



**INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated statements of financial condition of AMB Financial Services Corporation and subsidiary (the Corporation) as of December 31, 2007 and 2006, 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 Corporation'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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial condition of AMB Financial Services Corporation and subsidiary as of December 31, 2007 and 2006, 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
April 10, 2008

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

ASSETS

	December 31,	
	<u>2007</u>	<u>2006</u>
Cash and due from banks	\$ 8,942,743	\$ 9,699,431
Interest-bearing deposits in banks	10,479	5,098,140
Federal funds sold	-	4,477,922
Securities available for sale	62,504,547	50,012,434
Federal Home Loan Bank stock	3,256,800	3,256,800
Investment in limited partnership	684,505	760,374
Loans receivable, net of allowance for loan losses of \$4,105,940 2007; \$3,413,705 2006	316,530,162	289,379,892
Accrued interest receivable	2,329,611	2,171,480
Premises and equipment, net	13,346,316	13,369,207
Foreclosed real estate	-	118,000
Cash surrender value of life insurance policies	7,591,453	7,339,106
Goodwill	497,480	497,480
Other assets	2,017,399	2,074,204
	<u>\$ 417,711,495</u>	<u>\$ 388,254,470</u>
TOTAL ASSETS		

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$ 323,625,153	\$ 305,736,129
Federal Home Loan Bank advances	48,731,465	42,898,131
Obligation to KSOP Plan	-	74,000
Federal funds purchased	5,013,889	-
Other borrowings	1,313,448	1,667,071
Accrued interest payable	1,349,674	1,250,685
Other liabilities	3,087,500	2,733,886
Subordinated debentures	7,217,000	7,217,000
	<u>390,338,129</u>	<u>361,576,902</u>
Total liabilities		
COMMITMENTS (Note 7)		
STOCKHOLDERS' EQUITY		
Capital stock, no par; 6,000,000 and 2,000,000 shares authorized; 1,603,230 and 548,013 shares issued and outstanding in 2007 and 2006, respectively	4,241,931	5,450,217
Retained earnings	22,928,996	21,317,918
Accumulated other comprehensive income (loss)	202,439	(90,567)
	<u>27,373,366</u>	<u>26,677,568</u>
Total stockholders' equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 417,711,495</u>	<u>\$ 388,254,470</u>

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME**

	Year Ended December 31,	
	2007	2006
Interest income		
Loans receivable, including fees	\$ 23,821,597	\$ 21,895,400
Securities available for sale	2,346,201	2,137,294
Federal funds sold	158,634	72,544
Interest-bearing deposits	46,333	21,687
Total interest income	<u>26,372,765</u>	<u>24,126,925</u>
Interest expense		
Deposits	8,565,706	5,927,101
Federal Home Loan Bank advances	1,655,137	2,067,481
Other interest expense	671,626	814,016
Total interest expense	<u>10,892,469</u>	<u>8,808,598</u>
Net interest income	<u>15,480,296</u>	<u>15,318,327</u>
Provision for loan losses	<u>774,011</u>	<u>880,000</u>
Net interest income after provision for loan losses	<u>14,706,285</u>	<u>14,438,327</u>
Noninterest income		
Service charges	904,771	946,178
Income from trust fiduciary activities	1,382,426	1,229,659
Other income	1,478,467	1,770,586
Total noninterest income	<u>3,765,664</u>	<u>3,946,423</u>
Noninterest expenses		
Salaries and employee benefits	8,252,120	8,316,047
Occupancy	2,934,372	2,622,925
Salary continuance benefit	24,524	60,704
Professional fees	577,208	703,362
Printing and postage	323,407	319,258
Computer	509,325	502,765
Taxes and license	373,059	314,597
Communications	201,436	198,152
Advertising	176,720	172,188
Insurance	208,839	217,737
Directors fees	184,000	170,000
Exchange	269,911	273,749
Other	1,278,093	1,341,049
Total noninterest expense	<u>15,313,014</u>	<u>15,212,533</u>
Income before income taxes	<u>3,158,935</u>	<u>3,172,217</u>
Federal income tax expense	<u>686,365</u>	<u>786,762</u>
NET INCOME	<u>\$ 2,472,570</u>	<u>\$ 2,385,455</u>
Basic earnings per share	<u>\$ 1.52</u>	<u>\$ 1.43</u>
Diluted earnings per share	<u>\$ 1.51</u>	<u>\$ 1.40</u>

