operations and 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.

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Company includes lease renewal options in the lease term if it is reasonably certain the option will be exercised. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term. The Company uses its incremental borrowing rate, which is the rate for a fully collateralized and fully amortizing loan with a maturity date that is similar to the lease term, at lease commencement to calculate the present value of lease payments when the implicit rate in a lease is not readily determinable.

Federal Home Loan Bank Stock

The 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. FHLB stock does not have a readily determinable fair value and we do not consider these shares to be other-than-temporarily impaired at March 31, 2023. The Bank carries this investment at historical cost.

Mortgage Servicing Rights

All separately recognized servicing assets totaled \$152 thousand and \$162 thousand, respectively, at March 31, 2023 and 2022, and are included in Other Assets in the consolidated statements of financial condition and measured at fair value. Changes in fair value is included in Non-Interest Income in the consolidated statements of operations. Servicing fee income of \$44 thousand and \$41 thousand, respectively, was recognized during the years ended March 31, 2023 and 2022, and is included in Non-Interest Income in the consolidated statements of operations.

Other Real Estate Owned

Real estate acquired by foreclosure or deed-in-lieu of foreclosure is recorded at fair value at the date of acquisition less estimated selling costs. Any subsequent adjustments will be to the lower of cost or fair value and included in Non-Interest Expense in the consolidated statements of operations. 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 and are included in Non-Interest Expense in the consolidated statements of operations. As of March 31, 2023, the Bank held \$60 thousand in a foreclosed residential real estate property as a result of obtaining physical possession. In addition, as of March 31, 2023 and 2022, we had residential loans with a carrying value of \$3.2 million and \$3.1 million, respectively, collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Income Taxes

The Company records income taxes using the asset and liability method. Income tax expense (benefit) consists of income taxes currently payable (receivable) and deferred income taxes. 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. Where applicable, deferred tax assets are reduced by a valuation allowance for any portion determined more likely than not to be realized. This valuation allowance would subsequently be adjusted by a charge or credit to income tax expense as changes in facts and circumstances warrant. 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. Any interest expense or penalties would be recorded as interest expense.

Earnings (Loss) per Common Share

The Company has preferred stock which are entitled to receive dividends if declared on the Company's common stock and are therefore considered to be participating securities. Basic earnings (loss) per share ("EPS") is computed using the two class method. This calculation divides net income (loss) available to common stockholders after the allocation of undistributed

earnings to the participating securities by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. These potentially dilutive shares are then included in the weighted average number of shares outstanding for the period. Dilution calculations are not applicable to net loss periods.

Preferred and Common Dividends

The Company is prohibited from paying any dividends without prior regulatory approval pursuant to the terms of the Formal Agreement and Resolution to which it is subject, and is generally subject to regulations governing the payment of dividends. There are no assurances that the payments of common stock dividends will resume.

Treasury Stock

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

Stock Compensation Plans

The Company currently has multiple stock plans in place for employees and directors of the Company. The compensation cost related to share-based payment transactions is included in Employee Compensation and Benefits in the consolidated statements of operations. Compensation cost for all stock awards is calculated and recognized over a defined vesting period. Forfeitures are accounted for as they occur. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite vesting period for the entire award. The Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated statements of condition when they are funded. Reserves for unfunded lending commitments are included in Other Liabilities in the consolidated statements of financial condition.

Grant Income

Designated as a Community Development Financial Institution ("CDFI") by the U.S. Department of the Treasury, the Bank is eligible for, and on occasion receives, assistance from the government and other financial institutions in the form of grants. The Company earns these grants through compliance with their conditions and by meeting the stated obligations. The Company therefore recognizes the grant income over the periods that bear the cost of meeting the obligations.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Recent Accounting Standards

Accounting Standards Recently Adopted

On April 1, 2021, the Company adopted ASU No. 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which was part of the FASB's simplification initiative to reduce complexity, while maintaining or improving the usefulness of information provided to users of financial statements. The amendments in this update simplified the accounting for income taxes and improved consistent application of GAAP by removing certain exceptions and clarifying

and amending existing guidance for areas of Topic 740. The adoption of the standard did not have a material impact on the Company's financial statements.

In November 2021, the FASB issued ASU No. 2021-10 "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance," to improve the financial reporting of government assistance received by business entities by requiring the disclosure of (1) the types of assistance received, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on an entity's financial statements. ASU 2021-10 is effective for all entities for financial statements issued for annual periods beginning after December 15, 2021 (for the Company, the fiscal year ending March 31, 2023). Early application of the guidance is permitted. The adoption of the standard did not have a material impact on the Company's financial statements.

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Loss," which replaces the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2019 (for the Company, the fiscal year ending March 31, 2021), including interim periods within those fiscal years. In May 2019, the FASB issued ASU No. 2019-05, "Financial Instruments - Credit Losses (Topic 326): Target Transition Relief," to provide transition relief by giving entities an option to irrevocably elect the fair value option for certain financial assets measured at amortized cost upon adoption of ASU 2016-13. In November 2019, the FASB issued ASU No. 2019-10, which extended the CECL implementation date for smaller reporting companies, as defined by the SEC. The new effective date is for fiscal years beginning after December 15, 2022 (for the Company, the fiscal year ending March 31, 2024), including interim periods within those fiscal years. In November 2019, the FASB issued ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses," to amend or clarify guidance regarding expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, and financial assets secured by collateral maintenance provisions. The Company has conducted testing of the ASU 2016-13 method utilizing historical financial analysis and has engaged a vendor as an additional resource to examine and reaffirm the models as it relates to the implementation of the new methodology utilizing the current expected credit loss model, which will replace our current incurred loss approach. Based on the Company's current CECL model results that it has performed alongside the current process, the adoption of the new guidance will result in an increase of approximately \$0.7 million to the allowance for credit loss, including the reserve for off-balance sheet credit exposure recorded in other liabilities. There is no material impact for other assets within the scope of the new CECL guidance, such as held-to-maturity debt securities and other receivables. The Company will adopt ASU 2016-13 effective April 1, 2023. As the Company finalizes the CECL implementation, final decisions made by management may result in a different impact than that stated above for financial statement disclosure purposes.

In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures," which eliminates the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. The amendments also require disclosure of current period gross writeoffs by year of origination. The effective dates for the amendments in ASU 2022-02 are the same as the effective dates in ASU 2016-13. The Company does not expect the adoption of this ASU to have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. In December 2022, the FASB issued ASU No. 2022-06 "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848," which defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply for

relief in Topic 848. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2024 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. The Company is evaluating the impacts of this ASU and has not yet determined whether LIBOR transition and this ASU will have a material impact on the Company's consolidated statements of financial condition and results of operations.

NOTE 3. INVESTMENT SECURITIES

The Bank utilizes mortgage-backed and other investment securities in its asset/liability management strategy. In making investment decisions, the Bank considers, among other things, its yield and interest rate objectives, its interest rate and credit risk position, and its liquidity and cash flow.

Generally, the investment policy of the Bank is to invest funds among categories of investments and maturities based upon the Bank's asset/liability management policies, investment quality, loan and deposit volume and collateral requirements, liquidity needs and performance objectives. Debt securities are classified into three categories: trading, held-to-maturity, and available-for-sale. At March 31, 2023, securities with fair value of \$53.8 million, or 95.9%, of the Bank's total securities were classified as available-for-sale, and the remaining securities with amortized cost of \$2.3 million, or 4.1%, were classified as held-to-maturity, compared to \$67.6 million and \$5.3 million at March 31, 2022, respectively. The Bank had no securities classified as trading at March 31, 2023 and March 31, 2022.

Other investments as of March 31, 2023 primarily consists of the Bank's investment in a limited partnership Community Capital Fund and a \$5.1 million bank-owned life insurance policy ("BOLI") that was purchased during the first quarter of fiscal year 2023 as a channel to add to the Company's non-interest income revenue by means of an investment considered safe and sound by the Company's regulators. The investment in the limited partnership is measured using the equity method. The BOLI is carried at the cash surrender value of the underlying policies. Income generated from the investment and the increase in the cash surrender value of the BOLI is included in other non-interest income on the Statements of Operations. Other investments totaled \$6.1 million at March 31, 2023 and are included in Other Assets on the Statements of Financial Condition.

The following tables set forth the amortized cost and fair value of securities available-for-sale and held-to-maturity at March 31, 2023 and March 31, 2022:

| <i>\$ in thousands</i> | At March 31, 2023 | | | |
|--|-------------------|------------------|------------------|------------------|
| | Amortized Cost | Gross Unrealized | | Fair Value |
| | | Gains | Losses | |
| Available-for-Sale: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | \$ 341 | \$ 1 | \$ 1 | \$ 341 |
| Federal Home Loan Mortgage Corporation | 21,651 | — | 4,051 | 17,600 |
| Federal National Mortgage Association | 11,714 | — | 2,212 | 9,502 |
| Total mortgage-backed securities | 33,706 | 1 | 6,264 | 27,443 |
| U.S. Government Agency Securities | 9,364 | — | 38 | 9,326 |
| Corporate Bonds | 5,269 | — | 2,177 | 3,092 |
| Muni Securities | 17,719 | — | 3,737 | 13,982 |
| Total available-for-sale | <u>\$ 66,058</u> | <u>\$ 1</u> | <u>\$ 12,216</u> | <u>\$ 53,843</u> |
| Held-to-Maturity: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | \$ 366 | \$ — | \$ 3 | \$ 363 |
| Federal National Mortgage Association | 1,952 | — | 94 | 1,858 |
| Total held-to-maturity | <u>\$ 2,318</u> | <u>\$ —</u> | <u>\$ 97</u> | <u>\$ 2,221</u> |

| <i>\$ in thousands</i> | At March 31, 2022 | | | |
|--|-------------------|------------------|-----------------|------------------|
| | Amortized Cost | Gross Unrealized | | Fair Value |
| | | Gains | Losses | |
| Available-for-Sale: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | \$ 439 | \$ 9 | \$ — | \$ 448 |
| Federal Home Loan Mortgage Corporation | 23,744 | — | 2,197 | 21,547 |
| Federal National Mortgage Association | 12,852 | — | 1,268 | 11,584 |
| Total mortgage-backed securities | 37,035 | 9 | 3,465 | 33,579 |
| U.S. Government Agency Securities | 13,864 | — | 79 | 13,785 |
| Corporate Bonds | 5,271 | — | 1,150 | 4,121 |
| Muni Securities | 17,741 | — | 1,973 | 15,768 |
| Asset-backed Securities | 347 | — | 4 | 343 |
| Total available-for-sale | <u>\$ 74,258</u> | <u>\$ 9</u> | <u>\$ 6,671</u> | <u>\$ 67,596</u> |
| Held-to-Maturity: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | \$ 481 | \$ 27 | \$ — | \$ 508 |
| Federal National Mortgage Association | 4,773 | 9 | 14 | 4,768 |
| Total held-to-maturity | <u>\$ 5,254</u> | <u>\$ 36</u> | <u>\$ 14</u> | <u>\$ 5,276</u> |

There were no sales of available-for-sale securities and held-to-maturity securities for the year ended March 31, 2023 and March 31, 2022.

Carver maintains a portfolio of mortgage-backed securities in the form of Government National Mortgage Association (“GNMA”) pass-through certificates, Federal National Mortgage Association (“FNMA”) mortgage-backed securities and Federal Home Loan Mortgage Corporation (“FHLMC”) mortgage-backed securities. GNMA pass-through certificates are guaranteed as to the payment of principal and interest by the full faith and credit of the United States Government, while FNMA and FHLMC securities are each guaranteed by their respective agencies as to principal and interest. Based on the high quality of the Bank's investment portfolio, current market conditions have not significantly impacted the pricing of the portfolio or the Bank's ability to obtain reliable prices.

At March 31, 2023, the Bank pledged mortgage-backed and asset-backed securities of \$2.5 million as collateral for advances from the FHLB-NY.

The following tables set forth the unrealized losses and fair value of securities in an unrealized loss position at March 31, 2023 and March 31, 2022 for less than 12 months and 12 months or longer:

| <i>\$ in thousands</i> | At March 31, 2023 | | | | | |
|-------------------------------------|----------------------|-----------------|----------------------|------------------|----------------------|------------------|
| | 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 | \$ — | \$ — | \$ 6,264 | \$ 27,146 | \$ 6,264 | \$ 27,146 |
| U.S. Government Agency Securities | 13 | 4,075 | 25 | 5,251 | 38 | 9,326 |
| Corporate bonds | — | — | 2,177 | 3,092 | 2,177 | 3,092 |
| Muni securities | — | — | 3,737 | 13,982 | 3,737 | 13,982 |
| Total available-for-sale securities | <u>\$ 13</u> | <u>\$ 4,075</u> | <u>\$ 12,203</u> | <u>\$ 49,471</u> | <u>\$ 12,216</u> | <u>\$ 53,546</u> |
| Held-to-Maturity: | | | | | | |
| Mortgage-backed securities | \$ 3 | \$ 363 | \$ 94 | \$ 1,822 | \$ 97 | \$ 2,185 |
| Total held-to-maturity securities | <u>\$ 3</u> | <u>\$ 363</u> | <u>\$ 94</u> | <u>\$ 1,822</u> | <u>\$ 97</u> | <u>\$ 2,185</u> |

| <i>\$ in thousands</i> | At March 31, 2022 | | | | | |
|-------------------------------------|---------------------|------------------|---------------------|------------------|-------------------|------------------|
| | 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 | \$ 519 | \$ 7,057 | \$ 2,946 | \$ 26,128 | \$ 3,465 | \$ 33,185 |
| U.S. Government Agency Securities | — | — | 79 | 13,785 | 79 | 13,785 |
| Corporate bonds | — | — | 1,150 | 4,121 | 1,150 | 4,121 |
| Muni securities | 1,640 | 13,512 | 333 | 2,256 | 1,973 | 15,768 |
| Asset-backed securities | 4 | 343 | — | — | 4 | 343 |
| Total available-for-sale securities | <u>\$ 2,163</u> | <u>\$ 20,912</u> | <u>\$ 4,508</u> | <u>\$ 46,290</u> | <u>\$ 6,671</u> | <u>\$ 67,202</u> |
| Held-to-Maturity: | | | | | | |
| Mortgage-backed securities | \$ 14 | \$ 2,204 | \$ — | \$ — | \$ 14 | \$ 2,204 |
| Total held-to-maturity securities | <u>\$ 14</u> | <u>\$ 2,204</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 14</u> | <u>\$ 2,204</u> |

A total of 24 securities had an unrealized loss at March 31, 2023, compared to 23 at March 31, 2022. Mortgage-backed securities, U.S. government agency securities, municipal securities and a corporate bond security represented 50.7%, 17.4%, 26.1% and 5.8%, respectively, of total available-for-sale securities in an unrealized loss position at March 31, 2023. There were eight mortgage-backed securities, two U.S. government agency securities, one corporate bond and six municipal securities that had an unrealized loss position for more than 12 months at March 31, 2023. The cause of the temporary impairment is directly related to changes 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 change in fair value to movements in interest rates, the life of the investments and their high credit quality. Given the high credit quality of the mortgage-backed securities which are backed by the U.S. government's guarantees, the high credit quality and strong financial performance of the U.S. Government Agency and the results of the individual analyses performed for and continuous surveillance on the municipal securities, as well as the corporate security that is a reputable institution in good financial standing, the risk of credit loss is minimal. Management believes that these unrealized losses are a direct result of the current rate environment and the Company has the ability and intent to hold the securities until maturity or the valuation recovers. The Bank did not have any securities that were classified as having other-than-temporary impairment in its investment portfolio at March 31, 2023.

The following is a summary of the amortized cost and fair value of debt securities at March 31, 2023, 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.

| <i>\$ in thousands</i> | Amortized Cost | Fair Value | Weighted Average Yield |
|----------------------------|------------------|------------------|------------------------|
| Available-for-Sale: | | | |
| Five through ten years | 5,679 | 5,330 | 4.34 % |
| After ten years | 26,673 | 21,070 | 3.33 % |
| Mortgage-backed securities | 33,706 | 27,443 | 1.63 % |
| | <u>\$ 66,058</u> | <u>\$ 53,843</u> | <u>2.56 %</u> |
| Held-to-maturity: | | | |
| Mortgage-backed securities | \$ 2,318 | \$ 2,221 | 2.78 % |

NOTE 4. LOANS RECEIVABLE, NET

The following is a summary of loans receivable, net of allowance for loan losses at March 31:

| <i>\$ in thousands</i> | March 31, 2023 | | March 31, 2022 | |
|--|-------------------|---------|-------------------|---------|
| | Amount | % | Amount | % |
| Gross loans receivable: | | | | |
| One-to-four family | \$ 64,971 | 10.9 % | \$ 69,297 | 12.0 % |
| Multifamily | 177,995 | 29.9 % | 160,800 | 27.9 % |
| Commercial real estate | 177,714 | 29.9 % | 174,270 | 30.2 % |
| Business ⁽¹⁾ | 166,940 | 28.0 % | 170,497 | 29.6 % |
| Consumer ⁽²⁾ | 7,513 | 1.3 % | 1,623 | 0.3 % |
| Total loans receivable | 595,133 | 100.0 % | 576,487 | 100.0 % |
| Unamortized premiums, deferred costs and fees, net | 2,763 | | 3,017 | |
| Allowance for loan losses | (5,229) | | (5,624) | |
| Total loans receivable, net | <u>\$ 592,667</u> | | <u>\$ 573,880</u> | |

⁽¹⁾ Includes business overdrafts of \$11 thousand and \$5 thousand as of March 31, 2023 and 2022, respectively

⁽²⁾ Includes consumer overdrafts of \$19 thousand and \$31 thousand as of March 31, 2023 and 2022, respectively

During fiscal year 2023, the Bank purchased \$14.3 million loans at par, comprised of \$4.0 million one-to-four family, \$5.8 million commercial real estate, \$613 thousand business and \$3.9 million consumer loans. The Bank purchased \$50.1 million loans at par during fiscal year 2022, comprised of \$11.3 million one-to-four family, \$15.1 million multifamily, \$18.2 million commercial real estate and \$5.6 million business loans.

Substantially all of the Bank's real estate loans receivable are principally secured by properties located in New York City. Accordingly, as with most financial institutions in the market area, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in this area.

Real estate mortgage loan portfolios (one-to-four family) 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 \$12.6 million and \$14.5 million at March 31, 2023 and 2022, respectively.

At March 31, 2023 the Bank pledged \$53.5 million in total real estate mortgage loans as collateral for advances from the FHLB-NY.

