Risk Factors Comparison 2023-06-29 to 2022-07-14 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

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 $ ~~174~~ **177** . ~~3~~ **7** million, or ~~30~~ **29** . ~~2~~ **9** % of our loan portfolio at March 31, ~~2022~~ **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 ~~Failure to comply with~~ **Any regulatory examination scrutiny or new regulatory requirements arising from** the ~~Formal Agreement~~ **recent events in the banking industry** could ~~adversely~~ **increase the Company' s expenses and** affect ~~our~~ **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 ~~, financial condition~~ and ~~operating results. In May 2016, the Bank entered into a Formal Agreement with the OCC. The Formal Agreement required the Bank to~~ reduce its ~~concentration of commercial real estate~~ **profitability. Among other things, there may be** ~~and~~ - **an** ~~required that~~ **increased focus by both regulators and investors on deposit composition and the level of uninsured deposits. As a result,** the Bank ~~undertake several actions to improve compliance matters and overall profitability. Based on an updated report of examination, the Bank' s CRE concentration was at appropriate levels and there were no issues surrounding any compliance matters. Failure to comply with the Formal Agreement~~ could **face increased scrutiny by regulators** ~~result in additional supervisory and enforcement actions against the Bank, its directors, or senior executive officers, including the issuance of a cease and desist order or the imposition of civil money penalties. The Bank' s compliance efforts may have an~~ **and the investor community** ~~adverse impact on its non-interest expense and net income~~ . 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** ~~In July 2013, the FDIC and the FRB approved a new rule that substantially amended the regulatory~~ **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 ~~rules applicable~~ to ~~the Bank and the Company~~ **risk- based assets ratio of 6** . ~~The final rule implements~~ **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** ~~" Basel III "~~ regulatory capital **requirements,** ~~reforms and changes required by~~ the ~~Dodd~~ **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** - ~~Frank Act. The final rule includes new~~ **weighted assets above the amount necessary to meet its** minimum risk- based capital ~~and leverage ratios, which became effective for the Bank and the Company on January 1, 2015, and refines the definition of what constitutes " capital " for purposes of calculating these ratios. The new minimum capital~~ requirements ~~are: (i) a new common equity Tier 1 capital ratio of 4. 5 %; (ii) a Tier 1 to risk- based assets capital ratio of 6 % (increased from 4 %); (iii) a total capital ratio of 8 % (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4 %. The final rule also established a " capital conservation buffer " of 2. 5 %, and the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7. 0 %; (ii) a Tier 1 to risk- based assets capital ratio of 8. 5 %; and (iii) a total capital ratio of 10. 5 %. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0. 625 % of risk- weighted assets and increased each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions~~ . Regardless of **the federal regulatory**

~~Basel III' s~~ minimum requirements, Carver ~~, as a result of the previously described 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. At March 31, ~~2022~~ **2023** , the Bank' s capital level exceeded the regulatory requirements and its IMCR requirements with a Tier 1 leverage ratio of 10. ~~45~~ **61** %, Common Equity Tier 1 capital ratio of ~~13~~ **12** . ~~75~~ **47** %, Tier 1 risk- based capital ratio of ~~13~~ **12** . ~~75~~ **47** %, and a total risk- based capital ratio of ~~14~~ **13** . ~~78~~ **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 ~~primarily~~ **, in part,** on dividends from the Bank to pay cash dividends to its stockholders, and to engage in share repurchase programs. ~~The~~ **Under the prior Formal Agreement, the** OCC ~~regulates~~ **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** ~~In accordance with the Agreement, the Bank is currently prohibited from paying any dividends without prior OCC approval, and, as such,~~ has suspended its regular quarterly cash dividend ~~to the Company~~ **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 ~~June~~ **March** 17, ~~2022~~ **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, ~~2022~~ **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 ~~. Over the past several months: (1) Russia declared war on Ukraine, (2) the annual inflation rate for the United States reached 8. 6 % for the twelve- month period ended May 31, 2022 (the largest annual increase since December 1981) and (3) as of June 14, 2022, the national average gas price hit a record high. As of that date, the national average price for a gallon of gas was $ 5. 