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

FORM 10-K

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

For the fiscal year ended: December 31, 2007
or

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

For the transition period from __________________ to __________________

Commission File number: 001-33572

Bank of Marin Bancorp
(Exact name of Registrant as specified in its charter)

California (State or other jurisdiction of incorporation)	20-8859754 (IRS Employer Identification No.)
504 Redwood Blvd., Suite 100, Novato, CA (Address of principal executive office)	94947 (Zip Code)

(415) 763-4520
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, No Par Value, and attached Share Purchase Rights (Title of each class)	**NASDAQ Capital Market** (Name of each exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Note – checking the box above will not relieve any registrant required to file reports pursuant to section 13 or 15(d) of the Exchange Act from their obligations under these sections.

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐ (See Explanatory Note.)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐

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

As of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the closing price per share of the registrant's common stock as reported by the NASDAQ, was approximately $169 million.

As of February 20, 2008 there were 5,142,150 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2007 Annual Report are incorporated by reference into Part II and Part IV. Portions of the registrant's Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III.

Explanatory Note

Bank of Marin Bancorp is the successor registrant to Bank of Marin pursuant to an 8-K filed with the SEC on June 29, 2007.

On July 1, 2007 (the "Effective Date"), a bank holding company reorganization was completed whereby Bank of Marin Bancorp became the parent holding company for Bank of Marin. On the Effective Date, each outstanding share of Bank of Marin common stock was converted into one share of Bank of Marin Bancorp common stock and Bank of Marin became a wholly-owned subsidiary of the holding company. Bancorp assumed the ticker symbol BMRC, which was formerly used by Bank of Marin. Prior to the Effective Date, Bank of Marin filed reports and proxy statements with the Federal Deposit Insurance Corporation ("FDIC") pursuant to Sections 12 of the Securities Exchange Act of 1934 (the "1934 Act").

The financial statements and discussion thereof contained in this report for periods subsequent to the reorganization relate to consolidated Bank of Marin Bancorp. Periods prior to the reorganization relate to Bank of Marin only. The information is comparable as the sole subsidiary of Bank of Marin Bancorp is the Bank of Marin.

This report refers to previous filings made by Bank of Marin with the FDIC pursuant to the 1934 Act. Copies of these filings are available by requesting them in writing or by phone from:

Corporate Secretary
Bank of Marin
504 Redwood Blvd., Suite 100
Novato, CA 94947
415-763-4523

Copies of such filings are also available on Bancorp's website at www.bankofmarin.com. This website address is for information only and is not intended to be an active link, or to incorporate any website information into this document.

TABLE OF CONTENTS

PART I

Forward-Looking Statements

This discussion of financial results includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended, (the "1934 Act"). Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

As used in this document, the term "Bancorp" refers to the Bank holding company and its subsidiary, Bank of Marin. Bancorp's forward-looking statements include descriptions of plans or objectives of management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "intend," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact Bancorp's earnings in future periods. A number of factors - many of which are beyond management's control - could cause future results to vary materially from current management expectations. Such factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, real estate values and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting Bancorp's operations, pricing, products and services. These and other important factors are detailed in Item 1A – Risk Factors. Forward-looking statements speak only as of the date they are made. Bancorp does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

On July 1, 2007 (the "Effective Date"), a bank holding company reorganization was completed whereby Bank of Marin Bancorp became the parent holding company for Bank of Marin (the "Bank"), its sole subsidiary. Upon formation of the holding company, Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended, which subjects Bancorp to Federal Reserve Board reporting and examination requirements. Bank of Marin was incorporated in August 1989, received its charter from the California Superintendent of Banks (now the California Department of Financial Institutions) and commenced operations in January 1990. The Bank is an insured bank under the Federal Deposit Insurance Act.

Virtually all of Bancorp's business is conducted through its sole subsidiary, the Bank of Marin. The Bank operates through eleven branch offices in Marin and southern Sonoma counties, north of San Francisco, California. The Bank also has a loan production office in San Francisco. The Bank's customer base is made up of business and personal banking relationships from the communities near the branch office locations. The Bank's business banking focus is on small to medium sized businesses, professionals and not-for-profit organizations.

The Bank offers a broad range of commercial and retail lending programs designed to meet the needs of its target markets. These include commercial loans and lines of credit, construction financing, consumer loans, and home equity lines of credit. Through a third party vendor, the Bank offers a proprietary Visa credit card combined with a rewards program to its customers, as well as a Business Visa program for business and professional customers. The Bank also offers reverse mortgages, leases, and 401K plan management to business clients, through third parties.

The Bank offers a variety of checking and savings accounts, and a number of time deposit alternatives, including interest bearing and non-interest bearing personal and business checking accounts and time certificates of deposit. The Bank also offers remote deposit capture and direct deposit of payroll, social security and pension checks. A valet deposit pick-up service is available to the Bank's professional and business clients. Automatic teller machines (ATM's) are available at each branch location and at the Marin Airporter terminal in Larkspur.

