

2004 FINANCIALS

This statement has not been reviewed, or confirmed for accuracy or relevance,
by the Federal Deposit Insurance Corporation.

Table of Contents

INDEPENDENT AUDITOR’S REPORT..... 1

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial condition 2

Consolidated statement of income 3

Consolidated statement of changes in stockholders’ equity..... 4-5

Consolidated statement of cash flows 6-7

Notes to consolidated financial statements 8-29

Board of Directors and Stockholders
AMB Financial Services Corporation and Subsidiaries
Bainbridge Island, Washington

MOSS ADAMS LLP 

We have audited the consolidated statements of financial condition of AMB Financial Services Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial condition of AMB Financial Services Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
February 4, 2005

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Financial Condition

| ASSETS | | December 31, | |
|---|----------------|--------------|-------------|
| | 2004 | | 2003 |
| Cash and due from banks | \$ 5,839,705 | \$ | 8,422,894 |
| Interest-bearing deposits in banks | 5,226,071 | | 35,255 |
| Federal funds sold | 2,500,000 | | - |
| Securities available for sale | 43,738,750 | | 45,889,044 |
| Federal Home Loan Bank stock | 3,359,900 | | 3,268,200 |
| Investment in limited partnership | 1,000,000 | | 1,000,000 |
| Loans receivable, net of allowance for loan losses of \$3,670,159 2004; \$3,140,047 2003 | 247,869,639 | | 228,757,889 |
| Accrued interest receivable | 1,370,040 | | 1,225,617 |
| Premises and equipment, net | 14,437,992 | | 11,231,592 |
| Foreclosed real estate | 1,366,845 | | 74,498 |
| Cash surrender value of life insurance policies | 5,389,761 | | 5,539,940 |
| Goodwill | 497,480 | | 497,480 |
| Other assets | 1,791,112 | | 1,529,919 |
| TOTAL ASSETS | \$ 334,387,295 | \$ | 307,472,328 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Deposits | \$ 262,225,062 | \$ | 244,967,936 |
| Federal Home Loan Bank advances | 33,977,190 | | 31,482,432 |
| Obligation to KSOP Plan | 222,000 | | 296,000 |
| Other borrowings | 2,152,998 | | 2,472,066 |
| Federal funds purchased | - | | 1,700,000 |
| Accrued interest payable | 566,773 | | 499,066 |
| Other liabilities | 2,455,436 | | 2,318,206 |
| Subordinated debentures | 7,217,000 | | - |
| Total liabilities | 308,816,459 | | 283,735,706 |
| COMMITMENTS (Note 7) | | | |
| STOCKHOLDERS' EQUITY | | | |
| Capital stock, no par; 2,000,000 shares authorized; 571,627 and 578,659 shares issued and 571,627 and 564,238 shares outstanding in 2004 and 2003, respectively | 7,368,526 | | 7,789,982 |
| Retained earnings | 17,799,060 | | 15,703,563 |
| Accumulated other comprehensive income | 403,250 | | 870,450 |
| Unearned compensation - KSOP Plan | - | | (627,373) |
| Total stockholders' equity | 25,570,836 | | 23,736,622 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 334,387,295 | \$ | 307,472,328 |

See accompanying notes

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Income

| | Year Ended December 31, | |
|---|-------------------------|---------------|
| | 2004 | 2003 |
| Interest income | | |
| Loans receivable, including fees | \$ 16,779,352 | \$ 14,882,032 |
| Securities available for sale | 1,953,158 | 2,047,239 |
| Federal funds sold | 8,808 | 30,749 |
| Interest-bearing deposits | 5,976 | 20,146 |
| Total interest income | 18,747,294 | 16,980,166 |
| Interest expense | | |
| Deposits | 3,627,121 | 3,505,513 |
| Federal Home Loan Bank advances | 1,370,129 | 1,401,039 |
| Other interest expense | 267,860 | 81,498 |
| Total interest expense | 5,265,110 | 4,988,050 |
| Net interest income | 13,482,184 | 11,992,116 |
| Provision for loan losses | 920,000 | 681,000 |
| Net interest income after provision for loan losses | 12,562,184 | 11,311,116 |
| Noninterest Income | | |
| Service charges | 1,035,860 | 1,011,199 |
| Income from trust fiduciary activities | 1,221,673 | 1,107,950 |
| Gain on sale of other investments | - | 1,997 |
| Gain on sale of securities available for sale | 381,512 | 97,300 |
| Other income | 1,540,674 | 1,213,451 |
| Total noninterest income | 4,179,719 | 3,431,897 |
| Noninterest expenses | | |
| Salaries and employee benefits | 6,450,920 | 5,508,535 |
| Occupancy | 2,272,897 | 1,733,517 |
| Salary continuance benefits | 258,592 | 271,238 |
| Professional fees | 716,134 | 555,001 |
| Printing and postage | 331,013 | 297,840 |
| Computer | 409,136 | 299,722 |
| Taxes and license | 267,335 | 256,786 |
| Communications | 193,439 | 234,144 |
| Advertising | 228,471 | 184,904 |
| Insurance | 178,927 | 178,596 |
| Directors fees | 139,500 | 117,600 |
| Exchange | 198,716 | 184,391 |
| Other | 1,298,779 | 1,034,992 |
| Total noninterest expense | 12,943,859 | 10,857,266 |
| Income before income taxes | 3,798,044 | 3,885,747 |
| Federal income tax expense | 864,478 | 833,968 |
| NET INCOME | \$ 2,933,566 | \$ 3,051,779 |
| Basic earnings per share | \$ 5.06 | \$ 5.26 |
| Diluted earnings per share | \$ 5.03 | \$ 5.25 |

See accompanying notes

Consolidated Statement of Changes In Stockholders' Equity

| | Shares of Common Stock | Total Stockholders' Equity |
|---|------------------------------|----------------------------------|
| Balance, December 31, 2002 | 582,126 | \$ 21,961,805 |
| Net income for 2003 | - | 3,051,779 |
| Cash dividends (\$1.05 per share) | - | (608,503) |
| Dividend payable on January 15, 2004 (\$0.35 per share) | - | (202,531) |
| Repurchase of shares | (4,559) | (277,477) |
| Exercise of stock options | 1,092 | 56,238 |
| Purchase of additional KSOP shares | - | (115,000) |
| KSOP shares released | - | 72,869 |
| Net change in unrealized gain on securities available for sale, net of taxes | - | (202,558) |
| Comprehensive income | | |
| Balance, December 31, 2003 | 578,659 | 23,736,622 |
| Net income for 2004 | - | 2,933,566 |
| Cash dividends (\$1.05 per share) | - | (609,418) |
| Dividend payable on January 15, 2005 (\$0.40 per share) | - | (228,651) |
| Repurchase of shares | (2,071) | (147,966) |
| Exercise of stock options | 3,820 | 211,230 |
| KSOP shares released net of share repurchased | (8,781) | 142,653 |
| Net change in unrealized gain on securities available for sale, net of taxes | - | (467,200) |
| Comprehensive income | | |
| Balance, December 31, 2004 | 571,627 | 25,570,836 |