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Balance, December 31, 2005

Net income for 2006

Cash dividends (\$1.20 per share)

Dividend payable on January 15, 2007 (\$.40 per share)

Repurchase of shares

Exercise of stock options

Stock option expense

Shares repurchased from KSOP

Net change in unrealized loss on securities available
for sale, net of taxes

Comprehensive income

Balance, December 31, 2006

Net income for 2007

Stock split, 3 to 1 ratio, April 27, 2007

Cash dividends (\$0.67 per share)

Dividend payable on January 15, 2008 (\$.13 per share)

Exercise of stock options

Stock option expense

Shares repurchased from KSOP

Net change in unrealized loss on securities available
for sale, net of taxes

Comprehensive income

Balance, December 31, 2007

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

Shares of Common Stock	Total Stockholders' Equity	Capital Stock	Retained Earnings	Accumulated Comprehensive Income (Loss)	Comprehensive Income
563,525	\$ 26,439,868	\$ 6,733,119	\$ 19,816,895	\$ (110,146)	
-	2,385,455	-	2,385,455	-	\$ 2,385,455
-	(665,227)	-	(665,227)	-	
-	(219,205)	-	(219,205)	-	
(6,552)	(490,242)	(490,242)	-	-	
2,328	149,547	149,547	-	-	
-	17,273	17,273	-	-	
(11,288)	(959,480)	(959,480)	-	-	
-	19,579	-	-	19,579	19,579
					<u>\$ 2,405,034</u>
548,013	26,677,568	5,450,217	21,317,918	(90,567)	
-	2,472,570	-	2,472,570	-	\$ 2,472,570
1,096,026	-	-	-	-	
-	(653,072)	-	(653,072)	-	
-	(208,420)	-	(208,420)	-	
4,956	92,592	92,592	-	-	
-	17,273	17,273	-	-	
(45,765)	(1,318,151)	(1,318,151)	-	-	
-	293,006	-	-	293,006	293,006
					<u>\$ 2,765,576</u>
1,603,230	\$ 27,373,366	\$ 4,241,931	\$ 22,928,996	\$ 202,439	

See accompanying notes.

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,472,570	\$ 2,385,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,543,915	1,516,675
Provision for loan losses	774,011	880,000
Amortization of investment premium, net	147,967	198,854
Decrease in deferred taxes	(435,281)	(294,482)
Loss on investment in limited partnership	75,869	92,336
Realized (gain) loss on sale of foreclosed real estate	19,880	(190,918)
Loss on sale of premises and equipment	12,295	3,507
Stock-based compensation expense	17,273	17,273
Net decrease in accrued interest receivable and other assets	183,041	2,629,058
Net increase in cash surrender value of life insurance	(252,347)	(130,787)
Increase in accrued interest payable and other liabilities	118,221	523,155
	4,677,414	7,630,126
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold	4,477,922	550,285
Net (increase) decrease in interest-bearing deposits in banks	5,087,661	(5,094,620)
Loans made and principal collected, net	(27,924,281)	(32,144,954)
Activity in available for sale securities:		
Proceeds from maturities, calls, and principal repayments of securities	22,452,575	10,390,143
Purchases of securities	(34,648,735)	(10,630,486)
Purchase of life insurance policy	-	(1,595,000)
Purchases of premises and equipment	(1,539,336)	(467,553)
Proceeds from sales of premises and equipment	6,017	625
Proceeds from sales of foreclosed real estate	98,120	1,891,818
	(31,990,057)	(37,099,742)

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 17,889,024	\$ 25,325,369
Net increase in Federal Home Loan Bank advances	5,833,334	8,833,333
Dividends paid on common stock	(872,277)	(890,637)
Proceeds from issuance of common stock	92,592	149,547
Repurchase of common stock	(1,318,151)	(1,449,722)
Repayment of KSOP loan	(74,000)	(74,000)
Proceeds from other borrowings	625,000	250,000
Repayment of other borrowings	(633,456)	(446,170)
Net increase in federal funds purchased	5,013,889	-
	26,555,955	31,697,720
NET CHANGE IN CASH AND DUE FROM BANKS	(756,688)	2,228,104
Cash and due from banks at January 1	9,699,431	7,471,327
Cash and due from banks at December 31	\$ 8,942,743	\$ 9,699,431
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 10,793,480	\$ 8,144,248
Income taxes	\$ 425,000	\$ 785,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Net change in unrealized gain on securities available for sale	\$ 443,920	\$ 29,694

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 subsidiary, American Marine Bank (the Bank), after eliminating all significant intercompany accounts and transactions.

