

PUBLIC DISCLOSURE

April 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF MARIN
Certification Number 32779**

**50 Madera Boulevard
Corte Madera, California 94925**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, CA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Bank of Marin** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 17, 2006**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

Bank of Marin was evaluated using “Intermediate Small Bank” procedures. The Community Reinvestment Act (CRA) defines an Intermediate Small Bank as one that had total assets of at least \$250 million as of December 31 of both of the two prior calendar years and less than \$1 billion as of December 31 of either of the prior two calendars years.

This evaluation reflects the bank’s CRA performance since Bank of Marin’s June 02, 2003, evaluation. The evaluation was conducted at the institution’s Administration Office in Novato, California. The evaluation relied on records and reports provided by the bank, publicly available loan, financial, and demographic information, and information gathered as part of the examination process, including community contacts.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The evaluation of Bank of Marin's overall CRA performance was based upon the following Intermediate Small Bank performance criteria:

LENDING TEST

- Loan-to-Deposit Ratio
- Assessment Area Concentration
- Borrower Profile
- Geographic Distribution
- Responsiveness to CRA-related Complaints

COMMUNITY DEVELOPMENT TEST

- Community Development Lending
- Community Development Investments
- Community Development Services
- Responsiveness to identified Community Development needs

Considering this methodology, the institution's CRA performance depicts an outstanding level of providing for the credit needs of its assessment area. This rating is supported by the following conclusions:

- The institution's average loan-to-deposit ratio for the preceding 11 quarters dating back to the previous evaluation stood at 85.5 percent. This ratio exceeds the performance of the majority of the other financial institutions doing business in the bank's assessment area.
- The bank originated a majority of its loans within its assessment area. For 2004 and 2005 combined, the bank originated 83.5 percent by number of loans and 76.5 percent by dollar volume within its assessment area.
- The institution's performance of lending to businesses of different sizes is considered excellent.
- The geographic distribution of business loans reflects an excellent penetration throughout the bank's assessment area, particularly in low- and moderate-income geographies.

Bank of Marin's Community Development Test performance depicts an excellent record of meeting the community development needs of its assessment area. This rating is supported by the following conclusions:

- The institution's community development loans reflect an excellent level of responsiveness to the community development credit needs.

- The institution's qualified investments and donations demonstrate only an adequate level and responsiveness to community development needs.
- The institution's community development services demonstrate an excellent level and responsiveness to community development needs.

DESCRIPTION OF INSTITUTION

Bank of Marin (BOM) is a state-chartered, non-member bank headquartered in Corte Madera, Marin County, California. BOM is a commercial bank with \$840,449,000 in total assets, \$686,660,000 in total loans, and \$78,221,000 in total equity capital as of December 31, 2005. The bank operates out of 10 branches in Marin and Sonoma Counties. The bank's primary lending focus is commercial real estate, commercial, and construction and land development. The bank offers both business and consumer deposit accounts and services, but lending is primarily business-oriented. Table 1 lists the institution's loan portfolio by Call Report category as of December 31, 2005.

Table 1 - Loan Portfolio Distribution as of December 31, 2005		
Loan Type	Dollar Volume (000)	%
Construction and Land Development	122,280	17.8
Secured by Farmland	1,070	0.2
Revolving Open-end 1-4 Family Residential	26,698	3.9
Closed-end 1-4 Family Residential First Lien	27,936	4.1
Closed-end 1-4 Family Residential Junior Lien	7,247	1.0
Multi-family Residential	10,145	1.5
Commercial Real Estate	306,350	44.6
Total Real Estate Secured	501,726	73.1
Loans to Finance Agricultural Production	27	0.0
Commercial and Industrial loans	86,534	12.6
Consumer Credit Cards	326	0.0
Other Consumer Revolving Loans	1,370	0.2
Closed-end Consumer Loans	94,872	13.8
Obligations of States and Political Subdivisions	2,615	0.4
Other Loans	2,001	0.3
Less: Any Unearned Income on Loans	(2,811)	(0.4)
Total Loans	686,660	100.0%
<i>Source: Bank of Marin's December 31, 2005, Report of Condition</i>		

The figures in Table 1 support the bank's focus on commercial real estate, commercial, and construction and land development. Combined, these three loan categories account for 75.0 percent of the bank's loan portfolio.