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Changes In Stockholders' Equity

| Capital Stock | Retained Earnings | Unearned Compensation KSOP Plan | Accumulated Comprehensive Income | Comprehensive Income (Loss) |
|---------------------|----------------------|---------------------------------------|--|--------------------------------|
| \$ 7,995,647 | \$ 13,462,818 | \$ (569,668) | \$ 1,073,008 | |
| - | 3,051,779 | - | - | \$ 3,051,779 |
| - | (608,503) | - | - | |
| - | (202,531) | - | - | |
| (277,477) | - | - | - | |
| 56,238 | - | - | - | |
| - | - | (115,000) | - | |
| 15,574 | - | 57,295 | - | |
| - | - | - | (202,558) | (202,558) |
| | | | | \$ 2,849,221 |
| 7,789,982 | 15,703,563 | (627,373) | 870,450 | |
| - | 2,933,566 | - | - | 2,933,566 |
| - | (609,418) | - | - | |
| - | (228,651) | - | - | |
| (147,966) | - | - | - | |
| 211,230 | - | - | - | |
| (484,720) | - | 627,373 | - | |
| - | - | - | (467,200) | (467,200) |
| | | | | \$ 2,466,366 |
| \$ 7,368,526 | \$ 17,799,060 | \$ - | \$ 403,250 | |

See accompanying notes

Consolidated Statement of Cash Flows

| | Year Ended December 31, | |
|---|-------------------------|--------------|
| | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 2,933,566 | \$ 3,051,779 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,113,826 | 703,463 |
| Provision for loan losses | 920,000 | 681,000 |
| Amortization (accretion) of investment premium (discount), net | 500,455 | 800,191 |
| Decrease in deferred taxes | 69,276 | 71,428 |
| Stock dividends received | (91,700) | (172,800) |
| Realized gain on sale of available for sale securities | (381,512) | (97,300) |
| Realized gain on sale of other investments | - | (1,997) |
| Realized loss and write-down of foreclosed real estate | (40,211) | 20,358 |
| Loss on sale of premises and equipment | 18,998 | 126,809 |
| (Increase) decrease in accrued interest receivable and other assets | (234,216) | 87,271 |
| Net (increase) decrease in cash surrender value of life insurance | 150,179 | (824,755) |
| Increase in accrued interest payable and other liabilities | 178,817 | 244,263 |
| Net cash provided by operating activities | 5,137,478 | 4,689,710 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net decrease in federal funds sold | (2,500,000) | 4,800,000 |
| Net increase (decrease) in interest-bearing deposits in banks | (5,190,816) | 4,194,562 |
| Loans made and principal collected, net | (21,647,695) | (41,687,927) |
| Activity in available for sale securities: | | |
| Proceeds from sales of securities | 8,850,103 | 1,578,210 |
| Proceeds from maturities, calls, and principle repayments of securities | 12,306,507 | 17,740,390 |
| Purchases of securities | (19,833,135) | (10,445,092) |
| Purchase of investment in limited partnership | - | (20,000) |
| Purchases of premises and equipment | (4,339,224) | (6,316,623) |
| Proceeds from sales of premises and equipment | - | 20,895 |
| Proceeds from sales of foreclosed real estate | 363,809 | 478,795 |
| Net cash used by investing activities | (31,990,451) | (29,656,790) |

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|---------------|
| | 2004 | 2003 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | \$ 17,257,126 | \$ 22,641,180 |
| Net increase in federal funds purchased | (1,700,000) | 1,700,000 |
| Net increase in Federal Home Loan Bank advances | 2,494,758 | 2,227,778 |
| Dividends paid on common stock | (811,949) | (812,247) |
| Proceeds from issuance of common stock | 211,230 | 56,238 |
| Repurchase of common stock | (147,966) | (277,477) |
| Employer loan to KSOP | - | (115,000) |
| Proceeds from KSOP employer loan, net of repayment | 142,653 | 72,869 |
| Repayment of KSOP loan | (74,000) | (74,000) |
| Proceeds from issuance of subordinated debentures | 7,217,000 | - |
| Repayment of other borrowings | (319,068) | (309,129) |
| Net cash provided by financing activities | 24,269,784 | 25,110,212 |
| NET CHANGE IN CASH AND DUE FROM BANKS | (2,583,189) | 143,132 |
| Cash and due from banks at January 1 | 8,422,894 | 8,279,762 |
| Cash and due from banks at December 31 | \$ 5,839,705 | \$ 8,422,894 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Cash paid during the year for: | | |
| Interest | \$ 5,197,403 | \$ 5,050,569 |
| Income taxes | \$ 650,000 | \$ 795,000 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES | | |
| Net change in unrealized gain on securities available for sale | \$ (707,876) | \$ (306,906) |
| Acquisition of real estate and other repossessed assets in settlement of loans | \$ 1,615,945 | \$ 129,498 |
| Acquisition of investment in limited partnership interest through issuance of note payable | \$ - | \$ 980,000 |

See accompanying notes

Consolidated Statement of Cash Flows

Note 1 - Summary of Significant Accounting Policies

Basis of consolidation:

The consolidated financial statements include the accounts of AMB Financial Services Corporation (the Corporation) and its wholly-owned subsidiaries, American Marine Bank (the Bank), Community Trust Company, and American Marine Trust I after eliminating all significant intercompany accounts and transactions.

Nature of business:

The Corporation's primary business activities are conducted through its Bank subsidiary and trust company. American Marine Bank is a state chartered commercial bank under the laws of the state of Washington. Community Trust Company is incorporated under the laws of the state of Washington. All subsidiaries are subject to competition from other financial institutions, as well as other nonbank financial intermediaries. The Corporation and its subsidiaries are subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory agencies.

Use of estimates:

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and certain revenues and expenses during the reporting period. Actual results could differ, either positively or negatively, from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses and other real estate owned, management obtains independent appraisals for significant properties.