The Bank's ATM network is linked to the STAR, PLUS and NYCE networks. The Bank offers its depositors 24-hour access to their accounts by telephone and to both consumer and business accounts through its internet banking products.

The Bank attracts deposit relationships from individuals, merchants, small-to-medium sized businesses, not-for-profit organizations and professionals who live and/or work in the communities comprising its market areas. Approximately 88% of the Bank's deposits are from Marin and southern Sonoma counties, and approximately 62% of the Bank's deposits are from businesses and 38% are from individuals. The Bank has only a nominal amount of public deposits.

The Bank offers Wealth Management Services which include customized investment portfolio management, financial planning, trust administration, estate settlement and custody services. The Bank also offers 401(k) plan services to small and medium businesses through a third party vendor.

In February 2007, the Bank introduced branch-based Private Banking as a natural extension of the Bank's services. The Bank's Private Banking includes deposit services, loans, investment management, trust administration, financial planning and advice on charitable giving.

The Bank does not directly offer international banking services, but does make such services available to its customers through other financial institutions with whom the Bank has correspondent banking relationships.

The Bank holds no patents, registered trademarks, licenses (other than licenses required by the appropriate banking regulatory agencies), franchises or concessions. However, the Bank has registered the service mark "The Spirit of Marin" with the United States Patent & Trademark Office.

Market Area

The Bank's primary market area reaches from southern Sonoma County south to San Francisco and lies between the Pacific Ocean on the west and San Pablo Bay to the east. The Bank's customer base is made up of business and personal banking relationships from the communities near the branch office locations.

Competition

The banking business in California generally, and in the Bank's market area specifically, is highly competitive with respect to attracting both loan and deposit relationships. The increasingly competitive environment is impacted by changes in regulation, technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers. The Marin County market area is dominated by three major California banks, each of which have more branch offices than Bank of Marin in its defined service area. Additionally, there are several thrifts, including the major thrift institutions operating in the California market, credit unions and other independent banks.

Approximately 67 banking offices with $5.35 billion in total deposits as of June 30, 2007 served the Marin County market. As of that same date, there were approximately 19 thrift offices in Marin with $2.41 billion in total deposits. Compared with the Bank of Marin's share of 9.5%, the four financial institutions with the greatest market share, Bank of America, Wells Fargo Bank, Washington Mutual and Westamerica Bank had deposit market shares of 17.7%, 16.9%, 10.6% and 10.4%, respectively, as of June 30, 2007, the most recent date for which data is available.

In the southern Sonoma County area of Petaluma, there are approximately 26 banking and thrift offices with $1.5 billion in total deposits as of June 30, 2007. Compared with the Bank of Marin's share of 2.6%, the four banking institutions with the greatest market share, Wachovia (formerly World Savings), Bank of America, Wells Fargo Bank and Bank of Petaluma, had deposit market shares in Petaluma of 23.4%, 13.8%, 12.3%, and 8.7%, respectively, as of June 30, 2007.

The Bank also competes for depositors' funds with money market mutual funds and with non-bank financial institutions such as brokerage firms and insurance companies. Among the competitive advantages held by some of these non-bank financial institutions is the ability to finance extensive advertising campaigns, and to allocate investment assets to regions of California or other states with areas of highest demand and often, therefore, highest yield.

Large commercial banks also have substantially greater lending limits than the Bank and the ability to offer certain services which are not offered directly by the Bank.

In order to compete with the numerous, and often larger, financial institutions in its primary market area, the Bank uses, to the fullest extent possible, the flexibility and rapid response capabilities which are accorded by its independent status. This includes an emphasis on specialized services, community involvement, local promotional activities and personal contacts. The commitment and dedication of the Bank's organizers, directors, officers and staff have also contributed greatly to the Bank's success in competing for business.

Employees

At December 31, 2007, Bancorp employed 190 full-time equivalent (FTE) staff. The actual number of employees at year-end 2007 included 6 executive officers, 69 other corporate officers and 136 staff. None of Bancorp’s employees are presently represented by a union or covered by a collective bargaining agreement. Bancorp believes that its employee relations are good.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. The following discussion summarizes certain significant laws, rules and regulations affecting Bancorp and the Bank.

Transactions between Bancorp and the Bank are quantitatively and qualitatively restricted under the Federal Reserve Act. Sections 23A and 23B of the Act and Federal Reserve Regulation W. Section 23A places restrictions on the Bank’s “covered transactions” with Bancorp, including loans and other extensions of credit, investments in the securities of, and purchases of assets from Bancorp. Section 23B requires that certain transactions, including all covered transactions, be on market terms and conditions. Federal Reserve Regulation W combines statutory restrictions on transactions between the Bank and Bancorp with Board interpretations in an effort to simplify compliance with Sections 23A and 23B.