The Bank participated as a lender in the Paycheck Protection Program ("PPP"), which opened on April 3, 2020. As part of the CARES Act, the Small Business Administration ("SBA") was authorized to temporarily guarantee loans under this new 7(a) loan program. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. Since the PPP loans are fully guaranteed by the SBA, there are no additional ALLL reserves required. As of March 31, 2023, the Bank had approved and funded approximately 420 applications totaling \$57.1 million of loans under the PPP. Business loans included PPP loans outstanding totaling \$568 thousand as of March 31, 2023. The net loan origination fees on these loans totaled approximately \$4 thousand and are being recognized into interest income on loans over the 2-year and 5-year stated maturity terms of the PPP loans using the straight-line deferral method. The Bank continues to receive debt forgiveness payments on PPP loans closed during the first and second rounds of the program. As the loans are paid off, the remaining net deferred origination fees are accelerated into income.

Consistent with regulatory guidance and the provisions of the CARES Act, loans less than 30 days past due at December 31, 2019 that were granted COVID-19 related payment deferrals continued to be considered current and not reported as TDRs. For the fiscal year ended March 31, 2021, the Bank received 83 applications for payment deferrals on approximately \$90.4 million of loans. The Bank has been working with the borrowers to determine if there is a risk of any losses associated with repayment and if any additional reserves would have to be allocated to this portfolio. At March 31, 2023, no loans were on COVID-related deferrals as the remaining 90-day loan deferments expired and borrowers became current.

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the fiscal year ended March 31, 2023:

| <i>\$ in thousands</i> | <u>One-to-four family</u> | <u>Multifamily</u> | <u>Commercial Real Estate</u> | <u>Business</u> | <u>Consumer</u> | <u>Unallocated</u> | <u>Total</u> |
|---|---------------------------|--------------------|-------------------------------|-----------------|-----------------|--------------------|-----------------|
| Allowance for loan losses: | | | | | | | |
| Beginning Balance | \$ 731 | \$ 1,114 | \$ 1,157 | \$ 2,497 | \$ 123 | \$ 2 | \$ 5,624 |
| Charge-offs | — | — | (586) | — | (141) | — | (727) |
| Recoveries | 90 | — | 10 | 127 | 5 | — | 232 |
| Provision for (Recovery of) Loan Losses | (105) | (5) | 1,233 | (1,485) | 462 | — | 100 |
| Ending Balance | <u>\$ 716</u> | <u>\$ 1,109</u> | <u>\$ 1,814</u> | <u>\$ 1,139</u> | <u>\$ 449</u> | <u>\$ 2</u> | <u>\$ 5,229</u> |
| Allowance for Loan Losses Ending Balance: collectively evaluated for impairment | | | | | | | |
| | \$ 607 | \$ 1,109 | \$ 1,814 | \$ 937 | \$ 449 | \$ 2 | \$ 4,918 |
| Allowance for Loan Losses Ending Balance: individually evaluated for impairment | | | | | | | |
| | 109 | — | — | 202 | — | — | 311 |
| Loan Receivables Ending Balance | | | | | | | |
| | \$ 65,808 | \$ 179,117 | \$ 178,424 | \$ 166,908 | \$ 7,639 | \$ — | \$ 597,896 |
| Ending Balance: collectively evaluated for impairment | | | | | | | |
| | 60,805 | 179,046 | 171,234 | 160,985 | 7,638 | — | 579,708 |
| Ending Balance: individually evaluated for impairment | | | | | | | |
| | 5,003 | 71 | 7,190 | 5,923 | 1 | — | 18,188 |

The following is an analysis of the allowance for loan losses based upon the method of evaluating loan impairment for the fiscal year ended March 31, 2022:

| <i>\$ in thousands</i> | <u>One-to-four family</u> | <u>Multifamily</u> | <u>Commercial Real Estate</u> | <u>Business</u> | <u>Consumer</u> | <u>Unallocated</u> | <u>Total</u> |
|---|---------------------------|--------------------|-------------------------------|-----------------|-----------------|--------------------|-----------------|
| Allowance for loan losses: | | | | | | | |
| Beginning Balance | \$ 1,058 | \$ 880 | \$ 907 | \$ 1,855 | \$ 165 | \$ 275 | \$ 5,140 |
| Charge-offs | — | — | — | — | (257) | — | (257) |
| Recoveries | 13 | — | — | 102 | 23 | — | 138 |
| Provision for (Recovery of) Loan Losses | (340) | 234 | 250 | 540 | 192 | (273) | 603 |
| Ending Balance | <u>\$ 731</u> | <u>\$ 1,114</u> | <u>\$ 1,157</u> | <u>\$ 2,497</u> | <u>\$ 123</u> | <u>\$ 2</u> | <u>\$ 5,624</u> |
| Allowance for Loan Losses Ending Balance: collectively evaluated for impairment | | | | | | | |
| | \$ 731 | \$ 1,114 | \$ 1,157 | \$ 2,428 | \$ 123 | \$ 2 | \$ 5,555 |
| Allowance for Loan Losses Ending Balance: individually evaluated for impairment | | | | | | | |
| | — | — | — | 69 | — | — | 69 |
| Loan Receivables Ending Balance | | | | | | | |
| | \$ 70,261 | \$ 162,261 | \$ 175,313 | \$ 170,031 | \$ 1,638 | \$ — | \$ 579,504 |
| Ending Balance: collectively evaluated for impairment | | | | | | | |
| | 65,369 | 161,746 | 175,313 | 163,991 | 1,638 | — | 568,057 |
| Ending Balance: individually evaluated for impairment | | | | | | | |
| | 4,892 | 515 | — | 6,040 | — | — | 11,447 |

The following is a summary of nonaccrual loans at March 31, 2023 and 2022.

| <i>\$ in thousands</i> | March 31, 2023 | March 31, 2022 |
|--|-----------------------|-----------------------|
| Loans accounted for on a nonaccrual basis: | | |
| Gross loans receivable: | | |
| One-to-four family | \$ 4,001 | \$ 4,892 |
| Multifamily | 71 | 515 |
| Commercial real estate | 7,190 | 4,601 |
| Business | 998 | 1,448 |
| Consumer | 1 | 25 |
| Total nonaccrual loans | <u>\$ 12,261</u> | <u>\$ 11,481</u> |

Nonaccrual loans generally 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 nonaccrual loans is recorded when received based upon the collectability of the loan. TDR loans consist of modified 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, 2023 and March 31, 2022, other non-performing assets totaled \$60 thousand, which consisted of other real estate owned comprised of one foreclosed residential property. Other real estate loans are included in other assets in the consolidated statements of financial condition. There were no held-for-sale loans at March 31, 2023 and March 31, 2022.

One-to-four family residential loans and consumer and other loans are rated non-performing if they are delinquent in payments ninety or more days, a troubled debt restructuring with less than six months contractual performance or past maturity. All other one-to-four family residential loans and consumer and other loans are performing loans.

At March 31, 2023, and based on the most recent analysis performed in the current quarter, the risk category by class of loans is as follows:

| <i>\$ in thousands</i> | Multifamily | Commercial Real Estate | Business |
|---|---------------------------|-------------------------------|-------------------|
| Credit Risk Profile by Internally Assigned Grade: | | | |
| Pass | \$ 175,981 | \$ 170,534 | \$ 154,056 |
| Special Mention | 771 | 701 | 5,719 |
| Substandard | 2,365 | 7,189 | 7,133 |
| Total | <u>\$ 179,117</u> | <u>\$ 178,424</u> | <u>\$ 166,908</u> |
| | One-to-four family | Consumer | |
| Credit Risk Profile Based on Payment Activity: | | | |
| Performing | \$ 60,629 | \$ 7,639 | |
| Non-Performing | 5,179 | — | |
| Total | <u>\$ 65,808</u> | <u>\$ 7,639</u> | |

At March 31, 2022, the risk category by class of loans was as follows:

| <i>\$ in thousands</i> | Multifamily | Commercial Real Estate | Business |
|---|---------------------------|-------------------------------|-------------------|
| Credit Risk Profile by Internally Assigned Grade: | | | |
| Pass | \$ 155,274 | \$ 164,543 | \$ 155,196 |
| Special Mention | 897 | 8,157 | 6,302 |
| Substandard | 6,090 | 2,613 | 8,533 |
| Total | <u>\$ 162,261</u> | <u>\$ 175,313</u> | <u>\$ 170,031</u> |
| | One-to-four family | Consumer | |
| Credit Risk Profile Based on Payment Activity: | | | |
| Performing | \$ 65,369 | \$ 1,613 | |
| Non-Performing | 4,892 | 25 | |
| Total | <u>\$ 70,261</u> | <u>\$ 1,638</u> | |

The following tables present an aging analysis of the recorded investment of past due loans receivable at March 31, 2023 and 2022.

March 31, 2023

| <i>\$ in thousands</i> | 30-59 Days Past Due | 60-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current | Total Loans Receivable |
|------------------------|----------------------------|----------------------------|---------------------------------|-----------------------|-------------------|-------------------------------|
| One-to-four family | \$ 1,207 | \$ 185 | \$ 2,475 | \$ 3,867 | \$ 61,941 | \$ 65,808 |
| Multifamily | 1,458 | — | 71 | 1,529 | 177,588 | 179,117 |
| Commercial real estate | 1,370 | — | — | 1,370 | 177,054 | 178,424 |
| Business | 11,006 | — | 5,014 | 16,020 | 150,888 | 166,908 |
| Consumer | 99 | 26 | 34 | 159 | 7,480 | 7,639 |
| Total | \$ 15,140 | \$ 211 | \$ 7,594 | \$ 22,945 | \$ 574,951 | \$ 597,896 |

March 31, 2022

| <i>\$ in thousands</i> | 30-59 Days Past Due | 60-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current | Total Loans Receivable |
|------------------------|----------------------------|----------------------------|---------------------------------|-----------------------|-------------------|-------------------------------|
| One-to-four family | \$ 1,943 | \$ — | \$ 5,229 | \$ 7,172 | \$ 63,089 | \$ 70,261 |
| Multifamily | 4,435 | 115 | 515 | 5,065 | 157,196 | 162,261 |
| Commercial real estate | 4,010 | — | 4,601 | 8,611 | 166,702 | 175,313 |
| Business | 923 | 40 | 664 | 1,627 | 168,404 | 170,031 |
| Consumer | 84 | 45 | 25 | 154 | 1,484 | 1,638 |
| Total | \$ 11,395 | \$ 200 | \$ 11,034 | \$ 22,629 | \$ 556,875 | \$ 579,504 |

At March 31, 2023 and 2022, there were no loans 90 or more days past due and accruing interest.

The following tables present information on impaired loans with the associated allowance amount, if applicable, at March 31, 2023 and 2022. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received under the cash basis method. Interest income of \$189 thousand and \$266 thousand for fiscal years 2023 and 2022 respectively, would have been recorded on impaired loans had they performed in accordance with their original terms.

Impaired Loans by Class

| <i>\$ in thousands</i> | At March 31, | | | | | |
|---|----------------------------|---------------------------------|-----------------------------|----------------------------|---------------------------------|-----------------------------|
| | 2023 | | | 2022 | | |
| | Recorded Investment | Unpaid Principal Balance | Associated Allowance | Recorded Investment | Unpaid Principal Balance | Associated Allowance |
| With no specific allowance recorded: | | | | | | |
| One-to-four family | \$ 3,972 | \$ 4,567 | \$ — | \$ 4,892 | \$ 5,576 | \$ — |
| Multifamily | 71 | 71 | — | 515 | 515 | — |
| Commercial real estate | 7,190 | 7,378 | — | — | — | — |
| Business | 1,114 | 1,146 | — | 837 | 909 | — |
| Consumer | 1 | 1 | — | — | — | — |
| With an allowance recorded: | | | | | | |
| One-to-four family | 1,031 | 1,031 | 109 | — | — | — |
| Business | 4,809 | 4,820 | 202 | 5,203 | 5,203 | 69 |
| Total | \$ 18,188 | \$ 19,014 | \$ 311 | \$ 11,447 | \$ 12,203 | \$ 69 |

The following table presents information on average balances on impaired loans and the interest income recognized for the years ended March 31, 2023 and 2022.

| <i>\$ in thousands</i> | For the years ended March 31, | | | |
|--------------------------------------|-------------------------------|----------------------------|------------------|----------------------------|
| | 2023 | | 2022 | |
| | Average Balance | Interest Income recognized | Average Balance | Interest Income recognized |
| With no specific allowance recorded: | | | | |
| One-to-four family | \$ 3,861 | \$ 111 | \$ 4,321 | \$ 50 |
| Multifamily | 220 | — | 442 | 16 |
| Commercial real estate | 4,054 | 36 | 459 | 7 |
| Business | 1,723 | — | 1,585 | 33 |
| With an allowance recorded: | | | | |
| One-to-four family | 554 | 41 | 38 | — |
| Business | 5,116 | 316 | 5,313 | 217 |
| Total | <u>\$ 15,528</u> | <u>\$ 504</u> | <u>\$ 12,158</u> | <u>\$ 323</u> |

In certain circumstances, loan modifications involve a troubled borrower to whom the Bank may grant a concession. In cases where the Bank grants any significant concessions to a troubled borrower, the Bank accounts for the modification as a TDR. Situations around these modifications may include extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, reduction in the face amount of the debt or reduction of past accrued interest. Loans modified in TDRs are placed on nonaccrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months. There were three loan modifications made during the twelve months ended March 31, 2023. There was no loan modification made during the twelve months ended March 31, 2022. The following table presents an analysis of the loan modifications that were classified as TDRs during the twelve months ended March 31, 2023,

| <i>\$ in thousands</i> | Loan Modifications for the year ended March 31, 2023 | |
|------------------------|---|---|
| | Number of loans | Recorded Investment at time of modification |
| One-to-four family | 3 | \$ 1,357 |

In an effort to proactively resolve delinquent loans, Carver has selectively extended to certain borrowers concessions such as extensions, rate reductions or forbearance agreements. For the fiscal years ended March 31, 2023 and 2022, there were no modified loans that defaulted within the last 12 months of modification. Total TDR loans at March 31, 2023 were \$7.6 million, \$1.6 million of which were non-performing as they were either not consistently performing in accordance with their modified terms or not performing in accordance with their modified terms for at least six months. At March 31, 2022, total TDR loans were \$6.9 million, of which \$1.7 million were non-performing.

Transactions With Certain Related Persons

Federal law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public and must not involve more than the normal risk of repayment or present other unfavorable features.

The aggregate amount of loans outstanding to related parties was \$30 thousand at March 31, 2023 and March 31, 2022. There were no advances and principal repayments during the twelve months ended March 31, 2023.

Furthermore, loans above the greater of \$25,000, or 5% of Carver Federal's capital and surplus (up to \$500,000), to Carver Federal's directors and executive officers must be approved in advance by a majority of the disinterested members of Carver Federal's Board of Directors.

NOTE 5. PREMISES AND EQUIPMENT, NET

The details of premises and equipment as of March 31 are as follows:

| <i>\$ in thousands</i> | 2023 | 2022 |
|--|-----------------|-----------------|
| Leasehold improvements | \$ 6,986 | \$ 6,940 |
| Furniture, equipment, and other | 14,850 | 14,439 |
| | <u>21,836</u> | <u>21,379</u> |
| Less accumulated depreciation and amortization | (18,662) | (17,604) |
| Premises and equipment, net | <u>\$ 3,174</u> | <u>\$ 3,775</u> |

Depreciation and amortization charged to operations was \$1.1 million and \$1.0 million for fiscal years 2023 and 2022, respectively.

NOTE 6. LEASES

The Company applies Accounting Standards Codification ("ASC") Topic 842, *Leases* ("ASC 842") to its leases. The Company has operating leases related to its administrative offices, seven retail branches and four ATM centers. Two of the operating leases are for branch locations where the Company had entered into a sale and leaseback transaction. The gain had been calculated utilizing the profit on sale in excess of the present value of the minimum lease payments, and the profit on the sale was deferred from gain recognition to be amortized into income over the terms of the leases in accordance with ASC Topic 840, *Leases* ("ASC 840"). ASC 842 does not require previous sale and leaseback transactions accounted for under ASC 840 to be reassessed.

As the implicit rates of the Company's existing leases are not readily determinable, the incremental borrowing rate used in determining the lease liability obligation for each individual lease was the FHLB-NY fixed-rate advance rates based on the remaining lease terms as of April 1, 2019.

As of March 31, 2023, the Company had \$199 thousand and \$187 thousand of ROU asset and lease liability, respectively, for finance leases related to equipment. The ROU asset is included in Premises and Equipment, net, and the lease liability is included in Advances from the FHLB-NY and Other Borrowed Money on the statements of financial condition.