Management believes that the allowances for loan losses and other real estate owned are adequate. While management uses currently available information to recognize losses on loans and other real estate, future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowances for loan losses and other real estate owned. Such agencies may require the Corporation to recognize additions to the allowances based on their judgments of information available to them at the time of their examination.

Cash and due from banks:

For the purpose of presentation in the statement of cash flows, cash and due from banks include cash on hand and amounts due from banks. The Corporation is required to maintain minimum balances with the Federal Reserve Bank. The total required minimum balance at December 31, 2004, was \$145,000.

Interest-bearing deposits in banks:

Interest-bearing deposits in banks generally mature within one year and are carried at cost.

Securities:

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The Corporation had no investments classified as held to maturity at December 31, 2004 and 2003

Purchased premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Note 1 - Summary of Significant Accounting Policies (Continued)

Federal Home Loan Bank stock:

The Federal Home Loan Bank (FHLB) offers two classes of stock, which are B(1) and B(2). B(1) stock can be sold back to the FHLB at cost, but is restricted as to purchase, sale, and redemption based on the level of business activity the Corporation is doing with the FHLB. Class B(2) is not a required investment for institutions and is not restricted as to purchase and sale, but has the same redemption restrictions as class B(1). The Corporation had \$3,243,600 in B(1) stock and \$116,300 in B(2) stock at December 31, 2004.

The investment in FHLB stock is carried at par value. As a member of the FHLB system, the Corporation is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding mortgages, total assets, or FHLB advances. The Corporation may request redemption at par value of any stock in excess of the amount the Corporation is required to hold. Stock redemptions are at the discretion of the FHLB.

Investment in limited partnership:

The Corporation purchased two units of Homestead Equity Fund A, a limited partnership, during 2003. The investment is accounted for in accordance with the equity method of accounting for investments. The initial investment was partially funded by a \$980,000 note payable to the limited partnership (see Note 11).

Loans receivable:

The Corporation grants mortgage, commercial, and consumer loans to customers. The ability of the Corporation's debtors to honor their contracts is dependent mostly upon the real estate and general economic conditions in western Washington.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Loans are placed in a nonaccrual status when there is concern that principal and interest may not be fully collected or the loan has been in default for a period of 90 days or more. Loans that are in default over 90 days may continue to accrue interest if the loan is well collateralized and in the process of collection. Once in nonaccrual, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to resume payments to principal and interest. Interest previously accrued but not collected is generally reversed and charged against income at the time the loan is placed on nonaccrual status. In general, the Corporation considers nonaccrual loans, as well as certain watch list and internally classified loans, to be impaired.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowances for loan losses:

The allowance for loan losses is increased by charges to income and decreased by charge offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments or principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowances for loan losses (continued)

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Foreclosed real estate:

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less selling cost.

Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation over estimated useful lives which range from 3 to 40 years. Depreciation and amortization expense is computed using primarily the straight-line method for financial statement purposes. Accelerated depreciation methods are used for federal income tax purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

Income taxes:

Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Federal income tax expense differs from income taxes computed at the statutory tax rates due to permanent and temporary differences in the recognition of certain items for tax versus book purposes. These differences are primarily related to the treatment of depreciation expense, the provision for loan losses, loan-fee amortization, tax-exempt net interest income, salary continuance agreements, and certain other expenses, which are treated differently for book and tax purposes.

Trust operations:

Assets held in a fiduciary or agency capacity for customers are not assets of the Corporation and, accordingly, are not included in the consolidated statement of financial condition.

Retained earnings:

Banking regulations limit the amount of dividends that may be paid to the amount of retained earnings then on hand, less any net losses and bad debts. An exception may be made only with the prior approval of the Board and stockholders representing at least two-thirds of the shares of stock outstanding.

Employee Stock Ownership Plan:

The Corporation sponsors an Employee Stock Ownership Plan with 401(k) provisions (KSOP). The KSOP is accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position No. 93-6, Employer's Accounting for Employee Stock Ownership Plans. Accordingly, the shares held by the KSOP are reported as unearned shares-KSOP plan in the consolidated statement of financial condition. As shares are released from collateral, compensation expense is recorded equal to the then current market price of the shares, and the shares become outstanding for earnings per share calculations.

Stock and cash dividends on allocated shares are recorded as a reduction of retained earnings and paid or distributed directly to participants' accounts. Stock and cash dividends on unallocated shares are recorded as a reduction of debt and accrued interest.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Stock options:

The Corporation has established an incentive stock option plan for key employees, and a nonqualified stock option plan for Directors of the Corporation, which are described more fully in Note 13. The Corporation accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | December 31, | |
|--|--------------|--------------|
| | 2004 | 2003 |
| Net income, as reported | \$ 2,933,566 | \$ 3,051,779 |
| Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (30,521) | (35,756) |
| Pro forma net income | \$ 2,903,045 | \$ 3,016,023 |
| Earnings per share: | | |
| Basic-as reported | \$ 5.06 | \$ 5.26 |
| Basic-pro forma | \$ 5.01 | \$ 5.20 |
| Diluted-as reported | \$ 5.03 | \$ 5.25 |
| Diluted-pro forma | \$ 4.98 | \$ 5.20 |

Earnings per share:

All per share amounts have been calculated on the basis of basic weighted-average number of shares outstanding during each year. Earnings per share assuming full dilution reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation related solely to outstanding stock options, and are determined using the treasury stock method. KSOP shares that are unallocated and not yet committed to be released are excluded from the weighted-average number of shares outstanding calculation (see Note 14).

Total weighted-average shares outstanding were 579,966 and 579,721 at December 31, 2004 and 2003, respectively.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements:

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. This Statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires that the compensation cost relating to share-based payment transactions (for example, stock options granted to employees of the Company) be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments used. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Company intends to adopt the provisions of SFAS No. 123(R) effective June 30, 2005, and is in the process of evaluating the impact on its consolidated financial position or consolidated results of operations.

In November 2003, the FASB ratified the Emerging Issues Task Force Issue (EITF) 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-01 requires certain quantitative and qualitative disclosures for securities accounted for under SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities, that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. EITF 03-01 is effective for fiscal years ending after December 15, 2003. The Corporation has included the required disclosures in these consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 was effective for the Corporation at the beginning of the first interim period beginning after June 15, 2003. The Corporation has adopted the provisions of SFAS No. 150, and these consolidated financial statements are disclosed as such.