Capital Requirements

The Federal Reserve and the FDIC have adopted risk-based capital guidelines for bank holding companies and banks. Banks are classified as either well-capitalized, adequately capitalized or undercapitalized. Holding companies are classified as either adequately capitalized or under capitalized. Bancorp meets the definition of adequately capitalized and the Bank meets the definition for well-capitalized. Undercapitalized depository institutions may be subject to significant restrictions. Payment of interest and principal on subordinated debt of the Bank could be restricted or prohibited, with some exceptions, if the Bank were categorized as "critically undercapitalized" under applicable FDIC regulations. For further information on risk-based capital, see Note 16 of the Notes to Financial Statements included in the 2007 Annual Report.

Sarbanes-Oxley Act of 2002

Bancorp is subject to the requirements of the Sarbanes-Oxley Act of 2002 which implemented legislative reforms intended to address corporate and accounting improprieties. Since Bancorp files periodic reports under the Securities and Exchange Commission regulations, it is subject to the provisions of the Sarbanes-Oxley Act of 2002 and related rules and regulations.

Bank Holding Company Regulation

Upon formation of the bank holding company on July 1, 2007, Bank of Marin Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended (“BHCA”) which subjects Bancorp to Federal Reserve Board reporting and examination requirements. Under the Federal Reserve Board’s regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks.

The BHCA regulates the activities of holding companies including acquisitions, mergers, and consolidations and, together with the Gramm-Leach Bliley Act of 1999, the scope of allowable banking activities.

Bank Regulation

Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole. These regulations affect the Bank's lending practices, consumer protections, capital structure, investment practices and dividend policy.

As a state chartered bank, the Bank is subject to regulation and examination by the California Department of Financial Institutions (DFI). The Bank is also subject to regulation, supervision and periodic examination by the Federal Deposit Insurance Corporation (FDIC). If, as a result of an examination of the Bank, the FDIC or the California Department of Financial Institutions should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management has violated any law or regulation, various remedies are available to those regulators including restricting the Bank's growth or removing officers and directors.

Dividends

The payment of cash dividends by the Bank to Bancorp is subject to restrictions set forth in the California Financial Code. Prior to any distribution from the Bank to Bancorp, a calculation is made to ensure compliance with the provisions of this Code and to ensure that the Bank remains within capital guidelines set forth by the DFI and the FDIC. Bank management does not believe that these regulations will limit dividends from the Bank to meet the operating requirements of Bancorp in the foreseeable future.

FDIC Insurance Assessments

The Bank's deposits are insured by the FDIC to the maximum amount permitted by law which is currently $100,000 per depositor except for certain retirement accounts which are insured up to $250,000. The FDIC enacted a new rule, effective January 1, 2007, under which the FDIC uses a risk-based assessment system to assign one of four risk categories to insured financial institutions. The new premium rate structure imposes a minimum assessment of five to seven cents for every $100 of domestic deposits on institutions that are assigned to the lowest risk category. This category encompasses substantially all insured institutions, including the Bank.

Community Reinvestment Act

The Bank is subject to the provisions of the Community Reinvestment Act (CRA), under which all banks and thrifts have a continuing and affirmative obligation, consistent with safe and sound operations, to help meet the credit needs of their entire communities, including low and moderate income neighborhoods. The act requires a depository institution's primary federal regulator, in connection with its examination of the institution, to assess the institution's record in meeting the requirements in CRA. The regulatory agency's assessment of the institution's record is made available to the public. The record is taken into consideration when the institution establishes a new branch that accepts deposits, relocates an office or applies to merge or consolidate, or expand into other activities. CRA performance is evaluated by the FDIC under the intermediate small bank requirements. The last performance evaluation was issued by the FDIC on April 17, 2006 with a rating of "Outstanding."

Anti-Money Laundering Regulations

A series of banking laws and regulations beginning with the Bank Secrecy Act in 1970 require banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities. The Bank has extensive controls to comply with these requirements.

Privacy and Data Security

The Gramm-Leach Bliley Act (GLBA) of 1999 imposed requirements on financial institutions with respect to consumer privacy. The GLBA generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. The GLBA also directs federal regulators, including the FDIC, to prescribe standards for the security of consumer information. The Bank is subject to such standards, as well as standards for notifying consumers in the event of a security breach. The Bank must disclose its privacy policy to consumers, permit consumers to "opt out" of having non-public customer information disclosed to third parties. The Bank is required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Consumer Protection Regulations

Lending activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers, including the Fair Credit Reporting Act, Equal Credit Opportunity Act, the Fair Housing Act, and the Truth-in-Lending Act. Deposit operations of the Bank are also subject to laws and regulations that protect consumer rights including Funds Availability, Truth in Savings, and Electronic Funds Transfers. Additional rules govern check writing ability on certain interest earning accounts and prescribe procedures for complying with administrative subpoenas of financial records.

Available Information

On Bancorp's internet web site, www.bankofmarin.com, Bancorp posts the following filings as soon as reasonably practicable after they are filed with or furnished to the SEC: Bancorp's Annual Report on Form 10-K, Bancorp's Proxy Statement for the Annual Meeting of Shareholders, Bancorp's quarterly reports on Form 10-Q, Bancorp's current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The text of the Code of Ethical Conduct for Bancorp and the Bank is also included on the website. All such filings on Bancorp's site are available free of charge.