Nature of business:

The Corporation's primary business activities are conducted through its Bank subsidiary. American Marine Bank is a state chartered commercial bank under the laws of the state of Washington. The Corporation and its subsidiary 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 consolidated 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 consolidated 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, 2007, was \$145,000.

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.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2007 or 2006.

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.

Federal Home Loan Bank stock:

The Corporation holds stock in the Federal Home Loan Bank (FHLB). FHLB stock is a required investment for institutions that are members of the FHLB. The required investment in common stock is based on a predetermined formula and is carried at par value on the consolidated statement of financial condition. The stock can be sold back to the FHLB at cost, but is restricted as to purchase and sale based on the level of business activity the Corporation is engaged in with the FHLB.

Investment in limited partnership:

The Corporation owns two units of Homestead Equity Fund A, a limited partnership. The investment is accounted for in accordance with the equity method of accounting for investments. The initial investment was partially funded by a note payable to the limited partnership (see Note 11). Net losses were recorded by the Corporation for the years ended December 31, 2007 and 2006, in the amount of \$75,869 and \$92,336, respectively, which is included in other noninterest expenses on the consolidated statement of income.

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.

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans receivable (continued):

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 Corporation'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 Corporation 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.

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

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

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 consolidated 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.

Long-lived assets:

The Corporation evaluates the carrying value of long-lived assets based on current and anticipated discounted cash flows and recognizes impairment when such cash flows will be less than the carrying value of the asset. At December 31, 2007 and 2006, no assets had been written down for impairment.

Income taxes:

Deferred income taxes are reported for temporary differences between items of income or expense reported in the consolidated 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*.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

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 are determined using the treasury stock method.

Total weighted-average shares outstanding were adjusted to take into account a 3 for 1 stock split that took place on April 30, 2007. Weighted average shares outstanding were 1,623,924 and 1,667,094 at December 31, 2007 and 2006, respectively.

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.

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

	Year Ended December 31	
	<u>2007</u>	<u>2006</u>
Unrealized holding gains on available for sale securities	\$ 443,920	\$ 29,694
Reclassification adjustment for gains realized in income	<u>-</u>	<u>-</u>
Net unrealized gains	443,920	29,694
Tax effect	<u>(150,914)</u>	<u>(10,115)</u>
NET OF TAX AMOUNT	<u>\$ 293,006</u>	<u>\$ 19,579</u>

Note 1 - Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements:

Statement of Financial Accounting Standards (SFAS) No. 155, *Accounting for Certain Hybrid Instruments* amends the guidance in SFAS Nos. 133 and 140 and is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. The election may be made on an instrument-by-instrument basis and can be made only when a hybrid financial instrument is initially recognized or when certain events occur that constitute a remeasurement (i.e., new basis) event for a previously recognized hybrid financial instrument. An entity must document its election to measure a hybrid financial instrument at fair value, either concurrently or via a preexisting policy for automatic election. Once the fair value election has been made, that hybrid financial instrument may not be designated as a hedging instrument pursuant to SFAS No. 133.

The FASB believes the issuance of SFAS No. 155 provides for the following:

- Clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133;
- Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;
- Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and
- Amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is not expected to have a material impact on the Corporation.

SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of Financial Accounting Standards Board (FASB) Statement No. 140* amends the guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, the new standard addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The standard clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability. This standard also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortization method or the fair value measurement method for subsequent measurement of each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not issued consolidated financial statements. The Corporation does not believe this statement will have a material impact on the consolidated financial statements.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements (continued):

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 is not expected to have a material impact on the Corporation.