01, the highest number ever recorded. Additionally, COVID- 19 has impacted businesses in New York more severely than in the rest of the nation, according to a report from the Office of the New York State Comptroller. Since the U. S. Census Bureau began collecting and reporting data through the Small Business Pulse Survey, New York' s small businesses have consistently reported experiencing a negative effect from the pandemic at rates that exceed the national average. Consequently, deterioration in economic conditions in the New York metropolitan area, including the continued out- sized negative impact of COVID- 19 in the New York metropolitan area, could have a material adverse impact on the quality of the Bank' s loan portfolio, which could result in increased delinquencies, decreased interest income results as well as an adverse impact on loan loss experience with probable increased allowance for loan losses. Such deterioration also could adversely impact the demand for products and services, and, accordingly, further negatively affect results of operations~~ . 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** ~~economic impact of the COVID- 19 outbreak could adversely impact our financial condition and results of operations The~~ COVID- 19 pandemic ~~has caused significant economic dislocation in the United States as many state~~ and ~~local governments had ordered non- essential~~ **measures intended to prevent its spread could adversely affect the Company' s** ~~businesses~~ -- **business** ~~to close and residents to shelter in place at home. This resulted in an unprecedented slow- down in economic activity~~ **activities** , ~~a related increase in unemployment and a significant decline in the value of the stock market, and in particular, bank stocks. In response to the COVID- 19 outbreak, the Federal Reserve reduced the benchmark fed funds rate to a target range of 0 % to 0. 25 %, and the yields on 10- and 30- year treasury notes declined to historic lows. Various state governments and federal agencies required lenders to provide forbearance and other relief to borrowers (e. g., waiving late payment and other fees). The federal banking agencies encouraged~~ financial **condition** ~~institutions to prudently work with affected borrowers and passed legislation provided relief from reporting loan classifications due to modifications related to the COVID- 19 outbreak. Certain industries were particularly hard- hit~~ , ~~including the travel~~ and ~~hospitality industry, the restaurant industry and the retail industry. The spread of the coronavirus has caused the Company to modify its business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. Given the ongoing and dynamic nature of the circumstances, it was difficult to predict the full impact of the COVID- 19 outbreak on our business. The extent of such impact is dependent upon future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy would reopen. As a result~~ **results** of **operations. Global health concerns relating to** the COVID- 19 pandemic and ~~the~~ related ~~adverse local and~~ **government actions taken to reduce the spread of the virus have affected the macroeconomic environment, both** ~~national~~ **nationally and in the Company' s market area. Federal and state agencies may pass measures to address the** economic **and social** consequences ~~, we~~ **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 ~~subject~~ **effective. A decline in economic conditions generally and a prolonged negative impact on small** to **medium- sized businesses** ~~any of the following risks~~ , ~~any of which~~ **in particular, due to the COVID- 19 pandemic,** could ~~have~~ **result in** a material ~~,~~ adverse effect on ~~our~~ **the Company' s** business, financial condition, ~~liquidity,~~ and results of operations ~~: • demand for our products~~ and ~~services~~ may **heighten** ~~decline, making it difficult to grow assets and income; • if the economy is unable to substantially and safely reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may~~ **many** ~~increase, resulting in increased charges and reduced income; • collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; • our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income; • the net worth and liquidity~~ of ~~loan guarantors may decline, impairing their~~ -- **the known** ~~ability to honor commitments to us; • our cybersecurity~~ risks **described herein** ~~are increased as a result of an~~ **and** ~~increase~~ in ~~the~~ **other filings** ~~number of employees working remotely; • we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID- 19 outbreak could have an adverse effect on us; and • Federal Deposit Insurance Corporation premiums may increase if the agency experience additional resolution costs. Moreover, our future success and profitability substantially depends on the management skills of our executive officers and directors, many of whom have held officer and director positions~~ with ~~us for many years. The unanticipated loss or~~