ITEM 1A. RISK FACTORS

An investment in Bancorp's common stock is subject to risks inherent to its business. The material risks and uncertainties that management believes may affect Bancorp's business, primarily through its sole subsidiary, the Bank of Marin, are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing Bancorp's and the Bank's business. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, Bancorp and the Bank's financial condition and results of operations could be materially and adversely affected.

The Earnings of Bancorp and the Bank are Significantly Affected by General Business and Economic Conditions

Bancorp is operating in a challenging and uncertain economic environment, including generally uncertain national and local conditions. Financial institutions continue to be affected by the softening of the real estate market and constrained financial markets. While the Bank does not offer first mortgages and has no sub-prime residential loans or securities backed by such loans in the portfolio, Bancorp nevertheless may be affected by these events. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, and customers' inability to pay debt could adversely affect our financial condition and results of operations. This current deterioration in economic conditions coupled with a possible national economic recession, could result in the following consequences:

- Demand for our products and services may decline
- Low cost or non-interest bearing deposits may decrease
- Collateral for our loans, especially real estate, may decline in value
- Loan delinquencies, problem assets and foreclosures may increase

Bancorp's serving area has not experienced the same degree of challenges as other areas due to the high per capita income in Marin and Sonoma counties. However, Bancorp cannot predict with certainty what effect a continuing economic decline in the United States will have on Bancorp's business.

Negative Conditions Affecting Real Estate May Harm the Bank's Business

Concentration of the Bank's lending activities in the California real estate sector could have the effect of intensifying the impact of any adverse changes in the real estate market in the Bank's lending area. Although the Bank does not offer traditional first mortgages, approximately 84% of the Bank's loans were secured by real estate at December 31, 2007. Therefore, the value of the Bank's real estate collateral could be affected by adverse changes in the real estate market in which the Bank conducts business. Most of the properties that secure the Bank's loans are located within Marin and Sonoma Counties. These counties have been somewhat insulated from the current general depression of the real estate market in other areas of the country, due in part to the greater wealth in the Bank's market area. However, there is no assurance that the Bank's real estate portfolio will be unaffected by market declines in the future.

At December 31, 2007, 54% of the Bank's loans were secured by commercial real estate, including small office buildings, owner-user office/warehouses, mixed-use residential/commercial properties and retail properties. There can be no assurance that the companies or properties securing the Bank's loans will generate sufficient funds to allow the borrowers to make full and timely loan payments to the Bank.

In late 2006, Federal banking regulators issued final guidance regarding commercial real estate lending to address a concern that rising commercial real estate lending concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the investor commercial real estate market. This guidance suggests that institutions that are potentially exposed to significant commercial real estate concentration risk will be subject to increased regulatory scrutiny. Institutions that have experienced rapid growth in commercial real estate lending, have notable exposure to a specific type of commercial real estate lending, or are approaching or exceed certain supervisory criteria that measure an institution's commercial real estate portfolio against its capital levels, may be subject to such increased regulatory scrutiny. Although regulators have not notified the Bank of any concern, there is no assurance that the Bank will not be subject to additional scrutiny in the future.

The Bank Operates in a Highly Competitive Industry and Market Area

The Bank's market area is primarily, but not limited, to Marin County, southern Sonoma County and San Francisco. The distance covered in the service area is approximately 60 miles. The Bank faces competition from a variety of different competitors, many of which are larger and may have more financial resources. Competitors include national, regional and community banks within the markets served by Bank of Marin as well as other types of financial institutions, including savings and loans, credit unions, brokerage firms, and other financial intermediaries. If the Bank is unable to compete effectively it could lose market share, and income from loans and other products may be reduced. If the Bank is unable to retain its deposit base, it risks being challenged to fund its loans at competitive rates.

The Bank is Subject to Interest Rate Risk

The Bank's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are sensitive to many factors outside the Bank's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System, which regulates the supply of money and credit in the United States. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Bank receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Bank's ability to originate loans and obtain deposits, (ii) the fair value of the Bank's financial assets and liabilities, and (iii) the average duration of the Bank's mortgage-backed securities portfolio. The Bank's portfolio of securities are subject to interest rate risk and will generally decline in value if market interest rates increase, and generally increase in value if market interest rates decline.

Between June 30, 2004 and December 31, 2006, the Federal Open Market Committee of the Federal Reserve Bank ("FMOC") adopted a policy of monetary tightening through 17 consecutive Federal funds rate increases in 25 basis point increments from 1.00% to 5.25%. In September, 2007, in response to the state of the national economy, the housing market and the volatility of financial markets, the Federal Reserve decreased the Federal funds target rate by 50 basis points and followed that with two subsequent decreases of 25 basis points each, bringing the target rate to 4.25% in December. The Federal Reserve continued by dropping rates by another 125 basis points during January of 2008, thereby reducing the target rate to 3.00%.