Interpretation (FIN) No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 also prescribes a consistent recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN No. 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2007. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN No. 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN No. 48. The cumulative effect of applying the provisions of FIN No. 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. FIN No. 48 is not expected to have a material impact on the Corporation.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

	December 31, 2007			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government and agency	\$ 10,800,620	\$ 81,561	\$ (21,462)	\$ 10,860,719
State, county, and municipal	37,064,299	338,661	(155,407)	37,247,553
Corporate bonds	496,314	10,292	-	506,606
Mutual equity fund securities	250,000	1,908	-	251,908
Mortgage backed securities	13,586,588	98,193	(47,020)	13,637,761
	\$ 62,197,821	\$ 530,615	\$ (223,889)	\$ 62,504,547

	December 31, 2006			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities available for sale:				
U.S. government and agency	\$ 25,360,890	\$ 37,127	\$ (270,881)	\$ 25,127,136
State, county, and municipal	18,780,815	244,090	(63,436)	18,961,469
Corporate bonds	1,522,260	17,178	(18,793)	1,520,645
Mortgage backed securities	4,485,663	6,801	(89,280)	4,403,184
	\$ 50,149,628	\$ 305,196	\$ (442,390)	\$ 50,012,434

The following table shows the Corporation's gross unrealized losses and fair value of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007. 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, 2007					
	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	\$ -	\$ -	\$ 5,119,383	\$ (21,462)	\$ 5,119,383	\$ (21,462)
State, county, and municipal	10,152,044	(121,820)	5,540,504	(33,587)	15,692,548	(155,407)
Mortgage backed securities	2,122,957	(12,559)	1,972,738	(34,461)	4,095,695	(47,020)
	\$ 12,275,001	\$ (134,379)	\$ 12,632,625	\$ (89,510)	\$ 24,907,626	\$ (223,889)

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Securities (Continued)

	December 31, 2006					
	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	\$ 20,533,953	\$ (249,974)	\$ 4,042,654	\$ (20,907)	\$ 24,576,607	\$ (270,881)
State, county, and municipal	2,821,228	(27,785)	6,212,891	(35,651)	9,034,119	(63,436)
Corporate bonds	1,010,943	(18,793)	-	-	1,010,943	(18,793)
Mortgage backed securities	3,396,255	(80,943)	873,226	(8,337)	4,269,481	(89,280)
	<u>\$ 27,762,379</u>	<u>\$ (377,495)</u>	<u>\$ 11,128,771</u>	<u>\$ (64,895)</u>	<u>\$ 38,891,150</u>	<u>\$ (442,390)</u>

The scheduled maturities of securities available for sale at December 31, 2007, were as follows. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without penalties. As such mortgage-backed securities are not classified by maturity due to the variation of the timing in which payments will be received.

	Amortized Cost	Fair Value
Maturing in less than one year	\$ 8,169,783	\$ 8,183,042
Maturing in one to five years	9,606,021	9,748,383
Maturing in five to ten years	9,661,396	9,795,533
Maturing after ten years	21,174,033	21,139,828
Mortgage backed securities	13,586,588	13,637,761
	<u>\$ 62,197,821</u>	<u>\$ 62,504,547</u>

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:

	2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
To secure short term borrowings and trust collateral	\$ 3,710,927	\$ 3,702,035	\$ 3,583,361	\$ 3,566,760
Treasury tax and loan account	1,042,653	1,058,919	1,067,904	1,065,524
To secure public deposits	1,042,870	1,052,500	1,055,203	1,021,875
	<u>\$ 5,796,450</u>	<u>\$ 5,813,454</u>	<u>\$ 5,706,468</u>	<u>\$ 5,654,159</u>

No securities available for sale were sold during the years ended December 31, 2007 or 2006.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 3 - Loans Receivable and Allowance for Credit Losses

Major classifications of loans at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Commercial and real estate	\$ 287,951,296	\$ 261,108,889
Home equity	25,798,455	24,652,534
Consumer installment loans	4,657,705	4,940,382
Credit cards	2,748,863	2,667,998
	321,156,319	293,369,803
Allowance for loan losses	(4,105,940)	(3,413,705)
Deferred loan fees, net of deferred costs	(520,217)	(576,206)
	\$ 316,530,162	\$ 289,379,892

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

	<u>2007</u>	<u>2006</u>
Fixed	\$ 194,530,570	\$ 184,531,870
Variable	126,625,749	108,837,933
	\$ 321,156,319	\$ 293,369,803

Impairment of loans having recorded investments of \$22,462,547 and \$7,662,618 at December 31, 2007 and 2006, 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 \$1,140,423 and \$436,480 at December 31, 2007 and 2006, respectively. The Corporation 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, 2007 and 2006, was \$22,103,060 and \$8,443,245, respectively. Interest income on impaired loans of \$1,144,189 and \$680,592 was recognized for cash payments received in 2007 and 2006, respectively. The Corporation had loans with a balance of \$3,752,498 and \$122,038 on nonaccrual status at December 31, 2007 and 2006, respectively. Total loans past due 90 days or more and still accruing interest were \$3,973,122 and \$-0- at December 31, 2007 and 2006, respectively.