The following tables present information about the Company's leases and the related lease costs as of and for the year ended March 31, 2023:

| | March 31, 2023 |
|---------------------------------------|-----------------------|
| Weighted-average remaining lease term | |
| Operating leases | 5.2 years |
| Finance lease | 2.5 years |
| Weighted-average discount rate | |
| Operating leases | 3.03 % |
| Finance lease | 4.11 % |

| <i>\$ in thousands</i> | March 31, 2023 | March 31, 2022 |
|--|----------------|----------------|
| Operating lease expense | \$ 2,860 | \$ 2,871 |
| Finance lease cost | | |
| Amortization of right-of use asset | 84 | 70 |
| Interest on lease liability | 5 | 1 |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating leases | 2,779 | 2,765 |
| Finance lease | 96 | 77 |

Maturities of lease liabilities at March 31, 2023 are as follows:

| <i>\$ in thousands</i> | Operating Leases | Finance Leases |
|------------------------|------------------|----------------|
| Year ending March 31, | | |
| 2024 | \$ 2,921 | \$ 87 |
| 2025 | 2,705 | 63 |
| 2026 | 2,687 | 42 |
| 2027 | 2,441 | 5 |
| 2028 | 2,259 | — |
| Thereafter | 1,276 | — |
| Total lease payments | 14,289 | 197 |
| Interest | (1,116) | (10) |
| Lease liability | <u>\$ 13,173</u> | <u>\$ 187</u> |

NOTE 7. ACCRUED INTEREST RECEIVABLE

The details of accrued interest receivable as of March 31 are as follows:

| <i>\$ in thousands</i> | 2023 | 2022 |
|---|-----------------|-----------------|
| Loans receivable | \$ 1,629 | \$ 2,166 |
| Mortgage-backed securities | 60 | 72 |
| Investments and other interest-bearing assets | 222 | 176 |
| Total accrued interest receivable | <u>\$ 1,911</u> | <u>\$ 2,414</u> |

NOTE 8. DEPOSITS

Deposit balances and weighted average interest rates as of March 31 are as follows:

| <i>\$ in thousands</i> | 2023 | | | 2022 | | |
|------------------------------|-------------------|---------------------------|-----------------------|-------------------|---------------------------|-----------------------|
| | Amount | Percent of Total Deposits | Weighted Average Rate | Amount | Percent of Total Deposits | Weighted Average Rate |
| Non-interest-bearing demand | \$ 109,401 | 18.22 % | — % | \$ 107,472 | 17.11 % | — % |
| Interest-bearing checking | 49,473 | 8.24 | 0.39 | 57,985 | 9.23 | 0.06 |
| Savings | 109,210 | 18.19 | 0.60 | 112,305 | 17.88 | 0.11 |
| Money market savings account | 150,348 | 25.04 | 3.73 | 208,122 | 33.14 | 0.24 |
| Certificates of deposit | 178,694 | 29.76 | 5.03 | 139,255 | 22.17 | 0.88 |
| Loan escrow deposits | 3,303 | 0.55 | 0.45 | 2,978 | 0.47 | 0.36 |
| Total | <u>\$ 600,429</u> | <u>100.00 %</u> | <u>2.58 %</u> | <u>\$ 628,117</u> | <u>100.00 %</u> | <u>0.30 %</u> |

Scheduled maturities of certificates of deposit for the year ended March 31, 2023 are as follows:

| <i>\$ in thousands</i> | <u>Amount</u> |
|---------------------------------|-------------------|
| Maturing years ending March 31: | |
| 2024 | \$ 133,017 |
| 2025 | 32,768 |
| 2026 | 8,040 |
| 2027 | 1,726 |
| 2028 | 2,157 |
| 2029 and beyond | 986 |
| Total | <u>\$ 178,694</u> |

The following table represents the amount of certificates of deposit of \$250,000 or more at March 31, 2023 maturing during the periods indicated:

| <i>\$ in thousands</i> | |
|------------------------------------|------------------|
| Maturing: | |
| April 1, 2023 to June 30, 2023 | \$ 18,009 |
| July 1, 2023 to September 30, 2023 | 11,236 |
| October 1, 2023 to March 31, 2024 | 1,762 |
| April 1, 2024 and beyond | 4,758 |
| Total | <u>\$ 35,765</u> |

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

| <i>\$ in thousands</i> | <u>2023</u> | <u>2022</u> |
|---------------------------|-----------------|-----------------|
| Interest-bearing checking | \$ 55 | \$ 30 |
| Savings and clubs | 166 | 123 |
| Money market savings | 1,728 | 378 |
| Certificates of deposit | 1,756 | 1,349 |
| Loan escrow deposits | 3 | 10 |
| Total interest expense | <u>\$ 3,708</u> | <u>\$ 1,890</u> |

The following table presents additional information about our year-end deposits:

| <i>\$ in thousands</i> | <u>2023</u> | <u>2022</u> |
|---|-------------|-------------|
| Deposits from the Certificate of Deposit Account Registry Service (CDARS) | \$ 84,389 | \$ 46,421 |
| Deposits from brokers | 17,638 | 17,788 |
| Certificates of deposit individually greater than \$250,000 | 25,765 | 36,919 |
| Deposits from certain directors, executive officers and their affiliates | 4,885 | 432 |

NOTE 9. ADVANCES FROM THE FHLB-NY AND OTHER BORROWED MONEY

Federal Home Loan Bank Advances. At March 31, 2023, the Bank had a \$10.0 million overnight borrowing with a fixed rate of 4.99% and a \$25.0 million advance with a fixed rate of 4.5% maturing in March 2025 outstanding from the FHLB-NY. 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 30% of its total assets, or approximately \$217.0 million at March 31, 2023. 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, 2023, advances were all fixed-rate and secured by pledges of the Bank's investment in FHLB-NY capital stock totaling \$2.3 million, and a blanket assignment of pledged qualifying mortgage loans of \$53.5 million and mortgage-backed and investment securities with a market value of \$2.5 million. The Bank has sufficient collateral at the FHLB-NY to be able to borrow \$6.3 million from the FHLB-NY at March 31, 2023. The accrued interest payable on FHLB advances was \$14 thousand and interest expense was \$359 thousand for the year ended March 31, 2023.

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 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 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. During the second quarter of fiscal year 2017, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through September 2016. Such payments totaling \$2.5 million were made in September 2016. Interest on the debentures had been deferred beginning with the December 2016 payment, per the terms of the agreement, which permit such deferral for up to twenty consecutive quarters, as the Company is prohibited from making payments without prior regulatory approval. During the fourth quarter of fiscal year 2021, the Company applied for and was granted regulatory approval to settle all outstanding debenture interest payments through June 2021. Full payment was made on June 16, 2021. The Company has since had discussions with the Federal Reserve Bank of Philadelphia regarding future quarterly payments. A streamlined process has been developed for the Company to request regulatory approval to make debenture interest payments. All quarterly interest payments subsequent to the June 2021 payment up to and including the March 2023 payment have been made.

The accrued interest payable on subordinated debt securities was \$44 thousand and the interest expense was \$814 thousand for the year ended March 31, 2023. The accrued interest payable on subordinated debt securities was \$22 thousand and the interest expense was \$462 thousand for the year ended March 31, 2022.

Paycheck Protection Program Liquidity Facility (PPPLF). The Federal Reserve established the PPPLF to support the PPP program by extending credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value. The interest rate on PPPLF advances is fixed at 0.35% and the maturity date is equal to the maturity date of the PPP loans pledged to secure the extension of credit. During the twelve months ended March 31, 2023, the Bank repaid its remaining \$3 thousand outstanding advance under its PPPLF. Interest expense on PPPLF advances was zero and \$27 thousand for the years ended March 31, 2023 and 2022, respectively.

Other Borrowings. During fiscal year 2022, the Company entered into two 5-year long-term unsecured low interest loans totaling \$2.5 million provided by third parties. The \$1.5 million and \$1.0 million notes have a fixed interest rate of 1.0%, payable annually, and will mature in 2026. Based on the covenants of these notes, the proceeds will be used to finance eligible loans offered through the Bank's community investment initiatives loan program. The accrued interest payable and interest expense on these notes was \$3 thousand and \$25 thousand, respectively, for the year ended March 31, 2023. The accrued interest payable and interest expense was \$19 thousand for the year ended March 31, 2022.

The following table presents expected maturities of the Company's long-term borrowings at March 31, 2023:

\$ in thousands

Year ending March 31,

| | | |
|------------|-----------|---------------|
| 2024 | \$ | — |
| 2025 | | 25,000 |
| 2026 | | — |
| 2027 | | 2,500 |
| 2028 | | — |
| Thereafter | | 13,403 |
| Total | <u>\$</u> | <u>40,903</u> |

The following table sets forth certain information regarding Carver Federal's borrowings as of and for the years ended March 31:

| <i>\$ in thousands</i> | 2023 | 2022 |
|--|-------------|-------------|
| Amounts outstanding at the end of year: | | |
| FHLB advances | \$ 35,000 | \$ — |
| Subordinated debt securities | 13,403 | 13,403 |
| PPPLF | — | 3 |
| Other | 2,500 | 2,500 |
| Rate paid at year end: | | |
| FHLB advances | 4.99 % | — % |
| Subordinated debt securities | 7.96 % | 3.97 % |
| PPPLF | — % | 0.35 % |
| Other | 1.00 % | 1.00 % |
| Maximum amount of borrowing outstanding at any month end: | | |
| FHLB advances | \$ 40,000 | \$ 2,000 |
| Subordinated debt securities | 13,403 | 13,403 |
| PPPLF | 3 | 23,705 |
| Other | 2,500 | 2,500 |
| Approximate average amounts outstanding for year: | | |
| FHLB advances | \$ 11,776 | \$ 22 |
| Subordinated debt securities | 13,403 | 13,403 |
| PPPLF | — | 7,647 |
| Other | 2,500 | 1,757 |
| Approximate weighted average rate paid during year: | | |
| FHLB advances | 3.04 % | 0.09 % |
| Subordinated debt securities | 6.07 % | 3.45 % |
| PPPLF | 0.14 % | 0.35 % |
| Other | 1.01 % | 1.06 % |

NOTE 10. INCOME TAXES

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

| <i>\$ in thousands</i> | 2023 | | 2022 | |
|--|---------------|----------------|---------------|----------------|
| | Amount | Percent | Amount | Percent |
| Statutory Federal income tax expense (benefit) | \$ (924) | 21.0 % | \$ (177) | 21.0 % |
| State and local income tax, net of Federal tax benefit | — | — | — | — |
| Impact of income tax rate changes | — | — | — | — |
| Change in valuation allowance | 953 | (21.7) | 174 | (20.7) |
| Other | (29) | 0.7 | 3 | (0.3) |
| Total income tax expense (benefit) | <u>\$ —</u> | <u>— %</u> | <u>\$ —</u> | <u>— %</u> |

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 as follows:

| <i>\$ in thousands</i> | 2023 | 2022 |
|--|---------------|---------------|
| Deferred Tax Assets: | | |
| Allowance for loan losses | \$ 1,742 | \$ 1,874 |
| Compensation and benefits | 39 | 39 |
| Nonaccrual loan interest | 63 | 89 |
| Net operating loss carryforward | 19,191 | 17,692 |
| New markets tax credit | 3,434 | 3,434 |
| Unrealized loss on available-for-sale securities | 2,565 | 1,399 |
| Lease liability | 4,452 | 4,811 |
| Other | 33 | 41 |
| Total Deferred Tax Assets | 31,519 | 29,379 |
| Deferred Tax Liabilities: | | |
| Depreciation | 671 | 815 |
| ROU asset | 4,169 | 4,561 |
| Other | 52 | 94 |
| Total Deferred Tax Liabilities | 4,892 | 5,470 |
| Deferred Tax Assets, net | 26,627 | 23,909 |
| Valuation Allowance | (26,627) | (23,909) |
| Deferred Tax Assets, net of valuation allowance | <u>\$ —</u> | <u>\$ —</u> |

At March 31, 2023, the Company had net operating loss carryforwards for federal purposes of approximately \$50.4 million, for state purposes of approximately \$76.0 million and for city purposes of approximately \$63.5 million which are available to offset future federal, state and city income and which expire over varying periods from March 2030 through March 2040. Federal net operating loss carryforwards of \$21.1 million do not expire, as such losses were incurred after the enactment of the Tax Cuts and Jobs Act, which provides for an unlimited loss carryforward period..

The Company has no uncertain tax positions. The Company and its subsidiaries are subject to 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, 2018. 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.

NOTE 11. LOSS PER COMMON SHARE

The following table reconciles the loss available to common shareholders (numerator) and the weighted average common stock outstanding (denominator) for both basic and diluted loss per share for the years ended March 31:

| <i>\$ in thousands except per share data</i> | 2023 | 2022 |
|--|------------------|------------------|
| Net loss attributable to Carver Bancorp, Inc. | \$ (4,401) | \$ (847) |
| Weighted average common shares outstanding – basic | 4,277,709 | 3,588,523 |
| Weighted average common shares outstanding – diluted | <u>4,277,709</u> | <u>3,588,523</u> |
| Basic loss per common share | <u>\$ (1.03)</u> | <u>\$ (0.24)</u> |
| Diluted loss per common share | <u>\$ (1.03)</u> | <u>\$ (0.24)</u> |

For the years ended March 31, 2023 and March 31, 2022, all restricted shares and outstanding stock options were anti-dilutive. For details of restricted shares and stock options, please refer to Note 14. "Employee Benefit and Stock Compensation Plans."

NOTE 12. 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 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. In 2011 the stockholders approved a 1-for-15 reverse stock split pursuant to which each 15 shares of the Company’s Common Stock would be converted into one share of Common Stock. The 1-for-15 reverse stock split was effective as of October 27, 2011, resulting in a reduction in the number of outstanding shares of the Company’s Common Stock from 2,492,415 to 166,161, an increase of the conversion price of the Series C Preferred Stock and the Series D Preferred Stock and the exchange ratio of the Series B Preferred Stock from \$0.5451 to \$8.1765, and a corresponding decrease in the number of shares of Common Stock issued to the Investors and Treasury. During the year ended March 31, 2012, all outstanding shares of Series B Preferred Stock were converted to Common Stock and all outstanding shares of Series C preferred Stock were converted to Series D Preferred Stock. As of March 31, 2023, there were 4,295,607 shares of Company common stock outstanding.

Series D Preferred Stock ranks senior to the Common Stock. The holders of Series D Preferred Stock are entitled to receive dividends, on an as-converted basis, simultaneously to the payment of any dividends on the Company's common stock. Dividends on the Series D Preferred Stock are not cumulative. If the Company's board of directors does not declare a dividend with respect to any dividend period, the holders of the Series D Preferred Stock will have no right to receive any dividend for that period. The Company may not declare, pay or set apart for payment any dividend or make any distribution on common stock, unless at the time of such dividend or distribution the Company simultaneously pays a non-cumulative dividend or makes a distribution on each outstanding share of Series D Preferred Stock on an as-converted basis. The holders of Series D preferred Stock are generally not entitled to vote, except with respect to amendments to the Company's certificate of incorporation that would change the rights and preferences of the Series D Preferred Stock, the creation or increase of any class of securities senior to the Series D Preferred Stock, the consummation of certain mergers, consolidations or other transactions where the holders of the Series D Preferred Stock are not converted into or exchanged for preference securities of the surviving entity, and as otherwise required by applicable law.

The Series D Preferred Stock shall automatically convert into shares of Common Stock only upon the following transfers to third parties (“Eligible Transfers”):

- a transfer in a widespread public distribution;
- a transfer in which no transferee (together with its affiliates and other transferees acting in concert with it) acquires more than 2% of the Company’s common stock or any other class or series of the Company’s voting stock; or
- a transfer to a transferee that (together with its affiliates and other transferees acting in concert with it) owns or controls more than 50% of the Company’s common stock, without regard to the transfer.

The conversion price of the Series D Preferred Stock is \$8.1765, and is subject to adjustment in the event of stock splits, subdivisions or combinations, dividends and distributions, issuance of certain rights, spin-offs, self-tenders and exchange offers as set forth under the agreement. The Series D Preferred Stock is not convertible at the option of the holders. As of March 31, 2023, there were 13,201 shares of Series D Preferred Stock outstanding.

On August 6, 2002, the Company announced a stock repurchase program to repurchase up to 15,442 shares of its outstanding common stock. As of March 31, 2023, 11,744 shares of its common stock have been repurchased in open market transactions. As a result of the Company's participation in the TARP CDCI, the United States Department of the Treasury's (the "U.S. Treasury") prior approval was required to make further repurchases. On August 6, 2020, the Company entered into a Securities Purchase Agreement with the U.S. Treasury to repurchase 2,321,286 shares of the common stock of the Company, par value \$0.01 per share, owned by the U.S. Treasury for an aggregate purchase price of \$2.5 million. The stock repurchase provided for in the Securities Purchase Agreement was completed on August 6, 2020. Upon completion of the repurchase pursuant to the Securities Purchase Agreement, the U.S. Treasury was no longer a stockholder in the Company. In connection with the repurchase, Morgan Stanley provided a grant of \$2.5 million that was considered contributed capital to the Company to fund the repurchase transaction.

In June 2020, The Goldman Sachs Group, Inc., an institutional investor, notified the Company of their intention to effect a series of transfers of up to all its holdings of Series D Preferred Stock. The conversion and subsequent sale of shares were completed on July 2, 2020: 13,519 Series D Preferred Stock shares were converted into 1,653,397 shares of Common Stock, which were subsequently sold in the open market. The conversion and sale had no impact on the Company's total capital.

On July 9, 2020, the Company received notice that Morgan Stanley International Holdings Inc., an institutional investor, relinquished its ownership of 180,573 shares of Company common stock and 13,523 shares of Company Preferred Series D Stock to the Company at no cost to the Company.

On October 15, 2020, the Company entered into an agreement with Banc of America Strategic Investments Corporation, under which it issued and sold 147,227 shares of its common stock, par value \$0.01, at a price of \$6.62 per share. The shares were issued on October 15, 2020, in a private placement exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Regulation D of the rules and regulations promulgated thereunder.

On January 22, 2021, Prudential Insurance Company of America ("Prudential"), an institutional investor, notified the Company of its intention to cancel 475 of its holdings of Series D Preferred Stock and convert them into 58,093 shares of Common Stock. During fiscal year 2022, Prudential donated a total of 3,850 shares of its holdings of Series D Preferred Stock to third parties. The third parties notified the Company of their intention to cancel the shares and convert them into 470,855 shares of Common Stock. During the twelve months ended March 31, 2023, Prudential donated a total of 550 shares of its holdings of Series D Preferred Stock to third parties. The third parties notified the Company of their intention to cancel the shares and convert them into 67,265 shares of Common Stock. The conversions had no impact on the Company's total capital.

On February 1, 2021, the Company entered into an agreement with Wells Fargo Central Pacific Holdings, Inc., under which it sold: (i) 157,806 shares of its common stock, par value \$0.01 per share, at a purchase price of \$7.75 per share, and (ii) 3,177 shares of a new series of preferred stock, Series E non-cumulative non-voting participating preferred stock, par value \$0.01 per share, at a purchase price of \$1,000 per share, in a private placement for gross proceeds of approximately \$4.4 million. Upon the completion of certain eligible transfers of the Series E preferred stock by Wells Fargo Central Pacific Holdings, Inc., the Series E preferred stock would be convertible into common stock at a conversion price of \$7.96 per share. The issuance of the shares is exempt from registration pursuant to the exemption provided under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. The offering was made only to accredited investors as that term is defined in Rule 501(a) of Regulation D under the Act.

Series E Preferred Stock is perpetual and has no maturity date. The Company may redeem the shares of Series E Preferred Stock, in whole or in part, on any date on or after February 1, 2026. The holders of Series E Preferred Stock will be entitled to receive, if declared by the Company's board of directors, noncumulative cash dividends on each date that dividends or other distributions are payable. The holders of the Series E Preferred Stock will not have voting rights except for any vote required by law or by the Company's Certificate of Incorporation, or for effecting or validating: (i) any increase or decrease in the authorized number of shares of Series E Preferred Stock or issuance of shares of Series E Preferred Stock after the original issue date; (ii) any amendment, alteration or repeal of any provision of the Certificate of Incorporation or Bylaws of the Company that would adversely affect the voting powers, preferences, privileges or special rights of the Series E Preferred Stock; (iii) any amendment or alteration of the Certificate of Incorporation or Bylaws of the Company to authorize or create, or increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of capital stock of the Company ranking senior to Series E Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Company; or (iv) a merger or consolidation of the Company with another entity (whether or not a corporation), unless in each case (A) the shares of Series E Preferred Stock remain outstanding and (B) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions, and limitations and restrictions thereof as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and restrictions and limitations thereof, of the Series E Preferred Stock immediately prior to such consummation.