Although management believes it has implemented effective asset and liability management strategies, any substantial, prolonged change in market interest rates could have a material adverse effect on the Bank's financial condition and results of operations. See the sections captioned "Net Interest Income" and "Market Rate Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations located in Bancorp's 2007 Annual Report for further discussion related to management of interest rate risk.

Loan Losses May Exceed the Bank's Allowance for Loan Losses in the Future

The Bank maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable losses that may be incurred within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality and present economic, political and regulatory conditions. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Bank to make significant estimates of current credit risks and future trends, all of which may undergo material changes.

Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Bank's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Bank will need to record additional loan loss provisions. Any increases in the allowance for loan losses will result in a decrease in net income, and possibly, capital.

The Bank May Lose Deposits to Other Financial Instruments

Checking and savings account balances and other forms of deposits can decrease when the Bank's deposit customers perceive alternative investments as providing superior expected returns. Technology and other changes have made it more convenient for bank customers to transfer funds into alternative investments or other deposit accounts, including products offered by other financial institutions or non-bank service providers. The current low interest rate environment could increase such transfers of deposits to higher yielding deposits or other investments. Efforts and initiatives the Bank undertakes to retain and increase deposits, including deposit pricing, can increase the Bank's costs. When Bank customers move money into higher yielding deposits or in favor of alternative investments, the Bank can lose a relatively inexpensive source of funds, increasing its funding costs.

Bancorp and the Bank are Subject to Extensive Government Regulation and Supervision

Bancorp and the Bank are subject to extensive federal and state governmental supervision, regulation and control. Holding company regulations affect the range of activities in which Bancorp is engaged. Banking regulations affect the Bank's lending practices, capital structure, investment practices and dividend policy among other controls. Future legislative changes or interpretations may also alter the structure and competitive relationship among financial institutions.

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards set forth by regulators. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the Bank's clients may be ambiguous or untested. This risk exposes Bancorp and the Bank to potential fines, civil money penalties, payment of damages and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts.

For further information on supervision and regulation, see the section captioned "Supervision and Regulation" in Item 1 above.

The Bank May Not Be Able to Attract and Retain Qualified Employees

The Bank's success depends, in large part, on its ability to attract and retain key employees and highly qualified employees at every level. Competition for the best people can be great. Management believes that the Bank has built the management team and personnel, and established an infrastructure to support the Bank's current size. Future success will depend on the ability of executives and employees to continue to implement and improve operational, financial and management controls and processes, reporting systems and procedures, and to manage a growing number of customer relationships. Without additional key personnel the Bank may not be able to meet its growth strategy.

The Bank May Experience a Breach in Security

The Bank's business requires the secure handling of sensitive client information. A breach of security or well publicized breaches of other financial institutions could significantly harm the Bank's reputation, result in a loss of customer business, subject the Bank to additional regulatory scrutiny, or expose the Bank to civil litigation and possible financial liability. While the Bank has systems and procedures designed to prevent security breaches, management cannot be certain that advances in criminal capabilities, physical system or network break-ins or inappropriate access will not compromise or breach the technology protecting its networks or proprietary client information.

The Bank Relies on Third-Party Vendors

The Bank depends on the accuracy and completeness of information provided by certain of its vendors, including but not limited to, the Bank's data processing vendor. The Bank's ability to operate, as well as the Bank's financial condition and results of operations, could be negatively affected in the event of interruptions of information systems, an undetected error, or in the event of a natural disaster whereby certain vendors are unable to maintain business continuity.

Bancorp Relies on Dividends from the Bank to pay Cash Dividends to Shareholders

Bancorp is a separate legal entity from its subsidiary, the Bank. It receives all of its revenue from dividends received from the Bank. This revenue is the principal source of funds to pay cash dividends to Bancorp's common shareholders. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to Bancorp. In the event that the Bank is unable to pay dividends to Bancorp, Bancorp may not be able to pay dividends to its shareholders which could have an adverse effect on Bancorp's stock price and investment value.

Under federal law, capital distributions from the Bank would become prohibited, with limited exceptions, if the Bank were categorized as "undercapitalized" under applicable Federal Reserve or FDIC regulations. In addition, as a California bank, the Bank is subject to state law restrictions on the payment of dividends.

Accounting for Stock Options may Result in Volatility of Net Income and Equity

Bancorp has certain employee stock options that are subject to new accounting treatment beginning January 1, 2006. Bancorp is required to treat stock options as a non-cash expense based on the grant date fair market value of the options. As its common stock price fluctuates, the grant date fair value of new awards is affected, which in turn will affect Bancorp's net income and equity. See Note 10 to Bancorp's audited financial statements included in Bancorp's 2007 Annual Report for the impact of employee stock options on net income. The impact of employee stock options on Bancorp's equity is not expected to be significant.

The Trading Volume of Bancorp's Common Stock is Less than that of Other Larger Financial Services Companies

Bancorp's common stock is listed for trading on the NASDAQ's Capital Market. Its trading volume is less than that of other larger financial institutions. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence of willing buyers and sellers of common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which Bancorp has no control. Given the lower trading volume of Bancorp's common stock, significant sales of the stock, or the expectations of these sales, could cause the stock price to fall.