Comprehensive income:

Accounting principles generally require that recognized revenues, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Comprehensive income (continued):

The components of other comprehensive income and related tax effects are as follows:

| | December 31, | |
|--|--------------|--------------|
| | 2004 | 2003 |
| Unrealized holding losses on available for sale securities | \$ (326,364) | \$ (209,606) |
| Reclassification adjustment for gains realized in income | (381,512) | (97,300) |
| Net unrealized losses | (707,876) | (306,906) |
| Tax effect | 240,676 | 104,348 |
| NET OF TAX AMOUNT | \$ (467,200) | \$ (202,558) |

Reclassifications:

Certain reclassifications have been made in the December 31, 2003, consolidated financial statements in order to conform with the December 31, 2004, presentation with no effect on previously reported net income or equity.

Note 2 - Securities

Debt securities have been classified in the consolidated statement of financial condition according to management's intent. The carrying amounts of securities and their approximate fair values were as follows:

| Securities available for sale: | December 31, 2004 | | | |
|--------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government and agency | \$ 14,735,711 | \$ 50,215 | \$ (57,095) | \$ 14,728,831 |
| State, county, and municipal | 14,469,108 | 647,235 | (17,054) | 15,099,289 |
| Corporate bonds | 1,576,115 | 58,037 | (13,704) | 1,620,448 |
| Mortgage backed securities | 12,346,831 | 70,798 | (127,447) | 12,290,182 |
| | \$ 43,127,765 | \$ 826,285 | \$ (215,300) | \$ 43,738,750 |

Notes to Consolidated Financial Statements

Note 2 - Securities (Continued)

December 31, 2004

| Securities available for sale: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------|----------------------|------------------------------|-------------------------------|----------------------|
| U.S. government and agency | \$ 3,054,481 | \$ 35,039 | \$ (8,249) | \$ 3,081,271 |
| State, county, and municipal | 22,375,161 | 1,265,312 | (12,569) | 23,627,904 |
| Corporate bonds | 482,626 | 69,732 | - | 552,358 |
| Mortgage backed securities | 18,657,911 | 131,932 | (162,332) | 18,627,511 |
| | <u>\$ 44,570,179</u> | <u>\$ 1,502,015</u> | <u>\$ (183,150)</u> | <u>\$ 45,889,044</u> |

The following table shows the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004. These securities consist primarily of debt securities and are not considered other than temporarily impaired because their impairment is due primarily to short term fluctuations in interest rates.

December 31, 2004

| | Impaired Less Than 12 Months | | Impaired 12 Months or More | | Total | |
|------------------------------|---------------------------------|----------------------|-------------------------------|----------------------|----------------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government and agency | \$7,622,344 | \$ (34,422) | \$ 2,471,841 | \$ (22,673) | \$ 10,094,185 | \$ (57,095) |
| State, county, and municipal | 1,224,218 | (6,613) | 691,235 | (10,441) | 1,915,453 | (17,054) |
| Corporate bonds | 1,076,714 | (13,704) | - | - | 1,076,714 | (13,704) |
| Mortgage backed securities | 3,593,971 | (56,969) | 4,202,724 | (70,478) | 7,796,695 | (127,447) |
| | <u>\$13,517,247</u> | <u>\$ (111,708)</u> | <u>\$ 7,365,800</u> | <u>\$ (103,592)</u> | <u>\$ 20,883,047</u> | <u>\$ (215,300)</u> |

Notes to Consolidated Financial Statements

Note 2 - Securities (Continued)

The scheduled maturities of securities available for sale at December 31, 2004, were as follows. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without penalties:

| | Amortized Cost | Fair Value |
|--------------------------------|----------------------|----------------------|
| Maturing in less than one year | \$ 2,035,884 | \$ 2,050,381 |
| Maturing in one to five years | 19,940,860 | 20,195,035 |
| Maturing in five to ten years | 5,227,055 | 5,510,685 |
| Maturing after ten years | 3,577,135 | 3,692,467 |
| Mortgage backed securities | 12,346,831 | 12,290,182 |
| | \$ 43,127,765 | \$ 43,738,750 |

The carrying amount of securities pledged to secure public deposits and for other purposes, and their approximate fair values at December 31 were as follows:

| | 2004 | | 2003 | |
|---|---------------------|-------------------------|-------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| To secure short term borrowings and trust collateral | \$ 2,467,393 | \$ 2,529,600 | \$ 3,045,680 | \$ 3,136,694 |
| Treasury tax and loan account | 297,025 | 313,387 | 538,887 | 561,266 |
| To secure public deposits | 1,376,381 | 1,367,685 | 1,138,030 | 1,132,518 |
| | \$ 4,140,799 | \$ 4,210,672 | \$ 4,722,597 | \$ 4,830,478 |

For the years ended December 31, 2004 and 2003, proceeds from sales of securities available for sale amounted to \$8,850,103 and \$1,578,210, respectively. Gross realized gains amounted to \$397,189 and \$97,300, respectively. Gross realized losses amounted to \$15,677 and \$-0- during the years ended December 31, 2004 and 2003, respectively. The tax provision applicable to these net realized gains and losses amounted to \$129,714 and \$33,082 during the years ended December 31, 2004 and 2003, respectively. Cost was determined by using the specific identification method.

Notes to Consolidated Financial Statements

Note 3 - Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

| | 2004 | 2003 |
|---|-----------------------|----------------|
| Commercial | \$ 65,169,267 | \$ 55,388,604 |
| Real estate | 154,754,038 | 146,459,498 |
| Home equity | 22,378,514 | 21,123,846 |
| Consumer installment loans | 6,815,890 | 6,325,546 |
| Credit cards | 3,066,384 | 3,387,463 |
| | 252,184,093 | 232,684,957 |
| Allowance for loan losses | (3,670,159) | (3,140,047) |
| Deferred loan fees, net of deferred costs | (644,295) | (787,021) |
| | \$ 247,869,639 | \$ 228,757,889 |

The interest rates on loans are segregated into the following fixed and variable components at December 31:

| | 2004 | 2003 |
|----------|-----------------------|----------------|
| Fixed | \$ 147,450,874 | \$ 136,846,193 |
| Variable | 104,733,219 | 95,838,764 |
| | \$ 252,184,093 | \$ 232,684,957 |

Impairment of loans having recorded investments of \$3,174,860 and \$6,142,453 at December 31, 2004 and 2003, respectively, has been recognized in conformity with SFAS No. 114 as amended by SFAS No. 118. The total allowance for loan losses related to these loans was \$250,078 and \$582,732 at December 31, 2004 and 2003, respectively. The Bank is not committed to lend additional funds to debtors whose loans have been modified. The average recorded investment in impaired loans during the years ended December 31, 2004 and 2003, was \$3,185,927 and \$6,301,437, respectively. Interest income on impaired loans of \$41,591 and \$149,183 was recognized for cash payments received in 2004 and 2003, respectively. The Bank had loans with a balance of \$2,617,211 and \$2,788,902 on nonaccrual status at December 31, 2004 and 2003, respectively. Total loans past due 90 days or more and still accruing interest were \$452,781 and \$68,422 at December 31, 2004 and 2003, respectively.