The bank was evaluated as a Large Bank at the prior evaluation dated June 02, 2003, and received an overall Satisfactory rating for its CRA performance.

There are no regulatory or legal constraints preventing Bank of Marin from helping meet the credit needs of its community. The bank’s overall financial condition is sound. Earnings, capital, and liquidity have been sufficient to support the bank’s lending activity.

DESCRIPTION OF ASSESSMENT AREA

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The bank’s assessment area (AA) consists of all of Marin County (51 census tracts) and the southwestern portion of Sonoma County (12 census tracts). Marin County is included in the San Francisco-Oakland-Fremont CA MSA while Sonoma County is part of the Santa Rosa-Petaluma CA MSA. Both of these MSAs are included in the San Jose-San Francisco-Oakland CA Combined Statistical Area; therefore, the two county assessment areas will be combined as one assessment area for this evaluation. Tables 2 and 3 illustrate general demographics of the overall AA.

Table 2 – Assessment Area Demographics						
Census Tract Income Level	Census Tracts		Population		Households	
	#	%	#	%	#	%
Low	2	3.2	14,179	4.5	4,101	3.3
Moderate	3	4.8	15,092	4.8	3,702	3.0
Middle	29	46.0	140,224	44.8	56,452	45.3
Upper	29	46.0	143,471	45.9	60,310	48.4
Total	63	100.0	312,966	100.0	124,565	100.0
<i>Source: 2000 U.S. Census</i>						

Table 3 – Distribution of Businesses				
Census Tract Income Level	Small Business		All Businesses	
	#	%	#	%
Low	937	3.8	1,446	4.0
Moderate	657	2.6	961	2.6
Middle	11,027	44.2	15,958	43.9
Upper	12,319	49.4	18,001	49.5
Total	24,940	100.0	36,366	100.0
<i>Source: 2005 D&B</i>				

These AA’s are both economically and demographically diverse and encompass a mix of agricultural and major metropolitan geographies. The assessment area complies with the technical requirements of the regulation and does not arbitrarily exclude low-and moderate-income (LMI) neighborhoods.

A narrative description of the demographic characteristics for each county contained in the AA is provided below. A narrative description of the region’s economic conditions follows the county descriptions.

Marin County

Marin County is located across the Golden Gate Bridge in the North San Francisco Bay area. The county seat is San Rafael. Marin County is world-renowned for its stunning natural beauty and pockets of extreme affluence. San Quentin Prison is located in the county. Autodesk, the publisher of AutoCAD, is located there, as are numerous other high-tech companies. The Marin County Civic Center was designed by Frank Lloyd Wright and draws thousands of visitors a year. Marin County has many beautiful natural sites including the famous Muir Woods redwood forest.

Geographically, the county forms a large, southward-facing peninsula, with the Pacific Ocean to the west, San Pablo Bay and San Francisco to the east, and -- across the Golden Gate Bridge -- the city of San Francisco to the south. Marin County's northern border is with Sonoma County.

Most of the county's population resides on the eastern side, with a string of communities running along the Bay, from Sausalito to Tiburon to San Rafael to Corte Madera. The interior contains large areas of agricultural and open space; West Marin, through which California State Route 1 runs alongside the California coast, contains many small unincorporated communities dependent on agriculture and tourism for their economies.

Demographic Data

Per the 2000 U.S. Census, the total population of Marin County is 247,289. There are 100,736 households within the county. Table 4 below depicts the distribution of census tracts, population, and households in Marin County by income level of the census tract.