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	<u>2007</u>	<u>2006</u>
Allowance for loan losses:		
Balance, beginning of year	\$ 3,413,705	\$ 3,672,904
Provision charged to expense	774,011	880,000
Losses charged to allowance	(104,411)	(1,149,740)
Recoveries of losses previously charged off	22,635	10,541
	<u>\$ 4,105,940</u>	<u>\$ 3,413,705</u>
Reserve for unfunded commitments, included in other liabilities on the accompanying balance sheet:		
Balance, beginning of year	\$ 303,509	\$ 297,638
Provision charged to expense	(89,011)	5,871
	<u>\$ 214,498</u>	<u>\$ 303,509</u>
Allowance for credit losses:		
Allowance for loan losses	\$ 4,105,940	\$ 3,413,705
Reserve for unfunded commitments	214,498	303,509
	<u>\$ 4,320,438</u>	<u>\$ 3,717,214</u>

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 \$48,594,557 and \$60,282,425 at December 31, 2007 and 2006, respectively.

Note 4 - Foreclosed Real Estate

There were no loans transferred into foreclosed real estate during the years ended December 31, 2007 and 2006. Foreclosed real estate was adjusted to net realizable value when it was originally transferred in from the loan balance and was adjusted down again when management received revised estimates of fair value during the year. Proceeds from the sale of foreclosed real estate were \$98,120 and \$1,832,318 for the years ended December 31, 2007 and 2006, respectively. There was no valuation allowance recognized on foreclosed real estate at December 31, 2007 and 2006.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 5 - Premises and Equipment

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

	<u>2007</u>	<u>2006</u>
Land	\$ 1,193,006	\$ 1,193,006
Buildings and leasehold improvements	11,491,276	11,459,778
Equipment	8,782,952	8,440,150
	21,467,234	21,092,934
Less accumulated depreciation and amortization	(8,127,091)	(7,875,712)
Construction in process	6,173	151,985
	<u>\$ 13,346,316</u>	<u>\$ 13,369,207</u>

Depreciation and amortization expense for the years ended December 31, 2007 and 2006, was \$1,543,915 and \$1,516,675, respectively.

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, 2006. Net rent expense under operating leases was \$447,313 and \$548,937 for the years ended December 31, 2007 and 2006, respectively.

The future minimum annual payments under these agreements at December 31, 2007, exclusive of taxes and other charges, were as follows:

Years ending December 31,	
2008	\$ 420,434
2009	470,245
2010	493,324
2011	501,646
2012	506,108
Thereafter	<u>3,860,223</u>
	<u>\$ 6,251,980</u>

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Deposits

Major classifications of deposits at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Demand	\$ 13,002,625	\$ 14,436,492
Interest checking and Money Market	123,727,460	122,373,800
Savings	21,583,004	23,381,862
Time, \$100,000 and over	84,197,237	69,346,113
Other time	64,320,638	60,410,845
IRA	8,411,939	7,684,140
Other	8,382,250	8,102,877
	<u>\$ 323,625,153</u>	<u>\$ 305,736,129</u>

The following is a schedule by years of maturities for time deposits as of December 31, 2007:

Years ending December 31,	
2008	\$ 133,146,610
2009	8,710,053
2010	3,015,285
2011	1,881,776
2012	1,746,035
2013	18,116
	<u>\$ 148,517,875</u>

Note 7 - Commitments

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 consolidated 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.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 7 - Commitments (Continued)

At December 31 commitments to extend credit were as follows:

	<u>Contract or Notional Amount</u>	
	<u>2007</u>	<u>2006</u>
Loan commitments, including credit cards	\$ 69,444,070	\$ 69,517,519
Standby and performance letters of credit	959,466	1,418,178
TOTAL CREDIT COMMITMENTS	<u>\$ 70,403,536</u>	<u>\$ 70,935,697</u>

In addition, the Corporation has a courtesy overdraft protection program for customers who meet certain qualifications. Under this program, the Corporation advances funds to cover overdrawn accounts up to \$300, \$500, \$1,000, or \$1,500 per account, depending on the customer's account type. The commitment related to this program as of December 31, 2007, was \$4,253,707, of which \$16,205 was utilized. The commitment related to this program as of December 31, 2006, was \$3,813,381, of which \$11,445 was utilized.