On February 16, 2021, the Company entered into an agreement with J.P. Morgan Chase Community Development Corporation ("J.P. Morgan"), under which it sold: (i) 112,612 shares of its common stock, par value \$0.01 per share, at a purchase price of \$8.88 per share, and (ii) 5,000 shares of a new series of preferred stock, Series F non-cumulative non-voting non-convertible preferred stock, par value \$0.01 per share, at a purchase price of \$1,000 per share, in a private placement for gross proceeds of approximately \$6.0 million. On September 27, 2021, the Company entered into an agreement with J.P. Morgan under which it sold an additional 4,000 shares of its Series F Preferred Stock, at a purchase price of \$1,000 per share, in a private placement for gross proceeds of \$4.0 million. The issuances of the shares were exempt from registration pursuant to the exemption provided under Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. The offerings were made only to accredited investors as that term is defined in Rule 501(a) of Regulation D under the Act.

Series F Preferred Stock is perpetual and has no maturity date. The shares are not convertible. The Company may redeem the shares of Series F Preferred Stock, in whole or in part, on any date on or after February 16, 2026. The holders of Series F Preferred Stock will be entitled to receive, if declared by the Company's board of directors, noncumulative cash dividends on each date that dividends or other distributions are payable. The holders of the Series F Preferred Stock will not have voting rights except for any vote required by law or by the Company's Certificate of Incorporation, or for effecting or validating: (i) any amendment, alteration or repeal of any provision of the Certificate of Incorporation or Bylaws of the Company that would significantly and adversely affect the voting powers, preferences, privileges or special rights of the Series F Preferred Stock; (ii) any amendment or alteration of the Certificate of Incorporation or Bylaws of the Company to authorize or create, or increase the authorized amount of any shares of any class or series or any securities convertible into shares of any class or series of capital stock of the Company ranking senior to Series F Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Company; or (iii) a merger or consolidation of the Company with another entity (whether or not a corporation), unless in each case (A) the shares of Series F Preferred Stock remain outstanding and (B) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions, and limitations and restrictions thereof as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and restrictions and limitations thereof, of the Series F Preferred Stock immediately prior to such consummation.

On December 14, 2021, the Company entered into a Sales Agreement (the "Sales Agreement") with Piper Sandler & Co. ("Piper Sandler"), as sales agent, pursuant to which the Company may offer and sell shares of our common stock, par value \$0.01 per share, having an aggregate gross sales price of up to \$20.0 million (the "ATM Shares") from time to time. Any sales made under the Sales Agreement will be sales deemed to be "at-the-market (ATM) offerings," as defined in Rule 415 under the Securities Act of 1933, as amended. These sales will be made through ordinary broker transactions on the NASDAQ Capital Market stock exchange at market prices prevailing at the time, at prices related to the prevailing market prices, or at negotiated prices. The Company intends to use the net proceeds of these offerings for general corporate purposes, including support for organic loan growth and repayment of all or a portion of the outstanding principal amount of our outstanding subordinated debt securities. During fiscal year 2022, the Company sold an aggregate of 397,367 shares of common stock under the ATM offering program, resulting in gross proceeds of \$3.1 million and net proceeds to the Company of \$3.0 million after deducting commissions and expenses. There were no additional offerings during the twelve months ended March 31, 2023.

Regulatory Capital. The operations and profitability of the Bank are significantly affected by legislation and the policies of the various regulatory agencies. In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule, which became effective for the Bank on January 1, 2015, established a minimum Common Equity Tier 1 (CET1) ratio, a minimum leverage ratio and increases in the Tier 1 and Total risk-based capital ratios. The rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of CET1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in annually beginning January 1, 2016. On January 1, 2019, the full capital conservation buffer requirement of 2.5% became effective, making its minimum CET1 plus buffer 7%, its minimum Tier 1 capital plus buffer 8.5% and its minimum total capital plus buffer 10.5%.

In accordance with the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies have adopted, effective January 1, 2020, a final rule whereby financial institutions and financial institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio of greater than 9%, will be eligible to opt into a "Community Bank Leverage Ratio" framework. Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and will be considered to have met the "well capitalized" ratio requirements under

the Prompt Corrective Action statutes. The CARES Act and implementing rules temporarily reduced the Community Bank Leverage Ratio to 8%, to be gradually increased back to 9% by 2022. The CARES Act also provides that, during the same time period, if a qualifying community banking organization falls no more than 1% below the community bank leverage ratio, it will have a two quarter grace period to satisfy the community bank leverage ratio. The agencies reserved the authority to disallow the use of the Community Bank Leverage Ratio by a financial institution or holding company based on the risk profile of the organization.

Carver Federal, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with Carver Federal's risk profile. In assessing an institution's capital adequacy, the OCC takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary. Carver was issued an Individual Minimum Capital Ratio ("IMCR") letter by the OCC, which requires the Bank to maintain minimum regulatory capital levels of 9% for its Tier 1 leverage ratio and 12% for its total risk-based capital ratio. At March 31, 2023, the Bank's capital level exceeded the regulatory requirements and its IMCR requirements with a Tier 1 leverage ratio of 10.61%, Common Equity Tier 1 capital ratio of 12.47%, Tier 1 risk-based capital ratio of 12.47%, and a total risk-based capital ratio of 13.37%.

The table below presents the Bank's regulatory capital ratios at March 31, 2023 and 2022.

| <i>(\$ in thousands)</i> | March 31, 2023 | | March 31, 2022 | |
|--|----------------|---------|----------------|---------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 leverage capital | | | | |
| Regulatory capital | \$ 74,265 | 10.61 % | \$ 76,906 | 10.45 % |
| Individual minimum capital requirement | 63,005 | 9.00 % | 66,244 | 9.00 % |
| Minimum capital requirement | 28,002 | 4.00 % | 29,442 | 4.00 % |
| Excess | 46,263 | 6.61 % | 47,464 | 6.45 % |
| Common equity Tier 1 | | | | |
| Regulatory capital | \$ 74,265 | 12.47 % | \$ 76,906 | 13.75 % |
| Minimum capital requirement | 41,679 | 7.00 % | 39,161 | 7.00 % |
| Excess | 32,586 | 5.47 % | 37,745 | 6.75 % |
| Tier 1 risk-based capital | | | | |
| Regulatory capital | \$ 74,265 | 12.47 % | \$ 76,906 | 13.75 % |
| Minimum capital requirement | 50,610 | 8.50 % | 47,553 | 8.50 % |
| Excess | 23,655 | 3.97 % | 29,353 | 5.25 % |
| Total risk-based capital | | | | |
| Regulatory capital | \$ 79,599 | 13.37 % | \$ 82,672 | 14.78 % |
| Individual minimum capital requirement | 71,450 | 12.00 % | 67,134 | 12.00 % |
| Minimum capital requirement | 62,519 | 10.50 % | 58,742 | 10.50 % |
| Excess | 17,080 | 2.87 % | 23,930 | 4.28 % |

NOTE 13. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables set forth changes in each component of accumulated other comprehensive income (loss), net of tax for the years ended March 31, 2023 and 2022:

| <i>\$ in thousands</i> | At March 31, 2022 | Other Comprehensive Income | At March 31, 2023 |
|--|----------------------|----------------------------------|----------------------|
| Net unrealized loss on securities available-for-sale | \$ (6,662) | \$ (5,553) | \$ (12,215) |

| <i>\$ in thousands</i> | At March 31, 2021 | Other Comprehensive Income | At March 31, 2022 |
|--|----------------------|----------------------------------|----------------------|
| Net unrealized loss on securities available-for-sale | \$ (3,175) | \$ (3,487) | \$ (6,662) |

There were no reclassifications out of accumulated other comprehensive loss to the consolidated statement of operations for the twelve months ended March 31, 2023 and 2022.

Comprehensive Income (Loss). Comprehensive income (loss) represents net income (loss) and certain amounts reported directly in stockholders' equity, such as net unrealized gain or loss on securities available-for-sale. The balance at March 31, 2023 included \$5.6 million change in unrealized losses for the year ended March 31, 2023. The balance at March 31, 2022 included \$3.5 million change in unrealized losses for the year ended March 31, 2022.

NOTE 14. EMPLOYEE BENEFIT AND STOCK COMPENSATION PLANS

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. The Bank reinstated the 401(k) match in January 2022, which had been suspended since October 2020. Compensation expense recognized for the 401(k) matching contributions was \$376 thousand and \$88 thousand, respectively, for fiscal 2023 and 2022.

Stock Option Plans. In September 2006, Carver stockholders approved the 2006 Stock Incentive Plan (the "2006 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 20,000 shares, but no more than 10,000 shares of restricted stock may be granted. Options are granted at a price not less than fair market value of Carver 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, 2023, there were 3,600 options outstanding under the 2006 Incentive Plan and 3,600 were exercisable. All options are exercisable immediately upon a participant's disability, death or a change in control, as defined in the 2006 Incentive Plan, if the person is employed on that date. If the person is terminated (voluntary or involuntarily) from the Bank, all unvested shares are forfeited. Pursuant to the plan, the Bank recognized no expense for fiscal years 2023 and 2022.

In September 2014, Carver stockholders approved the Carver Bancorp, Inc. 2014 Equity Incentive Plan (the "2014 Incentive Plan") which provides for the grant of stock options, stock appreciation rights and restricted stock to executive officers and directors who are selected to receive awards by the Committee. The 2014 Incentive Plan authorizes Carver to grant awards with respect to 250,000 shares. All of the shares may be issued pursuant to stock options (all of which may be incentive stock options) or all of which may be issued pursuant to restricted stock awards or restricted stock units. Unless the Committee determines otherwise, the award agreements will specify that no award will vest more rapidly than 25% per year over a four-year period, with the first installment vesting one year after the date of grant, subject to acceleration upon the occurrence of specific events. During fiscal year 2023, 44,500 restricted stock awards were issued. There were no restricted stock awards issued in fiscal 2022. At March 31, 2023, there were 2,667 options outstanding under the 2014 Incentive Plan and 2,333 were exercisable. All options are exercisable immediately upon a participant's disability, death or change in control, as defined in the 2014 Incentive Plan, if the person is employed on that date. If the person is terminated (voluntary or involuntarily) from the Bank, all unvested shares are forfeited. Pursuant to the plan, the Bank recognized \$247 thousand as expense for fiscal year 2023 and \$101 thousand in fiscal year 2022.

Information regarding nonvested shares of restricted stock awards outstanding for the years ended March 31 is as follows:

| | 2023 | | 2022 | |
|--------------------------------|----------|------------------------------|----------|------------------------------|
| | Shares | Weighted Average Grant Price | Shares | Weighted Average Grant Price |
| Outstanding, beginning of year | 38,833 | \$ 5.15 | 72,750 | \$ 5.00 |
| Granted | 44,500 | 6.84 | — | — |
| Vested | (20,667) | 4.82 | (24,917) | 4.73 |
| Forfeited | (4,833) | 6.53 | (9,000) | 5.11 |
| Outstanding, end of year | 57,833 | \$ 6.45 | 38,833 | \$ 5.15 |

Unrecognized compensation expense on unvested restricted shares as of March 31, 2023 totaled \$140 thousand. This amount will be recognized over the remaining vesting period of 1.11 years (weighted average). The vesting of the grants totaled \$91 thousand and \$122 thousand for fiscal years 2023 and 2022, respectively.

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

| | 2023 | | 2022 | |
|--------------------------------|---------|---------------------------------|---------|---------------------------------|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 6,600 | \$ 5.29 | 6,600 | \$ 5.42 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Expired/Forfeited | 333 | 5.70 | — | — |
| Outstanding, end of year | 6,267 | \$ 5.27 | 6,600 | \$ 5.29 |
| Exercisable, at year end | 5,933 | | 5,267 | |

Information regarding stock options as of March 31, 2023 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 |
| \$ 3.00 \$ 5.00 | 1,000 | 4.70 | \$ 3.48 | 1,000 | \$ 3.48 |
| 5.00 \$ 5.59 | 3,600 | 2.23 | 5.56 | 3,600 | 5.56 |
| 5.60 \$ 5.99 | 1,667 | 7.33 | 5.70 | 1,333 | 5.70 |
| Total | 6,267 | | | 5,933 | |

As of March 31, 2023, unrecognized compensation expense on unvested stock options totaled \$1 thousand. This amount will be recognized over the remaining vesting period of 0.33 years (weighted average). There were no stock options awarded to employees or directors during the year ended March 31, 2023. At March 31, 2023, all outstanding options had no intrinsic value. The Company recorded stock compensation expense of \$2 thousand and \$3 thousand in fiscal 2023 and 2022, respectively.

NOTE 15. 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 and in connection with its overall investment strategy. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. These instruments are not recorded in the consolidated financial statements. Such instruments primarily include lending obligations, including commitments to originate mortgage and consumer loans and to fund unused lines of credit.

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 amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following table reflects the Bank's outstanding commitments as of March 31:

| <i>\$ in thousands</i> | 2023 | 2022 |
|--|----------|-----------|
| Commitments to fund mortgage loans | \$ — | \$ 12,135 |
| Lines of credit | 3,837 | 2,986 |
| Commitment to fund private equity investment | 253 | 253 |
| | \$ 4,090 | \$ 15,374 |

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 these 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 counterparty.

Mortgage Representation & Warranty Liabilities

During the period 2004 through 2009, the Bank originated 1-4 family residential mortgage loans and sold the loans to the Federal National Mortgage Association (“FNMA”). The loans were sold to FNMA with the standard representations and warranties for loans sold to the Government Sponsored Entities (GSE's). The Bank may be required to repurchase these loans in the event of breaches of these representations and warranties. In the event of a repurchase, the Bank is typically required to pay the unpaid principal balance as well as outstanding interest and fees. The Bank then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The Bank is exposed to any losses on repurchased loans after giving effect to any recoveries on the collateral. The Bank has not received a request to repurchase any of these loans since the second quarter of fiscal 2015, and there have not been any additional requests from FNMA for loans to be reviewed.

The following table presents information on open requests from FNMA. The amounts presented are based on outstanding loan principal balances.

| <i>\$ in thousands</i> | <u>Loans sold to FNMA</u> |
|---|---------------------------|
| Open claims as of March 31, 2022 ⁽¹⁾ | \$ 1,363 |
| Gross new demands received | — |
| Loans repurchased/made whole | — |
| Demands rescinded | — |
| Advances on open claims | — |
| Principal payments received on open claims | 22 |
| Open claims as of March 31, 2023 ⁽¹⁾ | <u>\$ 1,385</u> |

⁽¹⁾ The open claims include all open requests received by the Bank where either FNMA has requested loan files for review, where FNMA has not formally rescinded the repurchase request or where the Bank has not agreed to repurchase the loan. The amounts reflected in this table are the unpaid principal balance and do not incorporate any losses the Bank would incur upon the repurchase of these loans.

The table below summarizes changes in our representation and warranty reserves during fiscal 2023.

| <i>\$ in thousands</i> | <u>March 31, 2023</u> |
|---|-----------------------|
| Representation and warranty repurchase reserve, March 31, 2022 ⁽¹⁾ | \$ 123 |
| Net adjustment to reserve for repurchase losses ⁽²⁾ | (28) |
| Representation and warranty repurchase reserve, March 31, 2023 ⁽¹⁾ | <u>\$ 95</u> |

⁽¹⁾ Reported in consolidated statements of financial condition as a component of other liabilities.

⁽²⁾ Component of other non-interest expense.

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

Legal Proceedings. From time to time, the Company and the Bank or one of its wholly-owned subsidiaries are parties to various legal proceedings incident to their business. At March 31, 2023, certain claims, suits, complaints and investigations (collectively “proceedings”) involving the Company and the Bank or a subsidiary, arising in the ordinary course of business, have been filed or are pending. The Company is unable at this time to determine the ultimate outcome of each proceeding, but believes, after discussions with legal counsel representing the Company and the Bank or the subsidiary in these proceedings, that it has meritorious defenses to each proceeding and appropriate measures have been taken to defend the interests of the Company, Bank or subsidiary. There were no legal proceedings pending or known to be contemplated against us that in the opinion of management, would be expected to have a material adverse effect on the financial condition or results of operations of the Company or the Bank.

NOTE 16. FAIR VALUE MEASUREMENTS

Fair value is an “exit” price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are categorized in a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1— Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2— Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3— Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents, by valuation hierarchy, assets that are measured at fair value on a recurring basis as of March 31, 2023 and 2022, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

| Fair Value Measurements at March 31, 2023, Using | | | | |
|---|---|--|--|-----------------------------|
| <i>\$ in thousands</i> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Mortgage servicing rights | \$ — | \$ — | \$ 152 | \$ 152 |
| Investment securities | | | | |
| Available-for-sale: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | — | 341 | — | 341 |
| Federal Home Loan Mortgage Corporation | — | 17,600 | — | 17,600 |
| Federal National Mortgage Association | — | 9,502 | — | 9,502 |
| U.S. Government Agency securities | — | 9,326 | — | 9,326 |
| Corporate bonds | — | 3,092 | — | 3,092 |
| Muni securities | — | 13,982 | — | 13,982 |
| Asset-backed securities | — | — | — | — |
| Total available-for-sale securities | — | 53,843 | — | 53,843 |
| Total assets | \$ — | \$ 53,843 | \$ 152 | \$ 53,995 |

| Fair Value Measurements at March 31, 2022, Using | | | | |
|---|---|--|--|-----------------------------|
| <i>\$ in thousands</i> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Mortgage servicing rights | \$ — | \$ — | \$ 162 | \$ 162 |
| Investment securities | | | | |
| Available-for-sale: | | | | |
| Mortgage-backed securities: | | | | |
| Government National Mortgage Association | — | 448 | — | 448 |
| Federal Home Loan Mortgage Corporation | — | 21,547 | — | 21,547 |
| Federal National Mortgage Association | — | 11,584 | — | 11,584 |
| U.S. Government Agency securities | — | 13,785 | — | 13,785 |
| Corporate bonds | — | 4,121 | — | 4,121 |
| Muni securities | — | 15,768 | — | 15,768 |
| Asset-backed securities | — | 343 | — | 343 |
| Total available-for-sale securities | — | 67,596 | — | 67,596 |
| Total assets | \$ — | \$ 67,596 | \$ 162 | \$ 67,758 |

Instruments for which unobservable inputs are significant to their fair value measurement (i.e., Level 3) include mortgage servicing rights ("MSR"). Level 3 assets accounted for 0.02% of the Company's total assets measured at fair value at March 31, 2023 and 2022.