Table 4 – Demographics of Marin County						
Census Tract Income Level	Census Tracts		Population		Households	
	#	%	#	%	#	%
Low	2	3.9	14,179	5.7	4,101	4.1
Moderate	3	5.9	15,092	6.1	3,702	3.7
Middle	20	39.2	98,688	39.9	41,312	41.0
Upper	26	51.0	119,330	48.3	51,621	51.2
Total	51	100.0	247,289	100.0	100,736	100.0
<i>Source: 2000 U.S. Census</i>						

As shown in the above table, 8.1 percent of all households reside in low-income geographies and 4.6 percent are in moderate-income tracts. Approximately 12 percent of households in low-income geographies earn incomes at or below the poverty level. Individuals earning incomes at or below the poverty level do not normally qualify for traditional bank lending products.

The income categories used throughout the evaluation of the institution’s performance are based on the estimated Median Family Income (MFI) of the various MSAs by the Department of

Housing and Urban Development (HUD). The 2004 HUD estimated MFI is \$75,188 for the San Francisco-San Mateo-Redwood City MSA and the 2005 HUD estimated MFI is \$88,450. As of February 2006, the unemployment rate for Marin County stood at 3.7 percent.

Low and moderate-income households find it extremely difficult to qualify for home mortgage loans in this high-cost housing area. The median home price for 2005 was \$850,000 and is one of the highest in the State of California. This value represents over 9 times the HUD adjusted MFI in this AA. County zoning severely limits the development of new housing stock. Consequently, banks only have a limited opportunity to provide housing related credit. Rentals are also expensive.

According to 2005 D&B information, this AA has approximately 21,500 licensed small businesses. Small businesses are businesses with gross annual revenues (GARs) of \$1 million or less. As illustrated in Table 5, the percentage of small businesses is concentrated in middle- and upper-income geographies; however, commercial lending opportunities do appear available in all geographies of the AA.

Table 5 – Distribution of Businesses in Marin County				
Census Tract Income Level	Small Business		All Businesses	
	#	%	#	%
Low	937	4.4	1,446	4.6
Moderate	657	3.1	961	3.1
Middle	8,597	40.1	12,432	39.9
Upper	11,259	52.5	16,335	52.4
Total	21,450	100.0	31,174	100.0

Source: 2005 D&B

Sonoma County

Sonoma County is located on the Pacific coast of California, north of the San Francisco Bay Area. As of the 2000 census, the population was 458,614. The county seat is Santa Rosa.

Sonoma County is a world-famous wine producing region. There are over 200 Sonoma County Wineries producing a wide variety of wines. Winemaking (both the growing of the grapes and their vinting) is an important part of the economic and cultural life of Sonoma County. About 80% of non-pasture agricultural land in the county is for growing wine grapes.

Sonoma County is the home of several public and private higher education institutions, including Sonoma State University and Santa Rosa Junior College.

Adjacent counties are as follows:

- Marin County - south
- Solano County - southeast
- Napa County - east

- Lake County - northeast
- Mendocino County - north

Demographic Data

Table 6 below, shows the distribution of census tracts, population, and households in this Sonoma County portion (12 census tracts) of the AA by income level of the census tract.

Table 6 – Demographics of Sonoma County Portion of AA						
Census Tract Income Level	Census Tracts		Population		Households	
	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0
Moderate	0	0.0	0	0.0	0	0
Middle	9	75.0	41,536	63.2	15,140	69.4
Upper	3	25.0	24,141	36.8	8,689	30.6
Total	12	100.0	65,677	100.0	23,829	100.0

Source: 2000 U.S. Census

The 2004 HUD estimated MFI figure for the Santa Rosa-Petaluma MSA is \$\$61,922. The 2005 HUD estimated MFI is \$72,900. As of February 2006, the unemployment rate for Sonoma County stood at 4.3 percent.

According to 2005 D&B information, this AA has approximately 3,500 licensed small businesses. With no low- or moderate-income geographies located in the Sonoma County portion of the AA, commercial lending opportunities are only available in middle- and upper-income tracts.