Severe Weather or Natural Disasters Could Significantly Impact the Bank's Business

Severe weather or disasters, such as severe rainstorms, an earthquake or flood, could affect the Bank's loan portfolio by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The ultimate impact of a natural disaster on the Bank's future financial results and condition is difficult to predict and will be affected by a number of factors, including the extent of damage to the collateral, the extent to which damaged collateral is not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost to the Bank of collection and foreclosure.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Bank of Marin leases its corporate headquarters building, which houses the Bank's loan production, operations, and primary administrative offices, in Novato, California. The Bank also leases other branch office facilities within its primary market areas in the cities of Petaluma, Novato, San Rafael, Corte Madera, Mill Valley, Sausalito, and San Francisco, California. The Bank considers its properties to be suitable and adequate for its present needs.

ADDITIONAL INFORMATION

For additional information on properties, see Notes 5 and 13 of the Notes to Financial Statements included in the 2007 Annual Report.

ITEM 3. LEGAL PROCEEDINGS

There are no pending, or to management's knowledge any threatened, material legal proceedings to which Bancorp is a party, or to which any of Bancorp's properties are subject. There are no material legal proceedings to which any director, any nominee for election as a director, any executive officer of Bancorp, or any associate of any such director, nominee or officer is a party adverse to Bancorp.

Bancorp is responsible for its proportionate share of certain litigation indemnifications provided to Visa U.S.A. by its member banks in connection with lawsuits related to anti-trust charges and interchange fees. Bancorp recorded a liability of $242 thousand in the fourth quarter of 2007 to cover its potential liability. Bancorp expects to fully reverse this liability in 2008 upon the initial public offering of Visa Inc., which became the parent company of Visa U.S.A. during a restructuring in 2007. A portion of the proceeds from the initial public offering is expected to be set aside by Visa Inc. to cover this litigation on behalf of its member banks.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

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

Bancorp common stock trades on the NASDAQ Capital Market under the symbol BMRC.

At February 20, 2008, 5,142,150 shares of Bancorp's common stock, no par value, were outstanding and held by approximately 700 holders of record. The following table sets forth, for the periods indicated, the range of high and low sales prices of the Bank's common stock through the second quarter of 2007 and Bancorp's common stock thereafter. The prices have been adjusted to reflect the effect of all stock dividends and stock splits.

Quarter/Year	High	Low
4th Quarter 2007	$ 32.63	$ 27.00
3rd Quarter 2007	$ 33.60	$ 29.88
2nd Quarter 2007	$ 36.58	$ 32.57
1st Quarter 2007	$ 39.49	$ 35.42
4th Quarter 2006	$ 36.75	$ 31.50
3rd Quarter 2006	$ 33.25	$ 30.00
2nd Quarter 2006	$ 35.25	$ 32.25
1st Quarter 2006	$ 37.00	$ 33.60

The table below shows dividends paid in the last two fiscal years.

	2007		2006	
	Per Share	Dollars	Per Share	Dollars
1Q	$ 0.12	$ 625,000	$ 0.10	$ 500,000
2Q	$ 0.13	$ 680,000	$ 0.12	$ 641,000
3Q	$ 0.13	$ 672,000	$ 0.12	$ 655,000
4Q	$ 0.13	$ 673,000	$ 0.12	$ 652,000

Included in cash dividends during the second quarter of 2007 is $5 thousand paid to shareholders in connection with the redemption of all the preferred share purchase rights issued pursuant to the Bank's Rights Agreement of August 11, 2003. Each right entitled the registered holder to purchase from Bank one one-hundredth of a share of Series A Junior Participating Preferred stock, no par value of Bank at a price of $125 per one one-hundredth of a preferred share, subject to adjustments. The redemption, in anticipation of the formation of a bank holding company, was effective June 14, 2007 at a redemption price of $0.001 per right. On that same day, Bank of Marin Bancorp's Board of Directors executed a Rights Agreement substantially similar to the Bank's agreement and has issued replacement rights to purchase shares of Bancorp under the new Rights Agreement to shareholders of record as of July 23, 2007. The Bank of Marin Bancorp Rights Agreement is designed to discourage takeovers that involve abusive tactics or do not provide fair value to shareholders.

In October 2006, Bank of Marin received approval from the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC) to buy back up to 10%, or approximately 545,884 of the Bank's 5,458,838 then-outstanding shares, not to exceed $15 million. The repurchase program allowed the Bank to purchase common shares for a period of approximately twelve months from the approval date in the open market or in privately negotiated transactions. The Bank executed these transactions pursuant to the Securities and Exchange Commission's Rule 10b-18. All shares repurchased were made in open market transactions and were part of the publicly announced repurchase program. From October 1, 2006 to December 31, 2006, the Bank repurchased 115,625 shares at an average price of $34.26 per share for a total cost of $4.0 million. In 2007 through February 28, the Bank purchased an additional 289,692 shares at an average price of $38.10 per share, for a total cost of $11.0 million, thereby concluding this share repurchase program.