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 Mason, King, Kitsap, and Jefferson Counties areas 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 \$6,719,683. By Bank policy, however, this amount is not to exceed \$4,000,000.

Note 8 - Income Taxes

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

	<u>2007</u>	<u>2006</u>
Current tax expense	\$ 787,210	\$ 1,081,216
Deferred tax benefit	(100,845)	(294,454)
INCOME TAX EXPENSE	<u>\$ 686,365</u>	<u>\$ 786,762</u>

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Income Taxes (Continued)

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:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,263,086	\$ 1,088,600
Salary continuance plan	571,225	627,733
Nondeductible acquisition costs	36,162	36,162
Net unrealized losses on securities available for sale	-	46,627
Other	<u>99,989</u>	<u>19,753</u>
 Total deferred tax assets	 <u>1,970,462</u>	 <u>1,818,875</u>
Deferred tax liabilities:		
Accumulated depreciation and amortization	(548,861)	(504,230)
Goodwill	(76,112)	(63,427)
Loan origination costs	(74,265)	(79,581)
FHLB stock dividends	(321,072)	(321,072)
Book-tax basis differential in limited partnership	(9,427)	(5,006)
Prepaid expenses	(126,669)	(81,227)
Net unrealized gains on securities available for sale	(104,287)	-
Mortgage servicing rights	<u>(11,735)</u>	<u>(16,201)</u>
 Total deferred tax liabilities	 <u>(1,272,428)</u>	 <u>(1,070,744)</u>
 NET DEFERRED TAX ASSET	 <u>\$ 698,034</u>	 <u>\$ 748,131</u>

At December 31, 2007 and 2006, an income tax liability of \$396,847 and \$16,627, respectively, was 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:

	<u>2007</u>	<u>2006</u>
Federal income tax at statutory rate	\$ 1,074,425	\$ 1,078,553
Effect of permanent differences	(400,541)	(244,374)
Other	<u>12,481</u>	<u>(47,417)</u>
 FEDERAL INCOME TAX EXPENSE	 <u>\$ 686,365</u>	 <u>\$ 786,762</u>

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 \$7,660,523 and \$7,819,249 at December 31, 2007 and 2006, respectively. The aggregate dollar amount of deposits from such individuals was \$748,600 and \$667,444 at December 31, 2007 and 2006, respectively.

Note 10 - Federal Home Loan Bank Advances

At December 31, 2007, FHLB advances were scheduled to mature as follows:

	<u>Weighted- Average Rate</u>	<u>Amount</u>
Years ending December 31,		
2008	4.51%	\$ 21,115,592
2009	4.74%	14,066,667
2010	4.43%	66,667
2011	5.01%	6,566,667
2012	4.77%	3,566,667
Thereafter	5.16%	<u>3,349,205</u>
		<u>\$ 48,731,465</u>

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.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 11 - Other Borrowings

The Corporation has borrowed additional funds as follows:

	<u>2007</u>	<u>2006</u>
Note payable with KeyBank, with monthly principal payments of \$31,368 maturing April 30, 2009, with interest at the one-month LIBOR plus 2.25%, currently 7.31% at December 31, 2007. The note is secured by American Marine Bank stock, and is guaranteed by the Corporation.	\$ 216,134	\$ 561,301
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.	722,314	855,770
Revolving line of credit with KeyBank, maturing September 29, 2007, with interest at the three-month LIBOR plus 2.00%, currently 6.40% at December 31, 2007. The line of credit is secured by American Marine Bank stock and has a limit of \$1,000,000.	<u>375,000</u>	<u>250,000</u>
	<u>\$ 1,313,448</u>	<u>\$ 1,667,071</u>

At December 31, 2007, other borrowings were scheduled to mature as follows:

	<u>Weighted- Average Rate</u>	<u>Amount</u>
Years ending December 31,		
On demand	0.000%	\$ 722,314
2008	6.687%	375,000
2009	7.313%	<u>216,134</u>
		<u>\$ 1,313,448</u>

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 11 - 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 8.09% at December 31, 2007. 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 8.09% at December 31, 2007. 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.