Table 7 – Distribution of Businesses in Sonoma County				
Census Tract Income Level	Small Business		All Businesses	
	#	%	#	%
Low	0	0.0	0	0.0
Moderate	0	0.0	0	0.0
Middle	2,430	69.6	3,526	67.9
Upper	1,060	30.4	1,666	32.1
Total	3,490	100.0	5,192	100.0

Source: 2005 D&B

Regional Economic Conditions

While each assessment area has a diverse economy, each is closely tied with the trends in the San Francisco (Bay Area) economy. The Bay Area’s economy was negatively impacted by the NASDAQ crash of the 1990s. While the Bay Area is beginning to turn around, costs of living, job stability and job opportunities remain issues. Construction and services dominate job growth. Employment conditions are improving but lag the state. A skilled and entrepreneurial workforce combined with local investors should support a reinvigorated economy in the years to come, but

high costs of living, high business costs, congestion, and outsourcing of routine jobs will moderate long-term trends.

Tourism is the mainstay of San Francisco's economy as it is one of the top ten tourist destinations in the United States and one of the top fifty in the world.

San Francisco is one of the main banking and financial centers of the U.S. It is the home of the twelfth district of the U.S. Federal Reserve as well as a major production facility for the United States Mint. Recently, San Francisco has been positioning itself as a biotechnology and biomedical hub and research center. Entrepreneurship is also a major economic force in San Francisco. Nearly 90% of businesses operating within city limits have fewer than 100 employees. Small companies will be the key to a jobs recovery.

COMMUNITY CONTACT

One community contact was performed during this examination. This contact was a representative of a regional organization whose mission is to promote a skilled workforce in Marin County. This organization attempts to accomplish this through a variety of avenues. One is to act as a facilitator between business and civic leaders and coordinate various programs. Another method is through education and training programs. The representative was very complimentary in describing the efforts of Bank of Marin in both of the above described endeavors and stated that Bank of Marin is the only financial institution that is actively supporting this mission.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF EVALUATION

According to the bank's December 31, 2005, Report of Condition, business loans count for 75.0 percent by dollar volume of the loan portfolio. This evaluation of Bank of Marin's lending performance is based on a review of its small business loans. Small business loans coded in accordance with the Report of Condition loan classifications as construction and land development, commercial, and commercial real estate which originated in calendar years 2004 and 2005 represent the universe of loans reviewed. This universe totaled 710 by count and \$143,644,233 by dollar volume. From this universe, a random sample of 91 loans totaling \$18,098,686 was used for this evaluation. The samples consisted of 45 loans totaling \$8,134,620 from 2004 and 46 loans totaling \$9,964,066 from 2005.

For purposes of evaluating the bank's performance regarding Borrower Profile and Geographic Distribution, only small business loans originated within Bank of Marin's assessment area were used. Also, only the number of loans was used for these two performance criteria as the dollar volume analysis was generally consistent with the numeric analysis.

The loan-to-deposit ratio performance analysis utilized the institution's average loan-to-deposit ratio of the eleven calendar quarters dating back to the last evaluation. The ratios were computed using total net loans (total loans less the allowance for loan and lease losses) and total deposits reported by the institution on its quarterly Reports of Condition.

LENDING TEST

Loan-to-Deposit Ratio

This measurement of performance gauges the extent to which the institution invests depositors' funds back into the community through its lending activity. The institution's average loan-to-deposit ratio based on the eleven quarters since the bank's inception stood at 85.5 percent. The bank's loan-to-deposit ratio is excellent giving consideration for the positive trend beginning in late 2003 to its most recent level of 94.2 percent. As illustrated in Table 8, the bank's quarterly loan-to-deposit ratios have ranged from 76.3 percent (4th Quarter 2003) to the recent high of 94.2 percent (4th Quarter 2005). The institution's average loan-to-deposit ratio exceeds the performance of the majority of the other financial institutions doing business in the bank's assessment area. For the net loan-to-deposit ratios for the fourth quarter of 2005, the Bank of Marin's 94.2 percent compares favorably to three identified similarly situated institutions' ratios of 67.9 percent, 78.6 percent, and 84.2 percent.