The Company reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next that are related to the observable inputs to a fair value measurement may result in a reclassification from one hierarchy level to another.

Below is a description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities and MSR:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to market information, models also incorporate transaction details, such as maturity and cash flow assumptions. Securities valued in this manner would generally be classified within Level 2 of the valuation hierarchy and primarily include such instruments as mortgage-related securities and corporate debt.

During the fiscal year ended March 31, 2023, there were no transfers of investments into or out of each level of the fair value hierarchy.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing certain securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Quoted price information for the MSRs is not available. Therefore, MSRs are valued using market-standard models to model the specific cash flow structure. Key inputs to the model consist of principal balance of loans being serviced, servicing fees and discount and prepayment rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table includes a rollforward of assets classified by the Company within Level 3 of the valuation hierarchy for the years ended March 31, 2023 and 2022:

| <i>\$ in thousands</i> | Beginning balance, April 1, 2022 | Total Realized/Unrealized Gains/(Losses) Recorded in Income ⁽¹⁾ | Issuances / (Settlements) | Transfers to/(from) Level 3 | Ending balance, March 31, 2023 | Change in Unrealized Gains/(Losses) Related to Instruments Held at March 31, 2023 |
|---------------------------|----------------------------------|--|---------------------------|-----------------------------|--------------------------------|---|
| Mortgage Servicing Rights | 162 | (10) | — | — | 152 | (9) |

| <i>\$ in thousands</i> | Beginning balance, April 1, 2021 | Total Realized/Unrealized Gains/(Losses) Recorded in Income ⁽¹⁾ | Issuances / (Settlements) | Transfers to/(from) Level 3 | Ending balance, March 31, 2022 | Change in Unrealized Gains/(Losses) Related to Instruments Held at March 31, 2022 |
|---------------------------|----------------------------------|--|---------------------------|-----------------------------|--------------------------------|---|
| Mortgage Servicing Rights | 147 | 15 | — | — | 162 | 15 |

⁽¹⁾ Includes net servicing cash flows and the passage of time.

For Level 3 assets measured at fair value on a recurring basis as of March 31, 2023 and 2022, the significant unobservable inputs used in the fair value measurements were as follows:

| <i>\$ in thousands</i> | Fair Value at March 31, 2023 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---------------------------|------------------------------|----------------------|--|--------------------------------------|
| Mortgage Servicing Rights | 152 | Discounted Cash Flow | Weighted Average Constant Prepayment Rate ⁽¹⁾ Option Adjusted Spread ("OAS") applied to Treasury curve | 4.01 % 1000 basis points |

| <i>\$ in thousands</i> | Fair Value at March 31, 2022 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---------------------------|---------------------------------|----------------------|---|--|
| Mortgage Servicing Rights | 162 | Discounted Cash Flow | Weighted Average Constant Prepayment Rate ⁽¹⁾ Option Adjusted Spread ("OAS") applied to Treasury curve | 6.70 % 1000 basis points |

⁽¹⁾ Represents annualized loan repayment rate assumptions

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g. when there is evidence of impairment). The following table presents assets and liabilities that were measured at fair value on a non-recurring basis as of March 31, 2023 and 2022, and that are included in the Company's Consolidated Statements of Financial Condition at these dates:

| <i>\$ in thousands</i> | Fair Value Measurements at March 31, 2023, Using | | | |
|-------------------------|---|---|---|---------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Impaired loans | \$ — | \$ — | \$ 5,529 | \$ 5,529 |
| Other real estate owned | \$ — | \$ — | \$ 60 | \$ 60 |

| <i>\$ in thousands</i> | Fair Value Measurements at March 31, 2022, Using | | | |
|-------------------------|---|---|---|---------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Impaired loans | \$ — | \$ — | \$ 5,134 | \$ 5,134 |
| Other real estate owned | \$ — | \$ — | \$ 60 | \$ 60 |

For Level 3 assets measured at fair value on a non-recurring basis as of March 31, 2023 and 2022, the significant unobservable inputs used in the fair value measurements were as follows:

| <i>\$ in thousands</i> | Fair Value at March 31, 2023 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|-------------------------|---------------------------------|-------------------------|------------------------------------|--|
| Impaired loans | \$ 5,529 | Appraisal of collateral | Appraisal adjustments | 7.5% cost to sell |
| Other real estate owned | 60 | Appraisal of collateral | Appraisal adjustments | 7.5% cost to sell |

| <i>\$ in thousands</i> | Fair Value at March 31, 2022 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|-------------------------|---------------------------------|-------------------------|------------------------------------|--|
| Impaired loans | \$ 5,134 | Appraisal of collateral | Appraisal adjustments | 7.5% cost to sell |
| Other real estate owned | 60 | Appraisal of collateral | Appraisal adjustments | 7.5% cost to sell |

The fair values of collateral dependent impaired loans are determined using various valuation techniques, including consideration of appraised values and other pertinent real estate market data.

Other real estate owned represents property acquired by the Bank in settlement of loans less costs to sell (i.e., through foreclosure, repossession or as an in-substance foreclosure). These assets are recorded at the lower of their cost or fair value. At the time of acquisition of the real estate owned, the real property value is adjusted to its current fair value. Any subsequent adjustments will be to the lower of cost or fair value. As of March 31, 2023 and 2022, we had loans with a carrying value of \$5.6 million and \$3.1 million, respectively, for which formal foreclosure proceedings were in process.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures regarding the fair value of financial instruments are required to include, 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. Accounting guidance 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 discussed below. 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 Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact the Bank's fair value of all interest-earning assets and interest-bearing liabilities, other than those which are short-term in maturity.

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

| March 31, 2023 | | | | | |
|--------------------------------|------------------------|-----------------------------|---|--|--|
| <i>\$ in thousands</i> | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 42,552 | \$ 42,552 | \$ 42,552 | \$ — | \$ — |
| Securities available-for-sale | 53,843 | 53,843 | — | 53,843 | — |
| Securities held-to-maturity | 2,318 | 2,221 | — | 2,221 | — |
| Loans receivable | 592,667 | 567,029 | — | — | 567,029 |
| Accrued interest receivable | 1,911 | 1,911 | — | 1,911 | — |
| Mortgage servicing rights | 152 | 152 | — | — | 152 |
| Financial Liabilities: | | | | | |
| Deposits | \$ 600,429 | \$ 594,736 | \$ 418,432 | \$ 176,304 | \$ — |
| Advances from FHLB of New York | 35,000 | 35,238 | — | 35,238 | — |
| Other borrowed money | 15,903 | 14,575 | — | 14,575 | — |
| Accrued interest payable | 380 | 380 | — | 380 | — |
| March 31, 2022 | | | | | |
| <i>\$ in thousands</i> | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$ 61,018 | \$ 61,018 | \$ 61,018 | \$ — | \$ — |
| Securities available-for-sale | 67,596 | 67,596 | — | 67,596 | — |
| Securities held-to-maturity | 5,254 | 5,276 | — | 5,276 | — |
| Loans receivable | 573,880 | 563,821 | — | — | 563,821 |
| Accrued interest receivable | 2,414 | 2,414 | — | 2,414 | — |
| Mortgage servicing rights | 162 | 162 | — | — | 162 |
| Financial Liabilities: | | | | | |
| Deposits | \$ 628,117 | \$ 624,160 | \$ 485,884 | \$ 138,276 | \$ — |
| Other borrowed money | 15,906 | 15,673 | — | 15,673 | — |
| Accrued interest payable | 91 | 91 | — | 91 | — |

NOTE 18. VARIABLE INTEREST ENTITIES

Variable interest entities (“VIEs”) are consolidated, as required, where Carver has a controlling financial interest in these entities and is deemed to be the primary beneficiary. Carver is normally deemed to have a controlling financial interest and be the primary beneficiary if it has both (a) the power to direct activities of a VIE that most significantly impact the entities economic performance; and (b) the obligation to absorb losses of the entity that could benefit from the activities that could potentially be significant to the VIE.

The Company's subsidiary, Carver Statutory Trust I (the "Trust"), was formed in 2003 for the purpose of issuing \$13 million aggregate liquidation amount of floating rate Capital Securities due September 17, 2033 ("Capital Securities") and \$0.4 million of common securities (which are the only voting securities of the Trust), which are 100% owned by Carver Bancorp, Inc., and using the proceeds to acquire Junior Subordinated Debentures issued by Carver Bancorp, Inc. Carver Bancorp, Inc. has fully and unconditionally guaranteed the Capital Securities along with all obligations of the Trust under the trust agreement relating to the Capital Securities. The Company does not consolidate the accounts and related activity of Carver Statutory Trust I because it is not the primary beneficiary of the entity. At March 31, 2023, the Company's maximum exposure to the Trust is \$13.4 million, which is the Company's liability to the Trust and includes the Company's investment in the Trust.

The Bank's subsidiary, Carver Community Development Corporation ("CCDC"), was formed to facilitate its participation in local economic development and other community-based initiatives. Per the NMTC Award's Allocation Agreement between the CDFI Fund and CCDC, CCDC is permitted to form and sub-allocate credits to subsidiary Community Development Entities ("CDEs") to facilitate investments in separate development projects. CCDC established various special purpose entities (CDEs 22-25) through which its investments in NMTC eligible activities will be conducted. As of March 31, 2023, there have been no activities in these entities.

The Company had no consolidated VIEs at March 31, 2023.

NOTE 19. NON-INTEREST REVENUE AND EXPENSE

ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606") does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as gains on sales of residential mortgage and SBA loans, income associated with servicing assets, and loan fees, including residential mortgage originations to be sold and prepayment and late fees charged across all loan categories are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams, such as depository fees, service charges and commission revenues. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Depository fees and charges

Depository fees and charges primarily relate to service fees on deposit accounts and fees earned from debit cards and check cashing transactions. Service fees on deposit accounts consist of ATM fees, NSF fees, account maintenance charges and other deposit related fees. The revenue is recognized monthly when the Bank's performance obligations are complete, or as incurred for transaction-based fees in accordance with the fee schedules for the Bank's deposit products and services.

Loan fees and service charges

Loan fees and service charges primarily relate to program management fees and fees earned in accordance with the Bank's standard lending fees (such as inspection and late charges). These standard lending fees are earned on a monthly basis upon receipt.

Other non-interest income

Other non-interest income includes correspondent banking fees, and income associated with an advertising services agreement covering marketing and use of the Bank's office space with a third party. The revenue is recognized on a monthly basis.

Interchange income

The Company earns interchange fees from debit card holder transactions conducted through various payment networks. Interchange fees from cardholder transactions are recognized daily, concurrently with the transaction processing services provided by an outsource technology solution and are presented on a net basis.

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended March 31, 2023 and 2022:

| <i>\$ in thousands</i> | Years Ended March 31, | |
|---|-----------------------|-----------------|
| | 2023 | 2022 |
| Non-interest income | | |
| In-scope of Topic 606 | | |
| Depository fees and charges | \$ 2,197 | \$ 2,141 |
| Loan fees and service charges | 466 | 225 |
| Other non-interest income | 236 | 2,616 |
| Non-interest income (in-scope of Topic 606) | 2,899 | 4,982 |
| Non-interest income (out-of-scope of Topic 606) | 696 | 2,372 |
| Total non-interest income | <u>\$ 3,595</u> | <u>\$ 7,354</u> |

The following table sets forth other non-interest income and expense totals exceeding 1% of the aggregate of total interest income and non-interest income for any of the years presented:

| <i>\$ in thousands</i> | Years Ended March 31, | |
|-----------------------------|-----------------------|-----------------|
| | 2023 | 2022 |
| Other non-interest income: | | |
| Correspondent banking fees | \$ 147 | \$ 2,574 |
| Other | 225 | 307 |
| Total non-interest income | <u>\$ 372</u> | <u>\$ 2,881</u> |
| Other non-interest expense: | | |
| Advertising | \$ 513 | \$ 572 |
| Legal expense | 442 | 626 |
| Insurance and surety | 1,200 | 927 |
| Audit expense | 573 | 851 |
| Data lines / internet | 398 | 410 |
| Retail expenses | 933 | 820 |
| Director's fees | 373 | 344 |
| Other | 2,767 | 2,659 |
| Total non-interest expense | <u>\$ 7,199</u> | <u>\$ 7,209</u> |

NOTE 20. CARVER BANCORP, INC. - PARENT COMPANY ONLY

CONDENSED STATEMENTS OF FINANCIAL CONDITION

| <i>\$ in thousands</i> | As of March 31, | |
|---|------------------|------------------|
| | 2023 | 2022 |
| Assets | | |
| Cash on deposit with subsidiaries | \$ 668 | \$ 1,433 |
| Investment in subsidiaries | 62,453 | 70,646 |
| Other assets | 123 | 66 |
| Total assets | \$ 63,244 | \$ 72,145 |
| Liabilities and Stockholders' Equity | | |
| Borrowings | \$ 15,903 | \$ 15,903 |
| Accounts payable to subsidiaries | 1,475 | 499 |
| Other liabilities | 642 | 656 |
| Total liabilities | 18,020 | 17,058 |
| Stockholders' equity | 45,224 | 55,087 |
| Total liabilities and stockholders' equity | \$ 63,244 | \$ 72,145 |

CONDENSED STATEMENTS OF OPERATIONS

| <i>\$ in thousands</i> | Years Ended March 31, | |
|---|-----------------------|-------------------|
| | 2023 | 2022 |
| Income | | |
| Equity in net loss/income from subsidiaries | \$ (2,640) | \$ 706 |
| Other income | 27 | 17 |
| Grant income | 439 | 60 |
| Total (loss) income | (2,174) | 783 |
| Expense | | |
| Interest expense on borrowings | 839 | 481 |
| Salaries and employee benefits | 712 | 232 |
| Shareholder expense | 155 | 162 |
| Other | 521 | 755 |
| Total expense | 2,227 | 1,630 |
| Net loss | \$ (4,401) | \$ (847) |
| Comprehensive loss | \$ (9,954) | \$ (4,334) |

CONDENSED STATEMENTS OF CASH FLOW

| <i>\$ in thousands</i> | Years Ended March 31, | |
|--|------------------------------|-----------------|
| | 2023 | 2022 |
| Cash Flows From Operating Activities | | |
| Net loss | \$ (4,401) | \$ (847) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Equity in net loss/income from subsidiaries | 2,640 | (706) |
| Restricted stock vesting | 91 | 122 |
| Decrease in accounts receivable from subsidiaries | — | 205 |
| (Increase) decrease in other assets | (57) | 92 |
| Increase (decrease) in accounts payable to subsidiaries | 976 | (1,212) |
| Decrease in other liabilities | (14) | (2,593) |
| Net cash used in operating activities | <u>(765)</u> | <u>(4,939)</u> |
| Cash Flows From Investing Activities | | |
| Capital contribution | — | (15,500) |
| Net cash used in investing activities | <u>—</u> | <u>(15,500)</u> |
| Cash Flows From Financing Activities | | |
| Increase in borrowings | — | 2,500 |
| Issuance of common stock | — | 2,998 |
| Issuance of preferred stock | — | 4,000 |
| Net cash provided by financing activities | <u>—</u> | <u>9,498</u> |
| Net decrease in cash | <u>(765)</u> | <u>(10,941)</u> |
| Cash and cash equivalents – beginning | <u>1,433</u> | <u>12,374</u> |
| Cash and cash equivalents – ending | <u>\$ 668</u> | <u>\$ 1,433</u> |

NOTE 21. SUBSEQUENT EVENTS

On April 12, 2023, the Company entered into an agreement with a third party, in which the third party would provide the Company with an unsecured long-term, below-market-rate loan in the amount of \$2.5 million to finance eligible loans offered through the Bank's community investment initiatives and loan programs focused on Minority and Women-owned Business Enterprises and consumers across the greater New York City region.

In April 2023, the Bank was awarded a \$2.5 million grant as part of the U.S. Department of the Treasury's Community Development Financial Institutions Fund's Equitable Recovery Program ("CDFI ERP"). The funds will be used towards financing programs and activities to help low- and moderate income communities recover from the COVID-19 pandemic in accordance with the terms and requirements of the CDFI ERP.

On April 1, 2023, the Company adopted ASU No. 2016-13, "Financial Instruments - Credit Loss (Topic 326)" and its subsequent amendments, which replaces the guidance on recognition and measurement of credit losses for financial assets. The new requirements, known as the current expected credit loss model ("CECL") will require entities to adopt an impairment model based on expected losses rather than incurred losses. Based on the Company's CECL model results that it has performed alongside the incurred loss approach, the adoption of ASU 2016-13 will result in an increase of approximately \$0.7 million to the allowance for credit losses for loans, including the reserve for off-balance sheet credit exposure recorded in other liabilities. There is no material impact for other assets within the scope of the new CECL guidance, such as held-to-maturity debt securities and other receivables. The Company will apply the new guidance as a cumulative-effect adjustment to retained earnings as of April 1, 2023, using the modified-retrospective approach. As the Company finalizes the CECL implementation, final decisions made by management may result in a different impact than that stated above for financial statement disclosure purposes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are 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 SEC's rules and forms. Disclosure controls and procedures include, without limitation, 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 accumulated and communicated to management, including the Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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. As of March 31, 2023, the Company's management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15 and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2023.

(b) Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control is designed under the supervision of management, including the Company's Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. GAAP. The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with the authorization of management and the Boards of Directors of the Company and the Bank; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

The management of Carver Bancorp, Inc., with participation of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2023. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control -- Integrated Framework (2013). Based on the assessment under COSO, management determined that our internal control over financial reporting was effective as of March 31, 2023.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fiscal year ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Amendment and Restatement of the Bylaws of Carver Bancorp, Inc.

Effective June 27, 2023, the Company's Board of Directors approved and adopted an amendment and restatement of the Second Amended and Restated Bylaws of Carver Bancorp, Inc. (as so amended and restated, the "Bylaws").