Notes to Consolidated Financial Statements

Note 3 - Loans Receivable and Allowance for Loan Losses (Continued)

An analysis of the changes in the allowance for loan losses is as follows:

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Balance, beginning of year | \$ 3,140,047 | \$ 2,805,819 |
| Provision charged to expense | 920,000 | 681,000 |
| Losses charged to allowance | (402,726) | (366,634) |
| Recoveries of losses previously charged off | 12,838 | 19,862 |
| | <u>3,670,159</u> | <u>3,140,047</u> |
| Balance, end of year | \$ 3,670,159 | \$ 3,140,047 |

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgage and other loans serviced for others were \$32,644,065 and \$28,019,450 at December 31, 2004 and 2003, respectively.

Note 4 - Foreclosed Real Estate

Loans transferred into foreclosed real estate during the years ended December 31, 2004 and 2003, were \$1,615,945 and \$129,498, respectively. Foreclosed real estate was adjusted to net realizable value when it was originally transferred in from the loan balance. Proceeds from the sale of foreclosed real estate were \$363,809 and \$478,795 for the years ended December 31, 2004 and 2003, respectively. There was no valuation allowance recognized in foreclosed real estate at December 31, 2004 and 2003.

Note 5 - Premises and Equipment

Major classifications of premises and equipment at December 31 were as follows:

| | <u>2004</u> | <u>2003</u> |
|--|----------------------|----------------------|
| Land | \$ 2,602,582 | \$ 2,602,582 |
| Buildings and leasehold improvements | 8,876,040 | 3,380,181 |
| Equipment | 7,523,554 | 4,496,494 |
| Construction in process | 1,182,917 | 5,665,390 |
| | <u>20,185,093</u> | <u>16,144,647</u> |
| Less accumulated depreciation and amortization | (5,747,101) | (4,913,055) |
| | <u>\$ 14,437,992</u> | <u>\$ 11,231,592</u> |

Depreciation and amortization expense for the years ended December 31, 2004 and 2003, was \$1,113,826 and \$703,463, respectively.

Notes to Consolidated Financial Statements

Note 5 - Premises and Equipment (Continued)

The Corporation has entered into certain noncancelable operating lease agreements for branch facilities and equipment that have initial or remaining terms in excess of one year as of December 31, 2003. Net rent expense under operating leases was \$484,131 and \$426,848 for the years ended December 31, 2004 and 2003, respectively.

The future minimum annual payments under these agreements at December 31, 2004, exclusive of taxes and other charges, were as follows:

| | | |
|---------------------------|----|-----------|
| Years ending December 31, | | |
| 2005 | \$ | 540,267 |
| 2006 | | 534,640 |
| 2007 | | 517,240 |
| 2008 | | 462,967 |
| 2009 and thereafter | | 3,840,397 |
| | | <hr/> |
| | \$ | 5,895,511 |
| | | <hr/> |

Note 6 - Deposits

Major classifications of deposits at December 31 were as follows:

| | <u>2004</u> | <u>2003</u> |
|------------------------------------|----------------|----------------|
| Demand | \$ 29,854,545 | \$ 53,748,961 |
| Interest checking and Money Market | 90,917,178 | 58,473,261 |
| Savings | 26,530,241 | 26,748,384 |
| Time, \$100,000 and over | 59,023,844 | 52,085,394 |
| Other time | 41,423,934 | 40,809,202 |
| IRA | 6,625,051 | 6,251,174 |
| Other | 7,850,269 | 6,851,560 |
| | <hr/> | <hr/> |
| | \$ 262,225,062 | \$ 244,967,936 |
| | <hr/> | <hr/> |

The following is a schedule by years of maturities for time deposits as of December 31, 2004:

| | | |
|---------------------------|----|-------------|
| Years ending December 31, | | |
| 2005 | \$ | 19,839,301 |
| 2006 | | 10,583,305 |
| 2007 | | 53,058,657 |
| 2008 | | 9,157,448 |
| 2009 and after | | 7,809,067 |
| | | <hr/> |
| | \$ | 100,447,778 |
| | | <hr/> |

Notes to Consolidated Financial Statements

Note 7 - Commitments

Commitments to extend credit:

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Corporation upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income producing commercial properties.

At December 31, 2004, commitments to extend credit were as follows:

| | Contract or Notional Amount | |
|--|-----------------------------|----------------------|
| | 2004 | 2003 |
| Loan commitments, including credit cards | \$ 44,171,960 | \$ 42,508,307 |
| Standby letters of credit | 1,125,012 | 865,400 |
| TOTAL CREDIT COMMITMENTS | \$ 45,296,972 | \$ 43,373,707 |

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the above contractual notional amount.

The Corporation does not anticipate any material losses as a result of the commitments.

Substantially all the Corporation's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Corporation's market area. As such, significant changes in economic conditions in the Pierce, King, Kitsap, and Jefferson Counties area or with its primary industries could adversely effect the Corporation's ability to collect loans. The majority of such customers are depositors of the Corporation. The concentrations of credit by type of loan are set forth in Note 3. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Corporation, bound by statutory limits, does not extend credit to any single borrower or group of related borrowers in excess of \$6,520,658. By Bank policy, however, this amount is not to exceed \$4,000,000.

Notes to Consolidated Financial Statements

Note 7 - Commitments (Continued)

Concentration of cash:

The Corporation places its cash with high credit quality institutions. The amount on deposit fluctuates, and at times exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, and this potentially subjects the Corporation to credit risk.