~~unavailability of key employees due to~~ the **SEC** ~~outbreak could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability. Any one or a combination of the factors identified above could negatively impact our business, financial condition and results of operations and prospects~~. 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 ~~liability~~ **asset** sensitive, which indicated that ~~liabilities~~ **assets** were generally re- pricing faster than ~~assets~~ **liabilities** . For the past ~~several~~ **few** years, Carver has been ~~asset~~ **liability** sensitive, which indicates that ~~assets~~ **liabilities** generally re- price faster than ~~liabilities~~ **assets** . In a rising rate environment, ~~asset~~ **liability** sensitivity is **not** preferable as it results in ~~improvement~~ **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 %. ~~On May~~ **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 %** , ~~2022,~~ the ~~FOMC voted approval for a 50 basis~~ **highest it has been in 15 years. While this quarter** - point **rate** increase **was** ~~in the primary credit rate up to 1. 00 %. In their~~ -- **the smallest adjustment since March** ~~most recent meeting in June~~ 2022 **and inflation seems to have eased** , **rates will likely continue to** ~~the FOMC approved a 75 basis- point~~ increase ~~to 1. 75 %~~ , **although at potentially smaller increments** ~~which was the first 0. 75 % rate hike issued by the FOMC since 1994~~ . 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, ~~2022~~ **2023** , we have exposure to approximately $ ~~16~~ **15** . ~~1~~ **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** ~~subject to certain risks with respect to~~ 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~~ **liquidity . The** ~~refers to the~~ Company ~~'~~ **'** s **most important source of funds is** ~~ability to generate sufficient cash flows to support~~ its ~~operations and to fulfill its obligations, including commitments to originate loans, to repay wholesale borrowings and other liabilities, and to satisfy the withdrawal of~~ deposits ~~by its~~ **. Deposit balances can decrease when** customers **perceive alternative** ~~. The Company' s primary sources of liquidity are the cash flows generated through the repayment of loans and securities, cash flows from the sale of loans and securities, deposits gathered organically through the Bank' s branch network, from socially motivated depositors, city and state agencies and deposit brokers and borrowed funds, primarily in the form of wholesale borrowings from the FHLB- NY. In addition, and depending on current market conditions, the Company has the ability to access the capital markets from time to time. Deposit flows, calls of investment~~ **investments** ~~securities and wholesale borrowings~~ **as providing a better risk adjusted return** , **which** ~~and prepayments of loans and mortgage- related securities~~ are strongly influenced by such external factors as the direction of interest rates, ~~whether actual or perceived,~~ local and national economic conditions and ~~competition~~ **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 ~~in~~ **, 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** ~~the~~ **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 ~~Bank~~ **prospects for the financial** ~~serves~~ **services industry** ~~. Furthermore~~ , ~~changes to~~ **a decrease in** the ~~FHLB- NY'~~ **level of the Company'** s ~~underwriting guidelines~~ **business activity as a result of a downturn in markets** ~~for~~ - **or by one** ~~wholesale borrowings may limit~~ or **more** ~~restrict the Bank' s ability to borrow, and could therefore have a significant~~ adverse ~~impact on liquidity~~ **regulatory actions against the Company or the financial sector in general** . ~~A~~ **Any** decline in available funding could adversely impact the ~~Bank'~~ **Company'** s ability to originate loans, invest in securities, ~~and~~ meet expenses, or to fulfill **obligations** such ~~obligations~~ as ~~repaying borrowings or~~ 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 $ ~~23~~ **26** . ~~9~~ **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 $ ~~23~~ **26** . ~~9~~ **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, ~~2022~~ **2023** , we had 4, ~~216~~ **295** , ~~815~~ **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. ~~In~~ **During fiscal year** ~~2021~~ **2022** , ~~we~~ **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** ~~As of March 31,~~ 2022, we ~~have~~ **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, ~~2022~~ **2023** , there were 4, ~~216~~ **295** , ~~815~~ **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.