The Company's Board of Directors approved the Bylaws as part of its periodic review of the Company's corporate governance. Among other matters, the Bylaws make certain updates to the Company's director qualifications, including, providing that (A) no person will be eligible for election or appointment to the Board of Directors: (i) if a financial or securities regulatory agency or a financial or securities self-regulatory agency, has, within the past ten years, issued a cease and desist, consent or other formal order against such person, which order is subject to public disclosure by such agency, including but not limited to an order related to the settlement of charges; (ii) if such person has been convicted of a crime involving dishonesty or breach of trust which is punishable by imprisonment for a term exceeding one year under state or federal law; or (iii) if such person is currently charged in any information, indictment, or other complaint with the commission of or participation in such a crime, (B) no person may serve on the Board of Directors if such person is: (u) at the same time, a director, officer, employee or 10% or more stockholder of a bank, savings institution, credit union, mortgage banking company, consumer loan company or similar organization, other than a subsidiary of the Company, that engages in financial services related business activities or solicits customers, whether through a physical presence or electronically, in the same market area as the Company or any of its subsidiaries; (v) does not agree in writing to comply with all of the Company's policies applicable to directors including but not limited to its confidentiality policy and confirm in writing his or her qualifications hereunder; (w) is a party to any agreement, understanding or arrangement with a party other than the Company or a subsidiary that (1) provides him or her with material benefits which are tied to or contingent on the Company entering into a merger, sale of control or similar transaction in which it is not the surviving institution, (2) materially limits his or her voting discretion as a member of the Board of Directors of the Company, or (3) materially impairs his or her ability to discharge his or her fiduciary duties with respect to the fundamental strategic direction of the Company; (x) has lost more than one election for service as a director of the Company; (y) is the representative or agent of, or a member of a group acting in concert that includes, a person who is ineligible for election or appointment to the Board of Directors under Section 2 of the Bylaws; or (z) is the nominee or representative of a company of which any of the directors, partners, trustees or 10% stockholders would not be eligible for election or appointment to the Board of Directors under the Bylaws and (C) the Board of Directors will have the power to construe and apply the provisions of Section 2 of the Bylaws and to make all determinations necessary or desirable to implement such provisions.

The foregoing summary is qualified in its entirety by reference to the Bylaws, a copy of which is attached hereto as Exhibit 3.2 and is incorporated by reference in this Item 9B.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE.

Information concerning Executive Officers of the Company which responds to this Item is incorporated by reference from the section entitled "Executive Officers of Carver and Carver Federal" in the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders (the "Proxy Statement"). The information that responds to this Item with respect to Directors is incorporated by reference from the section entitled "Election of Directors" in the Proxy Statement. Information with respect to compliance by the Company's Directors and Executive Officers with Section 16(a) of the Exchange Act is incorporated by reference from the subsection entitled "Delinquent Section 16(a) Reports" in the Proxy Statement.

Information regarding the audit committee of the Company's Board of Directors, including information regarding audit committee financial experts serving on the audit committee, is presented under the heading "Corporate Governance" in the Company's Proxy Statement and is incorporated herein by reference. Information regarding the process for shareholder nomination of directors is incorporated by reference from the Proxy Statement and presented under the heading "Corporate Governance."

ITEM 11. EXECUTIVE COMPENSATION.

The information required in response to this Item is incorporated by reference from the section entitled "Compensation of Directors and Executive Officers" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required in response to this Item is incorporated by reference from the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required in response to this Item is incorporated by reference from the section entitled "Transactions with Certain Related Persons" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Our independent registered public accounting firm is BDO USA, LLP, New York, New York, PCAOB ID: 243. The information required in response to this Item is incorporated by reference from the section entitled "Auditor Fee Information" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- I. List of Documents Filed as Part of this Annual Report on Form 10-K
 - 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 Statements of Financial Condition as of March 31, 2023 and 2022
 3. Consolidated Statements of Operations for the years ended March 31, 2023 and 2022
 4. Consolidated Statements of Comprehensive Loss for the years ended March 31, 2023 and 2022
 5. Consolidated Statements of Changes in Equity for the years ended March 31, 2023 and 2022

6. Consolidated Statements of Cash Flows for the years ended March 31, 2023 and 2022

7. Notes to Consolidated Financial Statements.

B. Financial Statement Schedules. Financial statement schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the Notes thereto under Item 8.

II. Exhibits required by Item 601 of Regulation S-K:

A. See Exhibit Index

III. Exhibits required by Rule 405 of Regulation S-T

A. See Exhibit Index

ITEM 16. FORM 10-K SUMMARY.

None.

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 2.1 | Securities Purchase Agreement by and between Carver Bancorp, Inc. and the U.S. Treasury Department, dated August 6, 2020 ⁽¹⁾ |
| 2.2 | Stock Purchase Agreement, by and between Carver Bancorp, Inc. and Wells Fargo Central Pacific Holdings, Inc., dated February 1, 2021 ⁽²⁾ |
| 2.3 | Stock Purchase Agreement, by and between Carver Bancorp, Inc. and J.P. Morgan Chase Community Development Corporation, dated February 16, 2021 ⁽³⁾ |
| 2.4 | Preferred Stock Purchase Agreement, by and between Carver Bancorp, Inc. and J.P. Morgan Chase Community Development Corporation, dated September 27, 2021 ⁽⁴⁾ |
| 3.1 | Certificate of Incorporation of Carver Bancorp, Inc. ⁽⁵⁾ |
| 3.2 | Second Amended and Restated Bylaws of Carver Bancorp, Inc. |
| 3.3 | Certificate of Designation for Mandatorily Convertible Non-Voting Participating Preferred Stock Series C and Convertible Non-Cumulative Non-Voting Participating Preferred Stock, Series D of Carver Bancorp, Inc. ⁽⁶⁾ |
| 3.4 | Certificate of Amendment to the Certificate of Incorporation of Carver Bancorp, Inc. ⁽⁷⁾ |
| 3.5 | Certificate of Designations of Non-Cumulative Non-Voting Participating Preferred Stock, Series E, par value \$0.01 per share ⁽⁸⁾ |
| 3.6 | Certificate of Amendment of Certificate of Designations of Non-Cumulative Non-Voting Participating Preferred Stock, Series E, par value \$0.01 per share ⁽⁹⁾ |
| 3.7 | Amended and Restated Certificate of Designations of Non-Cumulative Non-Voting Participating Preferred Stock, Series F, par value \$0.01 per share ⁽¹⁰⁾ |
| 4.1 | Stock Certificate of Carver Bancorp, Inc. ⁽⁵⁾ |
| 4.2 | Description of Carver Bancorp, Inc. Securities |
| 10.1 | Carver Federal Savings Bank 401(k) Savings Plan in RSI Retirement Trust, as amended and restated effective as of January 1, 1997 and including provisions effective through January 1, 2002 ⁽¹¹⁾ |
| 10.2 | First Amendment to the Restatement of the Carver Federal Savings Bank 401(k) Savings Plan ⁽¹¹⁾ |
| 10.3 | Second Amendment to the Restatement of the Carver Federal Savings Bank 401(k) Savings Plan for EGTRRA ⁽¹¹⁾ |
| 10.4 | Carver Bancorp, Inc. 2006 Stock Incentive Plan, effective as of September 12, 2006 ⁽¹²⁾ |
| 10.5 | Amendment to the Carver Bancorp, Inc. Stock Incentive Plan ⁽¹³⁾ |
| 10.6 | Carver Bancorp, Inc. 2014 Equity Incentive Plan ⁽¹⁴⁾ |
| 10.7 | Formal Agreement by and between Carver Federal Savings Bank and the Office of the Comptroller of the Currency ⁽¹⁵⁾ |
| 10.8 | Sales Agreement by and between Carver Bancorp, Inc. and Piper Sandler & Co., dated as of December 14, 2021 ⁽¹⁶⁾ |
| 11 | Code of Ethics ⁽¹⁷⁾ |
| 21.1 | Subsidiaries of the Registrant |
| 23.1 | Consent of Current Independent Registered Public Accounting Firm - BDO USA, LLP |
| 31.1 | Certifications of Chief Executive Officer |
| 31.2 | Certifications of Chief Financial 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 Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| Exhibits 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements tagged as blocks of texts and in detail |
| 104 | Cover Page Interactive Data File (formatted in iXBRL and contained in Exhibit 101) |
| (1) | Incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on August 6, 2020. |
| (2) | Incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on February 1, 2021. |
| (3) | Incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on February 22, 2021. |
| (4) | Incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on September 30, 2021. |
| (5) | Incorporated herein by reference to Registration Statement No. 333-5559 on Form S-4 of the Registrant filed with the Securities and Exchange Commission on June 7, 1996. |

- (6) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on July 6, 2011.
- (7) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on November 1, 2011.
- (8) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on February 1, 2021.
- (9) Incorporated herein by reference to Exhibit 3.2 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on February 1, 2021.
- (10) Incorporated herein by reference to Exhibit 3.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on September 30, 2021.
- (11) Incorporated herein by reference to the Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2003.
- (12) Incorporated herein by reference to the Exhibits to the Registrant's Definitive Proxy Statement on Form 14A filed with the Securities and Exchange Commission on July 31, 2006.
- (13) Incorporated herein by reference to the Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008, filed with the Securities and Exchange Commission on February 17, 2009.
- (14) Incorporated herein by reference to the Registrant's Definitive Proxy Statement on Form 14A for the 2014 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on July 29, 2014.
- (15) Incorporated herein by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on May 27, 2016.
- (16) Incorporated herein by reference to the Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission filed on December 14, 2021.
- (17) Incorporated herein by reference to the Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2006.

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, 2023

By /s/ Michael T. Pugh
Michael T. Pugh
President 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, 2023 by the following persons on behalf of the Registrant and in the capacities indicated.

| | |
|---|---|
| <u>/s/ Michael T. Pugh</u> Michael T. Pugh | President and Chief Executive Officer (Principal Executive Officer) |
| <u>/s/ Christina L. Maier</u> Christina L. Maier | First Senior Vice President and Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer) |
| <u>/s/ Lewis P. Jones III</u> Lewis P. Jones III | Chairman |
| <u>/s/ Colvin W. Grannum</u> Colvin W. Grannum | Director |
| <u>/s/ Pazel G. Jackson, Jr.</u> Pazel G. Jackson, Jr. | Director |
| <u>/s/ Jillian E. Joseph</u> Jillian E. Joseph | Director |
| <u>/s/ Kenneth J. Knuckles</u> Kenneth J. Knuckles | Director |
| <u>/s/ Craig C. MacKay</u> Craig C. MacKay | Director |
| <u>/s/ Robin L. Nunn</u> Robin L. Nunn | Director |
| <u>/s/ Michael T. Pugh</u> Michael T. Pugh | Director |

CARVER BANCORP, INC.
Subsidiaries of Registrant

| | Ownership Percentage | State of Incorporation | Description |
|--|----------------------|------------------------|------------------------------|
| Carver Bancorp, Inc. | | Delaware | Holding Company |
| Carver Federal Savings Bank | 100 % | New York | Federal Savings Bank |
| CSFB Credit Corp. | 100 % | New York | Inactive |
| CSFB Realty Corp. | 100 % | New York | Real Estate Holding Company |
| Carver Asset Corp. | 100 % | Delaware | Real Estate Investment Trust |
| Carver Community Development Corporation | 100 % | Delaware | Community Development |
| Sub CDE 1, LLC | 100 % | Delaware | Lending Vehicle for NMTC |
| Sub CDE 22, LLC | 99.00% ¹ | Delaware | Inactive |
| Sub CDE 23, LLC | 99.00% ¹ | Delaware | Inactive |
| Sub CDE 24, LLC | 99.00% ¹ | Delaware | Inactive |
| Sub CDE 25, LLC | 99.00% ¹ | Delaware | Inactive |
| Alhambra Holdings Corp. | 100 % | Delaware | Inactive |

⁽¹⁾ Also owned 1.00% by Carver Community Development Corporation

In addition, Carver Bancorp, Inc. has created Carver Statutory Trust I to raise capital for its operations.

Consent of Independent Registered Public Accounting Firm

Carver Bancorp, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-259551) and Form S-8 (No. 333-250199) of Carver Bancorp, Inc. of our report dated June 29, 2023, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP
New York, New York

June 29, 2023

CERTIFICATIONS

I, Michael T. Pugh, certify that:

1. I have reviewed this Annual Report on Form 10-K of Carver Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2023

/s/ Michael T. Pugh

Michael T. Pugh

President and Chief Executive Officer

CERTIFICATIONS

I, Christina L. Maier, certify that:

1. I have reviewed this Annual Report on Form 10-K of Carver Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2023

/s/ Christina L. Maier

Christina L. Maier

First Senior Vice President and Chief Financial Officer

CERTIFICATION FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350

The undersigned, Michael T. Pugh, is the President and Chief Executive Officer of Carver Bancorp, Inc. (the “Company”).

This certification is being furnished in connection with the filing by the Company of the Company's Annual Report on Form 10-K for the year ended March 31, 2023 (the “Report”).

I certify that:

- a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

Date: June 29, 2023

/s/ Michael T. Pugh

Michael T. Pugh

President and Chief Executive Officer

CERTIFICATION FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350

The undersigned, Christina L. Maier, is the First Senior Vice President and Chief Financial Officer of Carver Bancorp, Inc. (the "Company").

This certification is being furnished in connection with the filing by the Company of the Company's Annual Report on Form 10-K for the year ended March 31, 2023 (the "Report").

By execution of this statement, I certify that:

- a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

Date: June 29, 2023

/s/ Christina L. Maier

Christina L. Maier

First Senior Vice President and Chief Financial Officer

DESCRIPTION OF CARVER BANCORP, INC. SECURITIES

As of March 31, 2023, the common stock of Carver Bancorp, Inc. (the "Company") is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The summary of the general terms and provisions of the Company's capital stock registered under Section 12(b) set forth below does not purport to be complete and is subject to and qualified by reference to the Company's Certificate of Incorporation, as amended (the "Certificate") and Bylaws (as amended, the "Bylaws," and together with the Certificate, the "Charter Documents"), each of which is incorporated by reference as an exhibit to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission of which this Exhibit is a part. For additional information, please read the Company's Charter Documents and the applicable provisions of the Delaware General Corporation Law (as amended from time to time, the "DGCL").

Common Stock

General

We are currently authorized to issue 10,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock"), and 2,000,000 shares of preferred stock, par value \$0.01 per share. The Common Stock is listed on NASDAQ under the symbol "CARV."

Voting

Our stockholders of record are entitled to one vote for each share held on all matters to be voted on by stockholders, except that if any stockholder holds more than 10% of our outstanding voting stock, that stockholder is entitled to only 1/100 of a vote for each share held in excess of 10% of our outstanding voting stock.

Dividends

The payment of dividends is within the discretion of our board of directors, subject to applicable regulatory restrictions. On October 29, 2010, our board of directors announced that, based on highly uncertain economic conditions and the desire to preserve capital, the Company was suspending payment of the quarterly cash dividend on the Common Stock. Additionally, there are limitations imposed on the Company by board resolutions which require, among other things, written approval of the Federal Reserve Bank prior to the declaration or payment of dividends, any increase in debt by the Company, or the redemption of Company common stock, and the effect on operations resulting from such limitations. We may not pay any dividends on our Common Stock if we do not simultaneously pay equivalent dividends on all outstanding shares of preferred stock.

Other Rights

Our stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Common Stock. If we liquidate, dissolve or wind up our affairs, common stockholders are entitled to share proportionately in the assets available for distribution to common stockholders. All of the outstanding shares of Common Stock are fully paid and non-assessable.

Preferred Stock

Our Certificate permits us to issue up to 2,000,000 shares of one or more series of preferred stock and authorize our board of directors to designate the preferences, limitations and relative rights of any such series of preferred stock. We have 13,201 shares of Series D Convertible Non-Cumulative Non-Voting Participating Preferred Stock (the "Series D Preferred Stock") that are issued and outstanding, 3,177 shares of Series E Non-Cumulative Non-Voting Participating Preferred Stock (the "Series E Preferred Stock") that are issued and outstanding, and 9,000 shares of Series F Non-Cumulative Non-Voting Participating Preferred Stock (the "Series F Preferred Stock") that are issued and outstanding. Our Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock are not registered under Section 12 of the Exchange Act.

Although the creation and authorization of preferred stock does not, in and of itself, have any effect on the rights of the holders of our Common Stock, the issuance of one or more series of preferred stock may affect the holders of Common Stock in a number of respects, including the following: by subordinating our common stock to the preferred stock with respect to dividend rights, liquidation preferences, and other rights, preferences, and privileges; by diluting the voting power of our Common Stock; by diluting the earnings per share of our Common Stock; and by issuing Common Stock, upon the conversion of the

preferred stock, at a price below the fair market value or original issue price of the Common Stock that is outstanding prior to such issuance.

Anti-Takeover Provisions

Our Certificate provides for a classified board of directors serving staggered three-year terms, which may make it more difficult for stockholders to elect a majority to our board of directors. In addition, directors may not be removed by stockholders except for cause and only upon the approval of 80% of the total votes eligible to be cast. Our Certificate also provides that a stockholder who owns more than 10% of our outstanding voting stock is entitled to cast 1/100th of a vote with respect to each such share held in excess of 10% of our outstanding voting stock.

We are prohibited, under certain circumstances, from engaging in a “business combination” with:

- a stockholder who owns 10% or more of our outstanding voting stock (otherwise known as an “interested stockholder”);
- an affiliate of an interested stockholder; or
- an associate of an interested stockholder,

for two years following the date that the stockholder became an interested stockholder. A “business combination” includes a merger or sale of more than 5% of our assets. However, the above provisions do not apply if:

- the business combination is approved by our stockholders by an affirmative vote of at least 80% of the total votes eligible to be cast and by at least 50% of the total number of votes eligible to be cast by persons other than the interested stockholder and affiliates and associates of the interested stockholder; or
- the business combination is approved by a majority of directors who are not affiliates of, associates of, or otherwise affiliated with the interested stockholder and who were members of the board of directors prior to the time that the interested stockholder became an interested stockholder (or who were recommended by a majority of such directors in office at the time of their nominations), and the business combination satisfies certain requirements as to the fairness of consideration to stockholders other than the interested stockholder.

These provisions of our Certificate could prohibit or delay mergers or other change in control attempts, and thus may discourage attempts to acquire us. Furthermore, because we are a savings and loan holding company, any transaction involving a change of control is subject to regulatory review and approval.

SECOND AMENDED AND RESTATED BYLAWS
OF
CARVER BANCORP, INC.

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ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of Carver Bancorp, Inc. (the “Corporation”) in the State of Delaware shall be in the City of Wilmington, County of New Castle.