Note 8 - Income Taxes

The components of income tax expense consisted of the following for the years ended December 31:

| | 2004 | 2003 |
|----------------------|-------------------|-------------------|
| Current tax expense | \$ 795,202 | \$ 762,540 |
| Deferred tax expense | 69,276 | 71,428 |
| | \$ 864,478 | \$ 833,968 |

The net deferred tax assets are included in other assets in the accompanying statement of financial condition and consisted of the following components at December 31:

| | 2004 | 2003 |
|---|--------------------|-------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 1,078,473 | \$ 896,273 |
| Deferred loan fees | 242,587 | 202,587 |
| Salary continuance plan | 623,502 | 619,251 |
| Nondeductible acquisition costs | 36,162 | 36,162 |
| Other | 1,654 | 6,381 |
| Total deferred tax assets | 1,982,378 | 1,760,654 |
| Deferred tax liabilities: | | |
| Accumulated depreciation and amortization | (419,524) | (199,447) |
| Net unrealized gains on securities available for sale | (207,735) | (448,414) |
| Deferred loan fees | (314,996) | (354,996) |
| FHLB stock dividends | (327,939) | (298,364) |
| Book-tax basis of investments | (34,946) | - |
| Prepaid expenses | (44,085) | - |
| Mortgage servicing rights | (32,978) | (30,661) |
| Total deferred tax liabilities | (1,382,203) | (1,331,882) |
| NET DEFERRED TAX ASSET | \$ 600,175 | \$ 428,772 |

Notes to Consolidated Financial Statements

Note 8 - Income Taxes (Continued)

At December 31, 2004 and 2003, an income tax liability of \$213,133 and \$67,931, respectively, were included in other liabilities on the consolidated statement of financial condition.

The effective tax rate differs from the statutory federal tax rate for the years presented as follows:

| | 2004 | 2003 |
|---------------------------------------|-------------------|-------------------|
| Federal income tax at statutory rate | \$ 1,291,430 | \$ 1,321,154 |
| Effect of tax-exempt interest income | (353,028) | (360,427) |
| Effect of tax-exempt investments | (128,928) | (48,401) |
| Effect of other permanent differences | (36,237) | (39,555) |
| Other | 91,241 | (38,803) |
| FEDERAL INCOME TAX EXPENSE | \$ 864,478 | \$ 833,968 |

Note 9 - Related Party Transactions

Loans and deposits with related parties:

In the normal course of business, the Corporation makes loans to and takes deposits from its executive officers, directors, and companies affiliated with these individuals. The aggregate dollar amount of loans to such individuals was approximately \$4,670,808 and \$2,198,309 at December 31, 2004 and 2003, respectively. The aggregate dollar amount of deposits from such individuals was \$698,144 and \$777,818 at December 31, 2004 and 2003, respectively.

Note 10 - Federal Home Loan Bank Advances

At December 31, 2004, FHLB advances were scheduled to mature as follows:

| | Weighted-Average Rate | Amount |
|---------------------------|--------------------------|----------------------|
| Years ending December 31, | | |
| 2005 | 3.27% | \$ 8,412,392 |
| 2006 | 4.57% | 5,666,667 |
| 2007 | 4.50% | 6,166,666 |
| 2008 | 5.06% | 2,115,592 |
| 2009 | 4.62% | 4,566,667 |
| 2010 and after | 5.17% | 7,049,206 |
| | | \$ 33,977,190 |

Notes to Consolidated Financial Statements

Note 10 - Federal Home Loan Bank Advances (Continued)

As provided for in the Advances, Security, and Deposit Agreement with the FHLB, advances are collateralized by all FHLB stock owned by the Corporation, deposits with the FHLB, and certain mortgages or deeds of trust securing such properties. As a member of the FHLB of Seattle, the Corporation has an available maximum credit line equal to 30% of American Marine Bank's assets subject to collateralization requirements.

Note 11 - Other Borrowings

The Corporation has borrowed additional funds as follows:

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|--------------|
| Note payable with KeyBank, with monthly principal payments of \$31,368 maturing April 30, 2005, with interest at the one-month LIBOR plus 2.75%, currently 5.19% at December 31, 2004. The note is secured by American Marine Bank stock, and is guaranteed by the Corporation. | \$ 1,172,998 | \$ 1,492,066 |
| Note payable to Homestead Equity Fund A, secured by two units of Homestead Equity Fund A limited partnership interest. The note is payable on demand or in full on March 31, 2012. The note does not have a stated interest rate. | 980,000 | 980,000 |
| | \$ 2,152,998 | \$ 2,472,066 |

At December 31, 2004, other borrowings were scheduled to mature as follows:

| | <u>Weighted-Average Rate</u> | <u>Amount</u> |
|---------------------------|----------------------------------|---------------------|
| Years ending December 31, | | |
| On demand | 0.00% | \$ 980,000 |
| 2005 | 5.19% | 1,172,998 |
| | | \$ 2,152,998 |

Notes to Consolidated Financial Statements

Note 12 - Other Borrowings (Continued)

In February 2004, the Corporation issued junior subordinated debentures aggregating \$7,217,000 to American Marine Trust I (the Trust), with interest at three-month LIBOR plus 2.85%, repricing quarterly, which was 5.51% at December 31, 2004. The Trust issued \$217,000 of common securities to the Corporation and capital securities with an aggregate liquidation amount of \$7,000,000 (\$1,000 per capital security) to third party investors. The common securities are included in investment in subsidiaries on the consolidated balance sheet. The securities have a coupon rate of LIBOR plus 2.85%, repricing quarterly, which was 5.51% at December 31, 2004. The subordinated debentures are included as Tier 1 capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature in April 2034, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed, in whole or in part, beginning February 1, 2009, at a redemption price of \$1,000 per capital security. The Corporation has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. Debt issuance costs related to the issuance of trust preferred securities of \$52,500 were capitalized during 2004, and are being amortized over 30 years. American Marine Trust I is not consolidated in these financial statements.

Note 13 - Retirement Plans

KSOP Plan:

The Corporation has a deferred compensation plan known as the Employee Stock Ownership Plan with 401(k) provisions (KSOP). Employees are eligible to participate in the KSOP after attaining age 18 and completing 1,000 hours of service in a plan year. Participants may make contributions to the KSOP.

Contributions to the KSOP by the Corporation, the employer, are discretionary and can be made in cash or common stock of the Corporation. There are three types of employer contributions: basic contributions (fully vested), optional contributions (vesting in increments of 20%, fully vested after six years of service), and employer matching contributions (fully vested).

The KSOP Trust has outstanding borrowings from a correspondent bank of \$222,000 and \$296,000 at December 31, 2004 and 2003, respectively, and from the Corporation of \$-0- and \$770,808 at December 31, 2004 and 2003, respectively. The bank loan is payable in monthly payments of \$6,167 plus interest at the one-month LIBOR plus 2.25%, which was 4.69% at December 31, 2004. The loan is collateralized by 300,000 shares of American Marine Bank stock owned by the Corporation. As of December 31, 2004, the KSOP Trust has paid the two notes payable to the Corporation in full that had an outstanding balance of \$770,808 at December 31, 2003. The borrowings were used by the KSOP to acquire AMB Financial Services Corporation stock for allocation to employees.