Table 8 - Loan-to-Deposit Ratios										
2003			2004				2005			
2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
84.9	76.6	76.3	77.9	83.2	87.1	88.5	89.2	93.2	89.2	94.2

Source: Bank of Marin's Quarterly Reports of Condition

Assessment Area Concentration

The bank originated, by number and dollar volume of loans, a majority of its evaluated loans within its assessment area. Overall, 83.5 percent by number and 76.5 percent by dollar volume were made within the assessment area. Table 9 illustrates the annual quantity and dollar volume compositions of the institution's performance of lending within the assessment area. This performance is consistent with other financial institutions in the bank's general market area.

Table 9 - Distribution of Loans Inside and Outside the Assessment Area										
Loan Category or Type	Number of Loans					Dollar Amount of Loans (000s)				
	Inside Assessment Area		Outside Assessment Area		Total	Inside Assessment Area		Outside Assessment Area		Total
	#	%	#	%		\$	%	\$	%	
Small Business Loans										
2004	38	84.4	7	15.6	45	5,770	70.9	2,365	29.1	8,135
2005	38	82.6	8	17.4	46	8,079	81.1	1,885	19.9	9,964
Total	76	83.5	15	16.5	91	13,849	76.5	4,250	23.5	18,099

Source: Small Business loans originated by Bank of Marin

Borrower Profile

Considering Bank of Marin's performance context, the bank's distribution of small business loans reflects an excellent penetration among businesses of different sizes. Table 10 depicts the degree of lending to businesses of different sizes within the assessment area. A small business is a business with gross annual revenue of \$1 million or less. The original balance of all small business loans granted in calendar years 2004 and 2005, which were located in the institution's assessment area, was used in determining the bank's efforts in lending to businesses of different sizes.

For both 2004 and 2005, the bank granted 63.2 percent by number of loans to small businesses. BOM's performance significantly exceeded 2004 aggregate lending data of 37.9 percent. This performance is even more impressive as construction and land development loans are included in the loans sampled for this evaluation. For this loan category, borrowers typically have high

gross annual revenues, given the nature of this business, when compared to the net revenues of other industries. As such, performance levels are often lower when including construction and land development loans in the analysis. Also listed in Table 10 is D&B 2005 data indicating that 92.1 percent of businesses in the assessment area are small businesses. The D&B data presents the opportunity in the assessment area but is not an indication of loan demand.

Table 10 – Lending to Businesses of Different Sizes						
Gross Annual Revenue (in thousands)	D&B 2005 Businesses by %	2004 Aggregate Lending Data by %	Bank of Marin			
			2004		2005	
			Number	%	Number	%
Less than \$100,000	43.2	Stratification Not Available	4	10.5	12	31.6
\$100,000 to \$250,000	29.5		4	10.5	5	13.2
\$250,001 to \$500,000	12.4		8	21.1	4	10.5
\$500,001 to \$1,000,000	7.0		8	21.1	3	7.9
Small Businesses - Total	92.1	37.9	24	63.2	24	63.2
Over \$1,000,000	7.9	62.1	14	36.8	14	36.8
Total	100.0	100.0	38	100.0	38	100.0

Source: Bank Data, CRA Aggregate Data 2004, and D&B 2005

Geographic Distribution

Bank of Marin’s geographic distribution of loans reflects an excellent penetration in the different census tracts income levels throughout its assessment area. No conspicuous gaps in the bank’s geographic distribution of loans were noted in the assessment area.

Table 11 illustrates the bank’s calendar years 2004 and 2005 distribution of small business loans by number in the assessment area by census tract income level. For comparison purposes, the 2004 aggregate small business lending data and the distribution of 2005 businesses by census tracts within the assessment area are also shown.