Section 2. Additional Offices. The Corporation may also have offices and places of business at such other places, within or without the State of Delaware, as the Board of Directors (the “Board”) may from time to time designate or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS

Section 1. Place of Meetings. Meetings of stockholders of the Corporation shall be held at such place, within or without the State of Delaware, as may be fixed by the Board and designated in the notice of meeting. If no place is so fixed, they shall be held at the principal administrative office of the Corporation.

Section 2. Annual Meetings. The annual meeting of stockholders of the Corporation for the election of directors and the transaction of any other business which may properly come before such meeting shall be held each year on a date and at a time to be designated by the Board.

Section 3. Special Meetings. Special meetings of stockholders, for any purpose, may be called at any time only by the Chairman of the Board, the President and Chief Executive Officer or by resolution of at least three-fourths of the directors then in office. Special meetings shall be held on the date and at the time and place as may be designated by the Board. At a special meeting, no business shall be transacted and no corporate action shall be taken other than that stated in the notice of meeting.

Section 4. Notice of Meetings. Except as otherwise required by law, written notice stating the place, date and hour of any meeting of stockholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered to each stockholder of record entitled to vote at such meeting, either personally or by mail not less than ten (10) nor more than sixty (60) days before the date of such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the U.S. mail, with postage thereon prepaid, addressed to the stockholder at his or her address as it appears on the stock transfer books or records of the Corporation as of the record date prescribed in Section 6 of this Article II, or at such other address as the stockholder shall have furnished in writing to the Secretary. Notice of any special meeting shall indicate that the notice is being issued by or at the direction of the person or persons calling such meeting. When any meeting of stockholders, either annual or special, is adjourned to another time or place, no notice of the adjourned meeting need be

given, other than an announcement at the meeting at which such adjournment is taken giving the time and place to which the meeting is adjourned; provided, however, that if the adjournment is for more than thirty (30) days, or if after adjournment, the Board fixes a new record dated for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. Waiver of Notice. Notice of any annual or special meeting need not be given to any stockholder who submits a signed waiver of notice of any meeting, in person or by proxy or by his or her duly authorized attorney-in-fact, whether before or after the meeting. The attendance of any stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice by such stockholder, except where a stockholder attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 6. Fixing of Record Date. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or stockholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose, the Board shall fix a date as the record date for any such determination of stockholders, which date shall not precede the date upon which the resolution fixing the record date is adopted by the Board. Such date in any case shall be not more than sixty (60) days and, in the case of a meeting of stockholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of stockholders is to be taken. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this Section 6, such determination shall, unless otherwise provided by the Board, also apply to any adjournment thereof. If no record date is fixed, (a) the record date for determining stockholders entitled to notice of or vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which the notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (b) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 7. Quorum. The holders of record of a majority of the total number of votes eligible to be cast in the election of directors generally by the holders of the outstanding shares of the capital stock of the Corporation entitled to vote thereat, represented in person or by proxy, shall constitute a quorum for the transaction of business at a meeting of stockholders, except as otherwise provided by law, these Bylaws or the Certificate of Incorporation. If less than a majority of such total number of votes are represented at a meeting, a majority of the number of votes so represented may adjourn the meeting from time to time without further notice, *provided*, that if such adjournment is for more than thirty days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally called. When a quorum is once present to organize a meeting of stockholders, such quorum is not broken by the subsequent withdrawal of any stockholders.

Section 8. Conduct of Meetings. The Chairman of the Board shall serve as chairman at all meetings of the stockholders. If the Chairman of the Board is absent or otherwise unable to so serve, the President and Chief Executive Officer shall serve as chairman at any meeting of stockholders held in such absence. If both the Chairman of the Board and the President and Chief Executive Officer are absent or otherwise unable to serve, such other person as shall be appointed by the Board of Directors shall serve as chairman at any meeting of stockholders held in such absence. The Secretary or, in his or her absence, such other person as the chairman of the meeting shall appoint, shall serve as secretary of the meeting. The chairman of the meeting shall conduct all meetings of the stockholders in accordance with the best interests of the Corporation and shall have the authority and discretion to establish reasonable procedural rules for the conduct of such meetings, including such regulation of the manner of voting and the conduct of discussion as he or she shall deem appropriate.

Section 9. Voting; Proxies. Each stockholder entitled to vote at any meeting may vote either in person or by proxy. Unless otherwise specified in the Certificate of Incorporation or in a resolution, or resolutions, of the Board providing for the issuance of preferred stock, each stockholder entitled to vote shall be entitled to one vote for each share of capital stock registered in his or her name on the transfer books or records of the Corporation. Each stockholder entitled to vote may authorize another person or persons to act for him or her by proxy. All proxies shall be in writing, signed by the stockholder or by his or her duly authorized attorney-in-fact, and shall be filed with the Secretary before being voted. No proxy shall be valid after three (3) years from the date of its execution unless otherwise provided in the proxy. The attendance at any meeting by a stockholder who shall have previously given a proxy applicable thereto shall not, as such, have the effect of revoking the proxy. The Corporation may treat any duly executed proxy as not revoked and in full force and effect until it receives a duly executed instrument revoking it, or a duly executed proxy bearing a later date. If ownership of a share of voting stock of the Corporation stands in the name of two or more persons, in the absence of written directions to the Corporation to the contrary, any one or more of such stockholders may cast all votes to which such ownership is entitled. If an attempt is made to cast conflicting votes by the several persons in whose names shares of stock stand, the vote or votes to which those persons are entitled shall be cast as directed by a majority of those holding such stock and present at such meeting. If such conflicting votes are evenly split on any particular matter, each faction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by the Court. Except for the election of directors or as otherwise provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of stockholders, all matters shall be determined by a vote of the holders of a majority of the number of votes eligible to be cast by the holders of the outstanding shares of capital stock of the Corporation present and entitled to vote thereat. Directors shall, except as otherwise required by law, these Bylaws or the Certificate of Incorporation, be elected by a plurality of the votes cast by each class of shares entitled to vote at a meeting of stockholders, present and entitled to vote in the election.

Section 10. Inspectors of Election. In advance of any meeting of stockholders, the Board shall appoint one or more persons, other than officers, directors or nominees for office, as inspectors of election to act at such meeting or any adjournment thereof. Such appointment shall not be altered at the meeting. If inspectors of election are not so appointed, the chairman of the meeting shall make such appointment at the meeting. If any person appointed as inspector fails to appear or fails or refuses to act at the meeting, the vacancy so created may be filled by the appointment by the Board in advance of the meeting or at the meeting by the chairman of the meeting. The duties of the inspectors of the elections shall include determining the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, receiving votes, ballots or consents, hearing and deciding all challenges and questions arising in connection with the right to vote, counting and tabulating all votes, ballots or consents, determining the results, and doing such acts as are proper to the conduct of the election or the vote with fairness to all stockholders. Any report or certificate made by them shall be *prima facie* evidence of the facts stated and of the vote as certified by them. Each inspector shall be entitled to a reasonable compensation for his or her services, to be paid by the Corporation.

Section 11. Procedure for Nominations. Subject to the provisions hereof, the Nominating/Corporate Governance Committee of the Board shall select nominees for election as directors. Except in the case of a nominee substituted as a result of the death, incapacity, withdrawal or other inability to serve of a nominee, the Nominating/Corporate Governance Committee shall deliver written nominations to the Secretary at least sixty (60) days prior to the date of the annual meeting. Provided the Nominating/Corporate Governance Committee makes such nominations, no nominations for directors except those made by the Nominating/Corporate Governance Committee shall be voted upon at the annual meeting of stockholders unless other nominations by stockholders are made in accordance with the provisions of this Section 11. Nominations of individuals for election to the Board at a meeting of stockholders may be made by any stockholder of record of the Corporation entitled to vote for the election of directors at such meeting who provides timely notice in writing to the Secretary as set forth in this Section 11. To be timely, a stockholder's notice must be delivered to or received by the Secretary not later than the following dates: (i) with respect to an election of directors to be held at an annual meeting of stockholders, sixty (60) days in advance of such meeting if such meeting is to be held on a day which is within thirty (30) days preceding the anniversary of the previous year's annual meeting, or ninety (90) days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (ii) with respect to an election to be held at an annual meeting of stockholders held at a time other than within the time periods set forth in the immediately held clause (i), or at a special meeting of stockholders for the election of directors, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. For purposes of this Section 11, notice shall be deemed to first be given to stockholders when disclosure of such date of the meeting of stockholders is first made in a press release reported to Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or

employment of such person, (iii) such person's written consent to serve as a director, if elected, and (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not the Corporation is then subject to such rules); and (b) as to the stockholder giving the notice (i) the name and address of such stockholder, (ii) the class and number of shares of the Corporation which are owned of record by such stockholder and the dates upon which he or she acquired such shares, (iii) a description of all arrangement or understandings between the stockholder and nominee and any other person or persons (naming such person or person) pursuant to which the nominations are to be made by the stockholder, and (4) the identification of any person employed, retained, or to be compensated by the stockholder submitting the nomination or by the person nominated, or any person acting on his or her behalf to make solicitations or recommendations to stockholders for the purpose of assisting in the election of such director, and a brief description of the terms of such employment, retainer or arrangement for compensation. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the Secretary that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee together with the required written consent. No person shall be elected as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 11.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly brought before the meeting in accordance with the provisions hereof and, if he or she should so determine, he or she shall declare to the meeting that such nomination was not properly brought before the meeting and shall not be considered.

Section 12. Substitution of Nominees. In the event that a person is validly designated as a nominee in accordance with Section 11 of this Article II and shall thereafter becoming unwilling or unable to stand for election to the Board, the Nominating/Corporate Governance Committee may designate a substitute nominee upon delivery, not fewer than five (5) days prior to the date of the meeting for the election of such nominee, of a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to Section 11 of this Article II had such substitute nominee been initially proposed as a nominee. Such notice shall include a signed consent to serve as a director of the Corporation, if elected, of each substituted nominee.

Section 13. New Business. Any new business to be taken up at the annual meeting at the request of the Chairman of the Board, the President and Chief Executive Officer or by resolution of at least three-fourths of the directors then in office shall be stated in writing and filed with the Secretary at least fifteen (15) days before the date of the annual meeting, and all business so stated, proposed and filed shall be considered at the annual meeting, but, except as provided in this Section 13, no other proposal shall be acted upon at the annual meeting. Any proposal offered by any stockholder may be made at the annual meeting and the same may be discussed and considered, but unless properly brought before the meeting such proposal shall not be acted upon at the meeting. For a proposal to be properly brought before an annual meeting by a stockholder, the stockholder must be a stockholder of record and have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or received by the Secretary not later than the following dates: (i) with respect to an annual meeting

of stockholders, sixty (60) days in advance of such meeting if such meeting is to be held on a day which is within thirty (30) days preceding the anniversary of the previous year's annual meeting, or ninety (90) days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (ii) with respect to an annual meeting of stockholders held at a time other than within the time periods set forth in the immediately preceding clause (i), the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. For purposes of this Section 13, notice shall be deemed to first be given to stockholders when disclosure of such date of the meeting of stockholders is first made in a press release reported to Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended. A stockholder's notice to the Secretary shall set forth as to the matter the stockholder proposes to bring before the annual meeting (a) a brief description of the proposal desired to be brought before the annual meeting; (b) the name and address of the stockholder proposing such business; (c) the class and number of shares of the Corporation which are owned of record by the stockholder and the dates upon which he or she acquired such shares; (d) the identification of any person employed, retained, or to be compensated by the stockholder submitting the proposal, or any person acting on his or her behalf, to make solicitations or recommendations to stockholders for the purpose of assisting in the passage of such proposal, and a brief description of the terms of such employment, retainer or arrangement for compensation; and (e) such other information regarding such proposal as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission or required to be delivered to the Corporation pursuant to the proxy rules of the Securities and Exchange Commission (whether or not the Corporation is then subject to such rules). This provision shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors and committees of the Board or the management of the Corporation, but in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as herein provided. This provision shall not constitute a waiver of any right of the Corporation under the proxy rules of the Securities and Exchange Commission or any other rule or regulation to omit a stockholder's proposal from the Corporation's proxy materials.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that any new business was not properly brought before the meeting in accordance with the provisions hereof and, if he or she should so determine, he or she shall declare to the meeting that such new business was not properly brought before the meeting and shall not be considered.

ARTICLE III

CAPITAL STOCK

Section 1. Certificates of Stock. Shares of capital stock of the Company may be certificated or uncertificated, as provided under the General Corporation Law of the State of Delaware, and shall be entered in the books of the Company and registered as they are issued. Certificates representing shares of stock shall be in such form as shall be determined by the

Board. Each certificate shall state that the Corporation will furnish to any stockholder upon request and without charge a statement of the powers, designations, preferences and relative, participating, optional or other special rights of the shares of each class or series of stock and the qualifications or restrictions of such preferences and/or rights, or shall set forth such statement on the certificate itself. The certificates shall be numbered in the order of their issue and entered in the books of the Corporation or its transfer agent or agents as they are issued. Each certificate shall state the registered holder's name and the number and class of shares, and shall be signed by the Chairman of the Board or the President and Chief Executive Officer, and the Secretary or any Assistant Secretary, and may, but need not, bear the seal of the Corporation or a facsimile thereof. Any or all of the signatures on the certificates may be facsimiles. In case any officer who shall have signed any such certificate shall cease to be such officer of the Corporation, whether because of death, resignation or otherwise, before such certificate shall have been delivered by the Corporation, such certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates had not ceased to be such officer or officers of the Corporation.

Section 2. Transfer Agent and Registrar. The Board shall have the power to appoint one or more Transfer Agents and Registrars for the transfer and registration of certificates of stock of any class, and may require that stock certificates be countersigned and registered by one or more of such Transfer Agents and Registrars.

Section 3. Registration and Transfer of Shares. Subject to the provisions of the Certificate of Incorporation of the Corporation, the name of each person owning a share of the capital stock of the Corporation shall be entered on the books of the Corporation together with the number of shares held by him or her, the numbers of the certificates covering such shares and the dates of issue of such certificates. Subject to the provisions of the Certificate of Incorporation of the Corporation, the shares of stock of the Corporation shall be transferable on the books of the Corporation by the holders thereof in person, or by their duly authorized attorney or legal representatives, on surrender and cancellation of certificates for a like number of shares, accompanied by an assignment or power of transfer endorsed thereon or attached thereto, duly executed, with such guarantee or proof of the authenticity of the signature as the Corporation or its agents may reasonably require and with proper evidence of payment of any applicable transfer taxes. If shares of stock to be transferred are uncertificated, such stock will be transferred upon proper instructions from the holder of such stock and in accordance with such other rules as the Board may impose. In each case, instructions for the transfer of shares of stock will be accompanied by such proof of authenticity of signature as the Board or transfer agent of the Corporation may reasonably require.

Subject to the provisions of the Certificate of Incorporation of the Corporation, a record shall be made of each transfer.

Section 4. Lost, Destroyed and Mutilated Certificates. The holder of any shares of stock of the Corporation represented by certificates shall immediately notify the Corporation of any loss, theft, destruction or mutilation of the certificates thereof. The Corporation may issue, or cause to be issued, a new certificate of stock in the place of any certificate theretofore issued by it alleged to have been lost, stolen or destroyed upon evidence satisfactory to the Corporation of

the loss, theft or destruction of the certificate, and in the case of mutilation, the surrender of the mutilated certificate. The Corporation may, in its discretion, require the owner of the lost, stolen or destroyed certificate, or his or her legal representatives, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft, destruction or mutilation of any such certificate and the issuance of such new certificate, or may refer such owner to such remedy or remedies as he or she may have under the laws of the State of Delaware.

Section 5. Holder of Record. Subject to the provisions of the Certificate of Incorporation of the Corporation, the Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder thereof in fact and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. Responsibilities; Number of Directors. The business and affairs of the Corporation shall be under the direction of the Board. The Board shall consist of not less than five (5) nor more than fifteen (15) directors. Within the foregoing limits, the number of directors shall be determined only by resolution of the Board. A minimum of three (3) directors shall be persons other than officers or employees of the Corporation or its subsidiaries and shall not have a relationship which, in the opinion of the Board (exclusive of such persons), could interfere with the exercise of independent judgment in carrying out the responsibilities of a director. No more than two directors shall be officers or employees of the Corporation or its subsidiaries.

Section 2. Qualifications.

(a). Each director shall be at least eighteen (18) years of age.

(b). No person shall be eligible for election or appointment to the Board of Directors: (i) if a financial or securities regulatory agency or financial or securities self-regulatory agency, has, within the past ten years, issued a cease and desist, consent or other formal order against such person, which order is subject to public disclosure by such agency, including but not limited to an order related to the settlement of charges; (ii) if such person has been convicted of a crime involving dishonesty or breach of trust which is punishable by imprisonment for a term exceeding one year under state or federal law; or (iii) if such person is currently charged in any information, indictment, or other complaint with the commission of or participation in such a crime. No person may serve on the Board of Directors if such person is: (u) at the same time, a director, officer, employee or 10% or more stockholder of a bank, savings institution, credit union, mortgage banking company, consumer loan company or similar organization, other than a subsidiary of the Corporation, that engages in financial services related business activities or solicits customers, whether through a physical presence or electronically, in the same market area as the Corporation or any of its subsidiaries; (v) does not agree in writing to comply with all of the Corporation's policies applicable to directors including but not limited to its confidentiality policy and confirm in writing his or her qualifications hereunder; (w) is a party to any agreement, understanding or arrangement with a party other than the Corporation or a subsidiary that (1) provides him or her with material benefits which are tied to or contingent on the Corporation entering into a merger, sale of control or similar transaction in which it is not the surviving institution, (2) materially limits his or her voting discretion as a member of the Board of Directors of the Corporation, or (3) materially impairs his or her ability to discharge his or her fiduciary duties with respect to the fundamental strategic direction of the Corporation; (x) has lost more than one election for service

as a director of the Corporation; (y) is the representative or agent of, or a member of a group acting in concert that includes, a person who is ineligible for election or appointment to the Board of Directors under this Section 2; or (z) is the nominee or representative, as that term is defined in the regulations of the Board of Governors of the Federal Reserve System, 12 C.F.R §212.2(n) or any successor provision, of a company of which any of the directors, partners, trustees or 10% stockholders would not be eligible for election or appointment to the Board of Directors under this Section 2. For purposes of this Section, a person shall be deemed to be acting in concert with another person if such person knowingly acts toward a common goal relating to the management, governance or control of the Corporation in parallel with such other person and there are overt actions by, or communications between, such persons reasonably suggesting that they are coordinating their efforts toward such common goal or if such persons are acting in concert within the meaning of 12 C.F.R. §238.31 or any successor provision.