In November 2007, Bancorp's Board of Directors approved a second plan to repurchase common shares of Bancorp up to $5 million. No regulatory approval was required for this repurchase plan as Bancorp was exempted under the provisions of Regulation Y of the Federal Reserve Board. In November and December of 2007, Bancorp repurchased a total of 51,732 shares at an average price of $29.96 per share for a total cost of $1.5 million.

A schedule of purchases during 2006 and 2007 follows. This schedule reflects the repurchase, upon formation of the bank holding company on July 1, 2007, of 24,399 common shares of the Bank for $876 thousand from six shareholders who dissented to the exchange of those shares for Bancorp common shares.

(Dollars in thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value that May Yet be Purchased Under the Program
Plan #1				
October 24-31, 2006	25,004	$ 32.53	25,004	$ 14,187
November 1-30, 2006	29,514	$ 33.56	29,514	$ 13,196
December 1-31, 2006	61,107	$ 35.30	61,107	$ 11,039
Total 2006 Purchases Under Regulatory Approved Plans	115,625	$ 34.26	115,625	$ 11,039
January 1-31, 2007	74,980	$ 37.10	74,980	$ 8,257
February 1-28, 2007	214,712	$ 38.45	214,712	Plan Concluded
Subtotal 2007 Plan #1	289,692	$ 38.10	289,692	---
Plan #2				
November 1-30, 2007	750	$ 27.75	750	$ 4,979
December 1-31, 2007	50,982	$ 29.99	50982	$ 3,450
Subtotal 2007 Plan #2	51,732	$ 29.96	51,732	$ 3,450
Total 2007 Purchases Under Regulatory Approved Plans	341,424	$ 36.87	341,424	$ 3,450
July 1-31 2007	24,399	$ 35.92	N/A	N/A
Shares Repurchased from Dissenting Shareholders	24,399	$ 35.92	N/A	N/A

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information as of December 31, 2007, with respect to equity compensation plans. All plans have been approved by the shareholders.

	(A) Shares to be issued upon exercise of outstanding options	(B) Weighted average exercise price of outstanding options	(C) Shares available for future issuance (Excluding shares in column A)
Equity compensation plans approved by shareholders	481,975(1)	$ 23.64	485,910

(1) Represents shares of common stock issuable upon exercise of outstanding options under the Bank of Marin 1990 Stock Option Plan, the Bank of Marin 1999 Stock Option Plan and the Bank of Marin Bancorp 2007 Equity Plan.

Bancorp's stock price performance graph is incorporated by reference from page 58 of Bancorp's Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

The information required to be furnished pursuant to this item is set forth under the caption "Selected Financial Data" on page 3 of Bancorp's 2007 Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For management's discussion and analysis of financial condition and results of operations, see "Management's Discussion and Analysis" on pages 5 through 27 of Bancorp's 2007 Annual Report, which is incorporated herein by reference. Management's Discussion and Analysis and other statistical disclosures should be read in conjunction with the financial statements and notes thereto, included on pages 28 through 58 of Bancorp's 2007 Annual Report, which is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required to be furnished pursuant to this item is set forth under the captions "Liquidity" and "Market Risk Management" on pages 23 through 24 of Bancorp's 2007 Annual Report and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required to be furnished pursuant to this item is set forth on pages 28 through 57 of Bancorp's 2007 Annual Report and is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(A) Evaluation of disclosure controls and procedures

Bancorp's Chief Executive Officer, Chief Financial Officer, and several other members of Bancorp's senior management have evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2007.

Based on this evaluation, the Bank's Chief Executive Officer and Chief Financial Officer have concluded, as of December 31, 2007, that the disclosure controls and procedures were effective in recording, processing, summarizing and reporting the information Bancorp is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the Securities and Exchange Commission's rules and forms.

(B) Management's Annual Report on Internal Control over Financial Reporting

The management of Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting. Bancorp's internal control system was designed to provide reasonable assurance to Bancorp's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Bancorp's management assessed the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2007. Management's Report Regarding Internal Control and Compliance with Designated Laws and Regulations is incorporated by reference from page 29 of Bancorp's 2007 Annual Report. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on its assessment management believes that, as of December 31, 2007, Bancorp's internal control over financial reporting is effective based on those criteria.

Bancorp's independent auditors have issued an audit report on Bancorp's internal control over financial reporting. See (D) below.

(C) Changes in internal controls

During the quarter ended December 31, 2007, Bancorp did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that have materially affected, or are reasonably likely to materially affect these controls.