Note 12 - 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 two types of employer contributions: 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 \$-0- and \$74,000 at December 31, 2007 and 2006.

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 \$302,023 and \$285,932 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, allocated shares were 351,945 and 365,544, respectively, and no shares were unallocated. Allocated shares were adjusted to take into account a five for one stock split that took place on April 30, 2007. Dividends declared on shares held by the KSOP were \$191,470 in 2007 and \$196,887 in 2006.

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Retirement Plans (Continued)

KSOP Plan (continued):

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, 2007, there were approximately 105,584 shares subject to this repurchase requirement with a market value of \$2,534,016.

Life insurance and salary continuation:

The Corporation maintains individual executive supplemental income plans for the benefit of certain officers. The plans are funded by the purchase of corporate owned life insurance policies 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, 2007 and 2006, was \$24,524 and \$60,704, respectively.

The present value of the accumulated post-retirement benefit obligation attributable to years of service through December 31, 2007 and 2006, is approximately \$1,680,074 and \$1,846,273, respectively. The Corporation has accrued these amounts in other liabilities on the consolidated statement of financial condition.

The insurance cash surrender value was approximately \$7,591,453 and \$7,339,106 at December 31, 2007 and 2006, respectively, and is included on the consolidated statement of financial condition.

Note 13 - Stock Option Plans

In previous years, the Board of Directors, upon stockholder approval, approved two stock option plans (the Plans); one for key employees and one for directors of the Corporation. The Incentive Stock Option Plan permits the grant of stock options to authorized key employees for up to 30,000 shares of common stock. These option awards generally vest based on five years of continuous service. The Director Non-Qualified Stock Option Plan permits the grant of stock options to directors for up to 15,000 shares of common stock. Director option awards are fully vested on the date of grant. Option awards under both Plans are generally granted with an exercise price equal to the market price of the Corporation's stock at the date of grant and have 10-year contractual terms. 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. The Plans will terminate on March 21, 2011.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 13 - Stock Option Plans (Continued)

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for unvested grants as of December 31, 2007, was as follows:

Risk free interest rate	5.0%
Expected volatility	5.6%
Expected cash dividends	2.4%
Expected life	7 years

A summary of option activity under the Plans as of December 31, 2007, and changes during the year then ended is presented below:

	2007		2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding options, beginning of year	45,453	\$ 20.75	54,813	\$ 20.64
Granted	-	\$ -	-	\$ -
Exercised	(4,956)	\$ 17.17	(6,984)	\$ 18.81
Forfeited or expired	(7,464)	\$ 22.00	(2,376)	\$ 22.00
Outstanding options, end of year	33,033	\$ 21.01	45,453	\$ 20.83
Exercisable options, end of year	33,033	\$ 21.01	43,227	\$ 20.69

The following table summarizes information about stock options outstanding at December 31, 2007:

	Weighted-Average Remaining Contractual Life (Years)	Options Outstanding			Exercisable Options		
		Number Outstanding at End of Year	Aggregate Intrinsic Value	Weighted-Average Exercise Price	Number Exercisable at End of Year	Aggregate Intrinsic Value	Weighted-Average Exercise Price
Exercise prices:							
Price range (\$17.17)	3.95	6,753	\$ 78,965	\$ 17.17	6,753	\$ 78,965	\$ 17.17
Price range (\$22.00)	5.97	26,280	180,281	22.00	26,280	180,281	22.00
		33,033	\$ 259,246		33,033	\$ 259,246	

AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Stock Option Plans (Continued)

Information on the exercise of options was as follows during the years ended December 31:

	<u>2007</u>	<u>2006</u>
Option shares exercised	<u>4,956</u>	<u>6,984</u>
Fair value of shares exercised	\$ <u>143,030</u>	\$ 187,218
Proceeds from the exercise of options	<u>85,078</u>	<u>131,376</u>
 INTRINSIC VALUE OF OPTIONS EXERCISED	 <u>\$ 57,952</u>	 <u>\$ 55,842</u>

SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated income statement based on their fair values. Compensation cost is recorded as if each vesting portion of the award is a separate award. The adoption of this standard as of January 1, 2006, using the modified prospective method, resulted in \$17,273 of compensation expense for the years ended December 31, 2007 and 2006, related to the unvested portion of options granted in prior years. Net of taxes for the years ended December 31, 2007 and 2006, this reduced net income by \$11,400. The basic and diluted earnings per share basis effect in December 31, 2007 and 2006, was \$.01 and \$.02 respectively. There was no unrecognized compensation cost remaining at December 31, 2007.