The cost of shares acquired by the KSOP is considered unearned compensation and, as such, is recorded as a reduction of the Corporation's stockholders' equity. Shares purchased by the KSOP are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the KSOP and shares released from the suspense account are allocated among the participants on the basis of compensation in the year of allocation. Forfeitures are reallocated among remaining participating employees, in the same proportion as contributions.

Compensation expense is recorded equal to the fair value of shares held by the KSOP which are deemed committed to be released. KSOP compensation expense was approximately \$879,765 and \$319,766 for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004, the Corporation has allocated 135,587 shares, and has -0- shares that are unallocated. As of December 31, 2003, the Corporation has allocated 122,600 shares, and has 14,031 shares that are unallocated. The KSOP is not committed to release additional shares at December 31, 2004. The market value of uncommitted and unallocated shares held by the KSOP trust was approximately \$-0- at December 31, 2004. Dividends on shares held by the KSOP were \$205,821 in 2004 and \$199,412 in 2003.

The Corporation is required by regulation to provide a repurchase option to participants holding the Corporation's stock, as the stock is not readily tradable. The Corporation is required to repurchase stock at market value. At December 31, 2004, there are 135,587 shares subject to this repurchase requirement with a market value of \$10,575,786.

Notes to Consolidated Financial Statements

Note 13 - Retirement Plans (continued)

Life insurance and salary continuation:

American Marine Bank maintains individual executive supplemental income plans for the benefit of certain officers. The plans are funded by the purchase of corporate owned life insurance products covering the lives of the individual officers. The Corporation is the owner and beneficiary of these insurance policies.

The individual plans provide for monthly payments to such persons, or their beneficiaries, for periods of 15 years following death prior to retirement or 15 years to life following retirement. Benefit payments to individuals vary and are predetermined in the individual contracts through reference to salaries and years of service.

The projected unit credit cost method is used to allocate the costs of these plans during the period of service of the individuals. The net post-retirement benefit cost plus mortality expense recognized during the years ended December 31, 2004 and 2003, was \$258,592 and \$271,238, respectively.

The actuarial present value of the accumulated post-retirement benefit obligation attributable to years of service through December 31, 2004 and 2003, is approximately \$1,772,005 and \$1,697,351, respectively. The Corporation has accrued these amounts in other liabilities on the consolidated statement of financial condition.

The insurance cash surrender value was approximately \$5,389,761 and \$5,453,940, which is included in cash surrender value of life insurance at December 31, 2004 and 2003, respectively.

The Corporation also maintains a deferred compensation plan for the benefit of certain employees. The plans are funded by the purchase of corporate owned life insurance products covering the lives of the individual officers. The individual plans provide for a lump sum payment to each officer upon reaching the retirement age of 55. The lump sum payment is equal to the officers gross yearly compensation of the prior calendar year.

Management estimates the current liability under these agreements at December 31, 2004 and 2003, to be \$61,636 and \$147,636 respectively. The Corporation has accrued these amounts in other liabilities on the consolidated statement of financial condition. The cash surrender value of life insurance policies at December 31, 2004 and 2003, was \$-0- and \$86,000, respectively, which is included in cash surrender value of life insurance at December 31, 2004.

Note 14 - Stock Option Plans

Prior to 2003, the Board of Directors, upon stockholder approval, authorized key employees of the Bank to be eligible to participate in an Incentive Stock Option Plan. Under the Plan, the Board of Directors may grant options to purchase shares of common stock of the Corporation, not to exceed 30,000 shares. The Board of Directors, upon stockholder approval, also approved a Director Non-Qualified Stock Option Plan. Under the Plan, the Board of Directors may grant options to purchase shares of common stock of the Corporation, not to exceed 15,000 shares. The per option price for options granted under both Plans shall be the fair market value of said share on the date the option is granted. Stock options granted are eligible for adjustment in the event that the outstanding common stock of the Corporation changes as a result of a stock dividend, stock split, or other changes to existing stock.

A summary of the status of the Corporation's stock option plans and changes during the year ended December 31, 2004, is presented below:

| | 2004 | | 2003 | |
|--|---------------|-------------------------------|---------------|-------------------------------|
| | Shares Actual | Weight Average Exercise Price | Shares Actual | Weight Average Exercise Price |
| Outstanding options, beginning of year | 28,273 | \$ 60.35 | 13,035 | \$ 60.35 |
| Granted | - | \$ - | 17,256 | \$ 66.00 |
| Exercised | (3,820) | \$ 55.30 | (1,283) | \$ 51.50 |
| Forfeited | - | \$ - | (735) | \$ 51.50 |
| Outstanding options, end of year | 24,453 | \$ 61.14 | 28,273 | \$ 60.35 |
| Options exercisable at year end | 23,257 | | 14,603 | |
| Weighted-average fair value of options granted during the year | \$ - | | \$ 6.22 | |

Notes to Consolidated Financial Statements

Note 14 - Stock Option Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 2004:

| | Options Outstanding | | | Exercisable Options | |
|-----------------------|-----------------------------------|---|---------------------------------|-----------------------------------|---------------------------------|
| | Number Outstanding at End of Year | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number Exercisable at End of Year | Weighted-Average Exercise Price |
| Price range (\$51.50) | 8,197 | 6.95 | \$ 51.50 | 7,001 | \$ 51.50 |
| Price range (\$66.00) | 16,256 | 8.96 | 66.00 | 16,256 | 66.00 |
| | <u>24,453</u> | <u>8.92</u> | <u>\$ 61.14</u> | <u>23,257</u> | <u>\$ 61.14</u> |

There were no additional stock options granted during 2004. The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for the 2003 grant:

| | |
|-------------------------|---------|
| Dividend yield | 2.4% |
| Expected volatility | 5.6% |
| Risk-free interest rate | 3.8% |
| Expected option life | 7 years |

Note 15 - Regulatory Capital Requirements

The Corporation is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines on the regulatory framework for prompt corrective action, the Corporation must meet specific capital adequacy guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under the regulatory framework for prompt corrective action, the Corporation must maintain minimum Tier 1 leverage, Tier 1 risk-based, total risk-based ratios as set forth in the table.