The bank’s business lending within low-income census tracts of 5.3 percent exceeded the 2004 aggregate performance and the percentage of businesses located in low-income tracts. The bank’s performance in 2005 in low-income geographies rose significantly to 10.5 percent. For moderate-income tracts, the bank’s 2004 performance was also 5.3 percent versus aggregate lending data of 3.2 percent and business demographic data of 2.6 percent. This favorable performance grew significantly in 2005 as the bank granted 10.5 percent of the sampled loans in moderate-income areas. Management expressed the bank’s strong commitment to community development through its outreach efforts directly contributed to this favorable performance.

Table 11 - Distribution of Business Loans by Income Category of Census Tract						
Census Tract Income Level	Business location by Census Tract	2004 Aggregate Lending Data by %	Bank of Marin			
			2004		2005	
	%	%	#	%	#	%
Low	4.0	4.7	2	5.3	4	10.5
Moderate	2.6	3.2	2	5.3	4	10.5
Middle	43.9	44.3	25	65.8	13	34.2
Upper	49.5	47.8	9	23.6	17	44.8
Total	100.0	100.0	38	100.0	38	100.0
<i>Source: Bank Data, CRA Aggregate Data 2004, and D&B 2005</i>						

Response to CRA-Related Complaints

A review of FDIC records, as well as the bank's Public CRA File, did not reveal any CRA-related complaints since the previous evaluation.

Compliance with Anti-Discrimination Laws and Regulations

No substantive violations of anti-discriminatory regulations were identified during this examination.

COMMUNITY DEVELOPMENT TEST

BOM is rated Outstanding in the Community Development Test. The evaluation of the bank's overall Community Development Test performance is based upon the following performance factors:

- Community Development Lending
- Community Development Investments
- Community Development Services
- Responsiveness to identified community development needs

The bank's strengths in its community development efforts centered in services and lending.

Community Development Lending

The institution exhibited an excellent level of community development loans during this evaluation period. Since the previous evaluation, BOM originated 38 loans totaling \$40,490,623, within its assessment area or the San Jose-San Francisco-Oakland CA Combined Statistical Area. The majority of the qualified loans were for affordable housing, many of which are in Enterprise Zones, and community services. At the last evaluation, the bank held 24 community development loans totaling \$17,928,000.

Community Development Investments

The bank has demonstrated an adequate level and responsiveness to the area's community development needs through investments and donations. The institution holds 6 investments totaling \$9,553,607. Although this is an increase over the 3 investments totaling \$2,153,000 at the previous evaluation, the level and impact is only marginal given the bank's resources. All six investments are mortgage-backed securities which specifically target low- and moderate-income borrowers in its assessment area. The overall impact to the community is minimal as these 6 investments combined represent only 50 mortgages to low- and moderate-income borrowers.

During the evaluation period, the bank granted 133 qualified community development donations totaling \$125,014.86. This activity reflected support of various community development nonprofit organizations operating within the bank's combined assessment area.

Community Development Services

BOM provided an excellent level of community development services within its assessment area. During the evaluation period, bank officers and staff volunteered 1,020.5 hours of qualified service to 37 different community development organizations in its assessment area. These services involve a wide range of organizations providing services from financial education, literacy, affordable housing, economic development, and at-risk citizens. The majority of these organizations are involved in providing community services to low- and moderate-income families and individuals. For 2004, 21 bank employees were involved in 26 different organizations for a total of 405.5 hours. For 2005, 20 employees provided their services to 26 different organizations for a total of 615 hours.

The bank has a full time community relations position who is highly involved in a variety of area organizations. Employees are encouraged to volunteer, in varying capacities, bank time to the area's community organizations. This commitment carries through to employees' performance evaluations which factors in their level of community involvement.

Responsiveness to Community Development Needs

Bank management and staff serve in leadership capacities on the Boards of numerous non-profit organizations whose missions are to serve low- and moderate-income individuals. The bank's Director of Community Relations and President serve on the Boards of organizations which assess the overall needs of the area. The bank has identified several issues impacting the two county assessment area. These needs center on providing services to assist in fully employing the residents of the area, the lack of affordable housing, and transportation. The bank has a long history of supporting non-profit organizations through community development loans, investments, and services in varying degrees.