(c). The Board of Directors shall have the power to construe and apply the provisions of this Section 2 and to make all determinations necessary or desirable to implement such provisions, including but not limited to determinations as to whether a person is a nominee or representative of a person, a company or a group, whether a person or company is included in a group, and whether a person is the representative, agent or nominee of a group acting in concert.

Section 3. Regular and Annual Meetings. An annual meeting of the Board for the election of officers shall be held, without notice other than these Bylaws, immediately after, and at the same place as, the annual meeting of the stockholders, or, with notice, at such other time or place as the Board may fix by resolution. The Board may provide, by resolution, the time and place, within or without the State of Delaware, for the holding of regular meetings of the Board without notice other than such resolution.

Section 4. Special Meetings. Special meetings of the Board may be called for any purpose at any time by or at the request of the Chairman of the Board or the President and Chief Executive Officer. Special meetings of the Board shall also be called by the Secretary upon the written request, stating the purpose or the purposes of the meeting, of at least sixty percent (60%) of the directors then in office, but in any event not less than (5) directors. The persons authorized to call special meetings of the Board shall give notice of such meetings in the manner prescribed by these Bylaws and may fix any place, within or without the Corporation's regular business area, as the place for holding any special meeting of the Board called by such persons.

No business shall be conducted at a special meeting other than that specified in the notice of meeting.

Section 5. Notice of Meetings; Waiver of Notice. Except as otherwise provide in Section 4 of this Article IV, at least twenty-four (24) hours notice of meetings shall be given to each director if given in person, by same-day courier or by telephone, telegraph, telex, facsimile or other electronic transmission and at least five (5) days notice of meetings shall be given if given in writing and delivered by courier (other than same-day) or by postage prepaid mail. The purpose of any special meeting shall be stated in the notice. Such notice shall be deemed given when sent or given to any mail or courier service (other than same-day) or company providing electronic transmission service. Any director may waive notice of any meeting by submitting a signed waiver of notice with the Secretary, whether before or after the meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 6. Conduct of Meetings. Meetings of the Board shall be presided over by the Chairman of the Board or such other director or officer as the Chairman of the Board shall designate, and in the absence or incapacity of the Chairman of the Board, the presiding officer shall be the President and Chief Executive Officer. In the absence or disability of both the Chairman of the Board and the President and Chief Executive Officer, a majority of the entire Board shall designate a director or officer who shall preside over meetings of the Board. The Secretary or, in his or her absence, a person appointed by the Chairman of the Board (or other presiding person), shall act as secretary of the meeting. The Chairman of the Board (or other person presiding) shall conduct all meetings of the Board in accordance with the best interests of the Corporation and shall have the authority and discretion to establish reasonable procedural rules for the conduct of Board meetings. At the discretion of the Chairman of the Board, any one or more directors may participate in a meeting of the Board or a committee of the Board by means of a conference telephone or similar communications equipment allowing all person participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at any such meeting.

Section 7. Quorum and Voting Requirements. A quorum at any meeting of the Board shall consist of not less than a majority of the directors then in office or such greater number as shall be required by law, these Bylaws or Certificate of Incorporation, but not less than one-third (1/3) of the total number. If less than a required quorum is present, the majority of those directors present shall adjourn the meeting to another time and place without further notice. At such adjourned meeting at which a quorum shall be represented, any business may be transacted that might have been transacted at the meeting as originally noticed. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, a majority vote of the directors present at a meeting, if a quorum is present, shall constitute an act of the Board.

Section 8. Informal Action by Directors. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto

in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or such committee.

Section 9. Resignation. Any director may resign at any time by sending a written notice of such resignation to the principal office of the Corporation addressed to the Chairman of the Board or the President and Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon receipt thereof.

Section 10. Vacancies. To the extent not inconsistent with the Certificate of Incorporation and subject to the limitations prescribed by law and the rights of holders of Preferred Stock, vacancies in the office of director, including vacancies created by newly created directorships resulting from an increase in the number of directors, shall be filled only by a vote of a majority of the directors then holding office, whether or not a quorum, at any regular or special meeting of the Board called for that purpose. Subject to the rights of holders of Preferred Stock, no person shall be so elected a director unless nominated by the Nominating/Corporate Governance Committee. Subject to the rights of holders of Preferred Stock, any director so elected shall serve for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until his or her successor shall be elected and qualified.

Section 11. Compensation. From time to time, as the Board deems necessary, the Board shall fix the compensation of directors and officers of the Corporation in such one or more forms as the Board may determine.

Section 12. Amendments Concerning the Board. The number of directors and other restrictions and qualifications for directors of the Corporation as set forth in these Bylaws may be altered only by a vote, in addition to any vote required by law, of two-thirds of the entire Board or by the affirmative vote of the holders of record of not less than eighty percent (80%) of the total votes eligible to be cast by holders of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors at a meeting of the stockholders for that purpose.

ARTICLE V

COMMITTEES

Section 1. Standing Committees. At each annual meeting of the Board, upon recommendation by the Chairman of the Board, the directors shall designate from their own number, by resolution, the following committees:

- (a) Executive Committee
- (b) Finance and Audit Committee
- (c) Compensation Committee
- (d) Nominating/Corporate Governance Committee

(e) Asset Liability and Interest Rate Risk Committee

which shall be standing committees of the Board. The Chairman of the Board shall appoint a director to fill any vacancy on any committee of the Board. The members of the committees shall serve at the pleasure of the Board.

Section 2. Executive Committee. There shall be an Executive Committee of the Board, consisting of at least four (4) members, as shall be appointed by Board resolution or these Bylaws. The President and Chief Executive Officer and the Secretary shall be ex-officio members of the Executive Committee, with power to vote on all matters so long as they are also directors of the Corporation. Three (3) members of the Executive Committee, at least two (2) of whom must be non-officer directors, or such other number of members as the Board of Directors may establish by resolution, shall constitute a quorum for the transaction of business. The vote of a majority of members present at any meeting including the presiding member, who shall be eligible to vote, shall constitute the action of the Executive Committee.

The President and Chief Executive Officer shall serve as chairman of the Executive Committee, so long as he or she is a director. In the absence of the chairman of the Executive Committee, the committee shall designate, from among its membership present, a person to preside at any meeting held in such absence. The Executive Committee shall designate, from its membership or otherwise, a secretary who shall report to the Board at its next regular meeting all proceedings and actions taken by the Executive Committee. The Executive Committee shall meet as necessary at the call of the Chairman of the Board, the President and Chief Executive Officer or at the call of a majority of the members of the Executive Committee.

The Executive Committee shall, to the extent not inconsistent with law, these Bylaws, the Certificate of Incorporation, and resolutions adopted by the Board, exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation in the intervals between the meetings of the Board.

Section 3. Finance and Audit Committee. The Finance and Audit Committee shall consist of at least three (3) members whose background and experience are financial and/or business management related, none of whom shall be an officer or salaried employee of the Corporation or its subsidiaries, an attorney who receives a fee or other compensation for legal services rendered to the Corporation or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. At any regular meeting of the Board, any director who is otherwise eligible to serve on the Finance and Audit Committee may be elected to fill a vacancy that has occurred on the Finance and Audit Committee. The Chairman of the Board shall designate one member of the committee to serve as chairman of the committee.

The Finance and Audit Committee shall meet at least four times annually, at the call of the chairman of the committee and may hold such additional meetings as the chairman of the committee may deem necessary, to examine, or cause to be examined, the records and affairs of the Corporation to determine its true financial condition, and shall present a report of

examination to the Board at the Board's next regular meeting following the meeting of the Finance and Audit Committee. The committee shall have such other duties and responsibilities as are set forth in a written charter adopted by the Board. The committee shall appoint, from its membership or otherwise, a secretary who shall cause to be kept written minutes of all meetings of the committee. A quorum shall consist of at least one-third of the members of the committee, and in no event less than three (3) members of the committee. The vote of a majority of members present at any meeting including the presiding member, who shall be eligible to vote, shall constitute the action of the Finance and Audit Committee.

The Finance and Audit Committee shall make, or cause to be made, such other examinations as it may deem advisable or whenever so directed by the Board and shall report thereon in writing at a regular meeting of the Board. The Finance and Audit Committee shall employ accountants and independent auditors and arrange for such other assistance as it may deem necessary or desirable. The Finance and Audit committee shall review and evaluate the procedures and performance of the Corporation's internal auditing staff.

Section 4. Compensation Committee. The Compensation Committee shall consist of at least two (2) members, none of whom shall be an officer or salaried employee of the Corporation or its subsidiaries as shall be appointed by Board resolution or these Bylaws. The Chairman of the Board shall designate one member of the committee to serve as chairman of the Compensation Committee, who shall have the authority to adopt and establish procedural rules for the conduct of all meetings of the committee.

The committee shall meet annually at the call of the chairman of the committee, and may hold such additional meetings as the Chairman of the Board may deem necessary. A quorum shall consist of at least one-third of the voting members of the Committee, and in no event less than two (2) voting members of the committee. The vote of a majority of the voting members present at any meeting, including the chairman of the committee who shall be eligible to vote, shall constitute the action of the Compensation Committee. The committee shall appoint, from its membership or otherwise, a secretary who shall cause to be kept written minutes of the committee.

The Compensation Committee shall be responsible for overseeing the development, implementation and conduct of the Corporation's employment and personnel policies, notices and procedures, including the administration of the Corporation's compensation and benefit programs, and shall have such other duties and responsibilities as are set forth in a written charter adopted by the Board.

Section 5. Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee shall consist of at least two (2) members, none of whom shall be an officer or salaried employee of the Corporation or its subsidiaries as shall be appointed by Board resolutions or these Bylaws. Notwithstanding the foregoing, no director shall serve on the Nominating/Corporate Governance Committee in any capacity in any year during which such director's term as a director is scheduled to expire. A quorum shall consist of at least one-third of the members of the Committee, and in no event less than two (2) members of the committee. The vote of a majority of members present at any meeting including the presiding

member, who shall be eligible to vote, shall constitute the action of the Nominating/Corporate Governance Committee.

The Nominating/Corporate Governance Committee shall review qualifications of and interview candidates for the Board, shall make nominations for election of board members in accordance with the provisions of these Bylaws, in relation to those nominations, to the Board, and shall have such other duties and responsibilities as are set forth in a written charter adopted by the Board. The Chairman of the Board shall designate one member of the Committee to serve as chairman of the Nominating/Corporate Governance Committee.

Section 6. Asset Liability and Interest Rate Risk Committee. The Asset Liability and Interest Rate Risk Committee shall consist of at least three (3) members, as shall be appointed by Board resolutions or these Bylaws. At any regular meeting of the Board, any director who is otherwise eligible to serve on the Asset Liability and Interest Rate Risk Committee may be elected to fill a vacancy that has occurred on the Asset Liability and Interest Rate Risk Committee. The Chairman of the Board shall designate one member of the committee to serve as chairman of the committee.

The Asset Liability and Interest Rate Risk Committee shall meet annually, at the call of the chairman of the committee and may hold such additional meetings as the chairman of the committee may deem necessary, to examine, or cause to be examined, the records and affairs of the Corporation to review and monitor its activities relating to asset/liability management and interest rate risk, and shall present a report of examination to the Board at the Board's next regular meeting following the meeting of the Asset Liability and Interest Rate Risk Committee. The committee shall have such other duties and responsibilities as are set forth in the Asset/Liability Management and Interest Rate Risk Policy as adopted by the Board. The committee shall appoint, from its membership or otherwise, a secretary who shall cause to be kept written minutes of all meetings of the committee. A quorum shall consist of at least one-third of the members of the committee, and in no event less than three (3) members of the committee. The vote of a majority of members present at any meeting including the presiding member, who shall be eligible to vote, shall constitute the action of the Asset Liability and Interest Rate Risk Committee.

Section 7. Other Committees. The Board may by resolution authorize such other committees as from time to time it may deem necessary or appropriate for the conduct of the business of the Corporation. The members of each committee so authorized shall be appointed by the Board from members of the Board and/or employees of the Corporation. In addition, the President and Chief Executive Officer and the Secretary (so long as the Secretary is also a director of the Corporation) shall be ex-officio members of each such committee. Each such committee shall exercise such powers as may be assigned by the Board to the extent not inconsistent with law, these Bylaws, the Certificate of Incorporation, or resolutions of the Board.

ARTICLE VI

OFFICERS

Section 1. Number. The Board shall, at each annual meeting, elect a Chairman of the Board, a President and Chief Executive Officer, a Secretary and may elect a Vice Chairman and such other officers of the Board from time to time may deem necessary or the business of the Corporation may require. Any number of offices may be held by the same person except that no person may simultaneously hold the offices of President and Chief Executive Officer and Secretary.

The election of all officers shall be by a majority of the directors then in office. If such election is not held at the meeting held annually for the election of officers, such officers may be so elected at any subsequent regular meeting or at a special meeting called for that purpose, in the same manner above provided. Each person elected shall have such authority, bear such title and perform such duties as provided in these Bylaws and as the Board may prescribe from time to time. All officers elected or appointed by the Board shall assume their duties immediately upon their election and shall hold office at the pleasure of the Board. Whenever a vacancy occurs among the officers, it may be filled at any regular or special meeting called for that purpose, in the same manner as above provided.

Section 2. Term of Office and Removal. Each officer shall serve until his or her successor is elected and duly qualified, the office is abolished, or he or she is removed. Except for the Chairman of the Board, the President and the Chief Executive Officer, any officer may be removed at any regular meeting of the Board with or without cause by an affirmative vote of a majority of the directors then in office. The Board may remove the Chairman of the Board or the President and Chief Executive Officer at any time, with or without cause, only by a vote of two-thirds of the non-officer directors then holding office at any regular or special meeting of the Board called for that purpose.

Section 3. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the stockholders; preside at all meetings of the Board; make recommendations to the Board regarding appointments to all committees, including chairmanships; and sign instruments in the name of the Corporation.

In the absence or disability of the Chairman of the Board, the President and Chief Executive Officer shall exercise the powers and perform the duties which otherwise would fall upon the Chairman of the Board. In the absence or disability of both the Chairman of the Board and the President and Chief Executive Officer, a majority of the Board shall designate a person who shall exercise the powers and perform the duties which otherwise would fall upon the Chairman of the Board.

Section 4. President and Chief Executive Officer. The President shall be the Chief Executive Officer of the Corporation and shall, subject to the direction of the Board, oversee all the major activities of the Corporation and its subsidiaries and be responsible for assuring that the policy decisions of the Board are implemented as formulated. The President and Chief

Executive Officer shall be responsible, in consultation with such officers and members of the Board, as he or she deems appropriate, for planning the growth of the Corporation. The President and Chief Executive Officer shall be responsible for stockholder relations and relations with investment bankers or other similar financial institutions, and shall be empowered to designate officers of the Corporation and its subsidiaries to assist in such activities. The President and Chief Executive Officer shall be principally responsible for exploring and reporting to the Board all opportunities for mergers, acquisitions and new business. The President and Chief Executive Officer, under authority given to him or her, shall have the authority to sign instruments in the name of the Corporation. The President and Chief Executive Officer shall have general supervision and direction of all of the Corporation's officers and personnel, subject to and consistent with policies enunciated by the Board. The President and Chief Executive Officer shall have such other powers as may be assigned to him or her by the Board or its committees.

Section 5. Vice Presidents. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents may be appointed by the Board of Directors to perform such duties as may be prescribed by these Bylaws, the Board or the President and Chief Executive Officer as permitted by the Board.

Section 6. Secretary. The Secretary shall attend all meetings of the Board and of the stockholders, and shall record, or cause to be recorded, all votes and minutes of all proceedings of the Board and of the stockholders in a book or books to be kept for that purpose. The Secretary shall perform such executive and administrative duties as may be assigned by the Board, the Chairman of the Board or the President and Chief Executive Officer. The Secretary shall have charge of the seal of the Corporation, shall submit such reports and statements as may be required by law or by the Board, shall conduct all correspondence relating to the Board and its proceedings and shall have such other powers and duties as are generally incident to the office of Secretary and as may be assigned to him or her by the Board, the Chairman of the Board or the President and Chief Executive Officer.

Section 7. Comptroller. The Comptroller shall be the chief accounting officer of the Corporation and shall be responsible for the maintenance of adequate systems and records. The Comptroller shall also be treasurer of the Corporation and shall keep a record of all assets, liabilities, receipts, disbursements, and other financial transactions, and shall see that all expenditures are made in accordance with procedures duly established from time to time by the Board. The Comptroller shall make such reports as may be required by the Board or as are required by law.

Section 8. Other Officers and Employees. Other officers and employees appointed by the Board shall have such authority and shall perform such duties as may be assigned to them, from time to time, by the Board or the President and Chief Executive Officer.

Section 9. Compensation of Officers and Others. The compensation of all officers and employees shall be fixed from time to time by the Board, or by any committee or officer authorized by the Board to do so, upon the recommendation and report by the Compensation Committee. The compensation of agents shall be fixed by the Board, or by any committee or

officer authorized by the Board to do so, upon the recommendation and report of the Compensation Committee.

ARTICLE VII

DIVIDENDS

The Board shall have the power, subject to the provisions of law and the requirements of the Certificate of Incorporation, to declare and pay dividends out of surplus (or, if no surplus exists, out of net profits of the Corporation, for the fiscal year in which the dividend is declared and/or the preceding fiscal year, except where there is an impairment of capital stock), to pay such dividends to the stockholders in cash, in property, or in shares of the capital stock of the Corporation, and to fix the date or dates for the payment of such dividends.

ARTICLE VIII

AMENDMENTS

These Bylaws, except as provided by applicable law or the Certificate of Incorporation, or as otherwise set forth in these Bylaws, may be amended or repealed at any regular meeting of the entire Board by the vote of two-thirds of the Board; provided, however, that (a) a notice specifying the change or amendment shall have been given at a previous regular meeting and entered in the minutes of the Board; (b) a written statement describing the change or amendment shall be made in the notice mailed to the directors of the meeting at which the change or amendment shall be acted upon; and (c) any Bylaw made by the Board may be altered, amended, rescinded, or repealed by the holders of the shares of capital stock entitled to vote thereon at any annual meeting or at any special meeting called for that purpose in accordance with the percentage requirements set forth in the Certificate of Incorporation and/or these Bylaws. Notwithstanding the foregoing, any provision of these Bylaws that contains a supermajority voting requirement shall only be altered, amended, rescinded, or repealed by a vote of the Board or holders of capital stock entitled to vote thereon that is not less than the supermajority specified in such provision.



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