Notes to Consolidated Financial Statements

Note 15 - Regulatory Capital Requirements (Continued)

As of the most recent notification from the Bank's regulator, the Corporation was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation must maintain minimum capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Corporation's actual capital amounts and ratios are presented as follows:

| | Actual | | Capital Adequacy Purposes | | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---------------------|---------------|---------------------------|-------|--------------|--|-----------------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| December 31, 2004 | | | | | | | |
| Tier 1 capital (to average assets): | | | | | | | |
| AMB Financial Services Corp | \$31,661,000 | 9.34% | \$13,564,480 | ≥ | 4.00% | NA | ≥ NA |
| American Marine Bank | 32,287,000 | 9.56% | 13,511,080 | ≥ | 4.00% | \$16,888,850 | ≥ 5.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | | |
| AMB Financial Services Corp | 31,661,000 | 12.13% | 10,436,720 | ≥ | 4.00% | NA | ≥ NA |
| American Marine Bank | 32,287,000 | 12.39% | 10,419,520 | ≥ | 4.00% | 15,629,280 | ≥ 6.00% |
| Total capital (to risk-weighted assets): | | | | | | | |
| AMB Financial Services Corp | 35,980,000 | 13.79% | 20,873,440 | ≥ | 8.00% | NA | ≥ NA |
| American Marine Bank | 35,548,000 | 13.65% | 20,839,040 | ≥ | 8.00% | 26,048,800 | ≥ 10.00% |

| | Actual | | Capital Adequacy Purposes | | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|--------------|--------|---------------------------|-------|--------|--|----------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | |
| December 31, 2004 | | | | | | | |
| Tier 1 capital (to average assets): | | | | | | | |
| AMB Financial Services Corp | \$23,359,000 | 7.33% | \$12,199,000 | ≥ | 4.00% | NA | ≥ NA |
| American Marine Bank | 23,579,000 | 7.73% | 12,194,000 | ≥ | 4.00% | \$15,242,000 | ≥ 5.00% |
| Tier 1 capital (to risk-weighted assets): | | | | | | | |
| AMB Financial Services Corp | 22,359,000 | 9.71% | 9,211,000 | ≥ | 4.00% | NA | ≥ NA |
| American Marine Bank | 23,579,000 | 10.25% | 9,204,000 | ≥ | 4.00% | 13,824,000 | ≥ 6.00% |
| Total capital (to risk-weighted assets): | | | | | | | |
| AMB Financial Services Corp | 25,241,000 | 10.96% | 18,421,000 | ≥ | 8.00% | NA | ≥ NA |
| American Marine Bank | 26,458,000 | 11.50% | 16,407,000 | ≥ | 8.00% | 23,040,000 | ≥ 10.00% |

Notes to Consolidated Financial Statements

Note 16 - Earnings Per Share

The calculation of earnings per share and earnings per share assuming full dilution is as follows:

| | Year Ended December 31, 2004 | | |
|---|-------------------------------------|---|-----------------------------|
| | Income (Numerator) | Average Number of Shares (Denominator) | Per Share Amount |
| Basic EPS | | | |
| Income available to common stockholders | \$ 2,933,566 | 579,966 | \$ 5.06 |
| Effect of Dilutive Securities | | | |
| Stock options | | 2,816 | |
| Diluted EPS | | | |
| Income available to common stockholders plus assumed conversions | \$ 2,933,566 | 582,782 | \$ 5.03 |
| | Year Ended December 31, 2003 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic EPS | | | |
| Income available to common stockholders | \$ 3,051,779 | 579,721 | \$ 5.26 |
| Effect of Dilutive Securities | | | |
| Stock options | | 1,426 | |
| Diluted EPS | | | |
| Income available to common stockholders plus assumed conversions | \$ 3,051,779 | 581,147 | \$ 5.25 |

The Corporation's stock is traded on a limited basis. The average market price per share during 2004 was used in the determination of the dilutive effect of stock options.

Notes to Consolidated Financial Statements

Note 17 - Fair Value of Financial Instruments

The estimated fair values of the Corporation's financial instruments are as follows:

| | 2004 | | 2003 | |
|------------------------------------|-----------------|----------------------|-----------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial Assets: | | | | |
| Cash and due from banks | \$ 5,839,705 | \$ 5,839,705 | \$ 8,422,894 | \$ 8,422,894 |
| Interest-bearing deposits in banks | 5,226,071 | 5,226,071 | 35,255 | 35,255 |
| Federal funds sold | 2,500,000 | 2,500,000 | - | - |
| Securities available for sale | 43,738,750 | 43,744,010 | 45,889,044 | 45,889,044 |
| Federal Home Loan Bank stock | 3,359,900 | 3,359,900 | 3,268,200 | 3,268,200 |
| Investment in limited partnership | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Loans receivable | 252,184,093 | 249,102,239 | 232,684,957 | 233,068,286 |
| Accrued interest receivable | 1,370,040 | 1,370,040 | 1,225,617 | 1,225,617 |
| Financial Liabilities: | | | | |
| Deposits | 262,225,062 | 261,348,237 | 244,967,936 | 243,464,219 |
| FHLB advances | 33,977,190 | 34,219,176 | 31,482,432 | 32,708,348 |
| Obligation to KSOP plan | 222,000 | 222,000 | 296,000 | 296,000 |
| Other borrowings | 2,152,998 | 2,152,998 | 2,472,066 | 2,472,066 |
| Federal funds purchased | - | - | 1,700,000 | 1,700,000 |
| Accrued interest payable | 566,773 | 566,773 | 499,066 | 499,066 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and due from banks, interest-bearing deposits in banks and federal funds sold:

The carrying amount approximates fair value because of the short maturity of these investments.

Securities available for sale and Federal Home Loan Bank stock:

The fair values of marketable securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Federal Home Loan Bank stock fair value is based on current redemption values.

Loans receivable:

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, consumer, credit card, and other. Each loan category is further segmented into fixed and adjustable rate interest terms. The fair values for fixed-rate loans are estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values.

Fair values for loans held for sale are based on estimated market prices. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Note 17 - Fair Value of Financial Instruments (Continued)

Deposits:

The fair value of demand deposits, savings accounts, and interest checking and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances, obligation to KSOP, and other borrowings:

The fair values of the Corporation's long-term debt are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Federal funds purchased:

The carrying amount approximates fair value because of the short maturity of these borrowings.

Accrued interest:

The carrying amounts of accrued interest approximate their fair values.

Off-balance-sheet instruments:

Fair values of off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of the fees at December 31, 2004 and 2003, were insignificant. See Note 7 for the notional amount of the commitments to extend credit.