SFAS 123(R) requires the recognition of stock-based compensation for the number of awards that are expected to vest. Recognized stock compensation expense was not reduced by estimated forfeitures because management believes the future effect to be minimal. Estimated forfeitures will be continually evaluated in subsequent periods and may change based on new facts and circumstances.

Prior to January 1, 2006, employee stock options were accounted for under the intrinsic value method as allowed under APB No. 25. Stock options are generally granted at exercise prices not less than the fair market value of the Corporation's common stock on the date of grant. Under APB No. 25, no compensation expense was recognized pursuant to the Corporation's stock option plans for stock options.

Note 14 - 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 consolidated 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.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 14 - Regulatory Capital Requirements (Continued)

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, and total risk-based ratios as set forth in the table.

As of the most recent notification from the Corporation'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, 2007						
Tier 1 capital (to average assets):						
AMB Financial Services Corporation	\$ 33,671,000	8.24%	\$ 16,354,200	≥ 4.00%	NA	≥ NA
American Marine Bank	33,627,000	8.41%	15,991,680	≥ 4.00%	\$ 19,989,600	≥ 5.00%
Tier 1 capital (to risk-weighted assets):						
AMB Financial Services Corporation	33,671,000	10.06%	13,393,200	≥ 4.00%	NA	≥ NA
American Marine Bank	33,627,000	10.06%	13,372,400	≥ 4.00%	20,058,600	≥ 6.00%
Total capital (to risk-weighted assets):						
AMB Financial Services Corporation	37,858,000	11.31%	26,786,400	≥ 8.00%	NA	≥ NA
American Marine Bank	37,808,000	11.31%	26,744,800	≥ 8.00%	33,431,000	≥ 10.00%
December 31, 2006						
Tier 1 capital (to average assets):						
AMB Financial Services Corporation	\$ 33,248,000	8.64%	\$ 15,400,600	≥ 4.00%	NA	≥ NA
American Marine Bank	33,805,000	8.90%	15,186,000	≥ 4.00%	\$ 18,982,500	≥ 5.00%
Tier 1 capital (to risk-weighted assets):						
AMB Financial Services Corporation	33,248,000	10.57%	12,579,320	≥ 4.00%	NA	≥ NA
American Marine Bank	33,805,000	10.76%	12,563,280	≥ 4.00%	18,844,920	≥ 6.00%
Total capital (to risk-weighted assets):						
AMB Financial Services Corporation	36,966,000	11.75%	25,158,640	≥ 8.00%	NA	≥ NA
American Marine Bank	37,523,000	11.95%	25,126,560	≥ 8.00%	31,408,200	≥ 10.00%

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 16 - Fair Value of Financial Instruments

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

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	\$ 8,942,743	\$ 8,942,743	\$ 9,699,431	\$ 9,699,431
Interest-bearing deposits in banks	10,479	10,479	5,098,140	5,098,140
Federal funds sold	-	-	4,477,922	4,477,922
Securities available for sale	62,504,547	62,504,547	50,012,434	50,012,434
Federal Home Loan Bank stock	3,256,800	3,256,800	3,256,800	3,256,800
Investment in limited partnership	684,505	684,505	760,374	760,374
Loans receivable	321,156,319	331,576,134	293,369,803	300,477,388
Accrued interest receivable	2,329,611	2,329,611	2,171,480	2,171,480
Financial Liabilities:				
Deposits	323,625,153	324,390,864	305,736,129	305,736,129
FHLB advances	48,731,465	47,364,356	42,898,131	42,898,131
Obligation to KSOP plan	-	-	74,000	74,000
Federal funds purchased	5,013,889	5,013,889	-	-
Other borrowings	1,313,448	1,313,448	1,667,071	1,667,071
Accrued interest payable	1,349,674	1,349,674	1,250,685	1,250,685

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. FHLB 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.

**AMB FINANCIAL SERVICES CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 16 - Fair Value of Financial Instruments (Continued)

Accrued interest:

The carrying amounts of accrued interest approximate their fair values.

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.

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, 2007 and 2006, were insignificant. See Note 7 for the notional amount of the commitments to extend credit.