(D) Attestation Report of the Registered Public Accounting Firm

The Attestation Report of the Registered Public Accounting firm required to be furnished pursuant to this item is set forth on page 28 of Bancorp's 2007 Annual Report and is incorporated herein by reference.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from Bancorp's Proxy Statement for the 2008 Annual Meeting of Shareholders. Bancorp and the Bank have adopted a Code of Ethical Conduct that applies to all staff including the Chief Executive Officer, Chief Financial Officer and Controller. A copy of the Code of Ethical Conduct will be provided to any person, without charge, upon written request to Corporate Secretary, Bank of Marin Bancorp, 504 Redwood Boulevard, Suite 100, Novato CA 94947.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from Bancorp's Proxy Statement for the 2008 Annual Meeting of Shareholders.

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

The information required by this Item is incorporated by reference from Item 5 above, Note 9 to Bancorp's audited financial statements included in Bancorp's 2007 Annual Report and Bancorp's Proxy Statement for the 2008 Annual Meeting of Shareholders.

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

The information required by this Item is incorporated by reference from Bancorp's Proxy Statement for the 2008 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from Bancorp's Proxy Statement for the 2008 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) Documents Filed as Part of this Report

1. Financial Statements

The financial statements of Bank of Marin Bancorp listed below and appearing at the indicated page number in Bank of Marin Bancorp's 2007 Annual Report are incorporated by reference into this report.

Bank of Marin Bancorp 2007 Annual Report	Page Number
Report of Independent Registered Public Accounting Firm for the years ended December 31, 2007, 2006 and 2005	28
Statement of Condition as of December 31, 2007 and 2006	30
Statement of Operations for the years ended December 31, 2007, 2006 and 2005	31
Statement of Changes in Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005	32
Statement of Cash Flows for the years ended December 31, 2007, 2006 and 2005	33
Notes to Financial Statements	34 – 60

2. Financial Statement Schedules

All financial statement schedules have been omitted, as they are inapplicable or the required information is included in the financial statements or notes thereto.

(B) Exhibits Filed

Number	Description of Exhibit
3.01	Articles of Incorporation, as amended, incorporated by reference to Exhibit 3.01 to Bancorp's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.
3.02	Bylaws, as amended, incorporated by reference to Exhibit 3.02 to Bancorp's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.
4.01	Rights Agreement dated as of July 2, 2007 is incorporated by reference to Exhibit 4.1 to Registration Statement on Form 8-A12B filed with the Securities and Exchange Commission on July 2, 2007.
10.01	2007 Employee Stock Purchase Plan is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 24, 2007.
10.02	1989 Stock Option Plan is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 24, 2007.
10.03	1999 Stock Option Plan is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 24, 2007.
10.04	2007 Equity Plan is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 24, 2007.
10.05	Form of Change in Control Agreement is incorporated by reference to Exhibit 10.01 to Current Report Form 8-K filed with the Securities and Exchange Commission on October 30, 2007.
10.06	Form of Indemnification Agreement for Directors and Executive Officers dated August 9, 2007 is incorporated by reference to Exhibit 10.06 to Bancorp's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.
10.07	Retirement Agreement and Release between the Bank and W. Robert Griswold, Jr. dated March 11, 2006.
10.08	Consulting Agreement between the Bank and W. Robert Griswold, Jr. dated March 11, 2006.
13.01	2007 Annual Report.
14.01	Code of Ethical Conduct.
23.01	Consent of Moss Adams LLP.
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Bancorp has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Bank of Marin Bancorp
Dated: March 10, 2008	*/s/ Russell A. Colombo* Russell A. Colombo President & Chief Executive Officer
Dated: March 10, 2008	*/s/ Christina J. Cook* Christina J. Cook Executive Vice President & Chief Financial Officer
Dated: March 10, 2008	*/s/ Larry R. Olafson* Larry R. Olafson Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Members of Bank of Marin Bancorp's Board of Directors
Dated: March 10, 2008	*/s/ Joel Sklar* Joel Sklar, M.D. Chairman of the Board
Dated: March 10, 2008	*/s/ Russell A. Colombo* Russell A. Colombo President & Chief Executive Officer
Dated: March 10, 2008	*/s/ Judith O'Connell Allen* Judith O'Connell Allen
Dated: March 10, 2008	*/s/ James E. Deitz* James E. Deitz
Dated: March 11, 2008	*/s/ Robert Heller* H. Robert Heller
Dated: _____________	_____________ Norma J. Howard

Dated: March 10, 2008	/s/ J. Patrick Hunt J. Patrick Hunt
Dated: March 10, 2008	/s/ James D. Kirsner James D. Kirsner
Dated: March 10, 2008	/s/ Stuart D. Lum Stuart D. Lum
Dated: March 10, 2008	/s/ Joseph D. Martino Joseph D. Martino
Dated: ____________	______________ William McDevitt, Jr.
Dated: March 11, 2008	/s/ Brian M. Sobel Brian M. Sobel
Dated: March 10, 2008	/s/ J. Dietrich Stroeh J. Dietrich Stroeh
Dated: ____________	___________ Jan I. Yanehiro

EXHIBIT INDEX

Exhibit Number	Description	Location
10.07	Retirement Agreement and Release between the Bank and W. Robert Griswold, Jr. dated March 11, 2006.	Filed herewith.
10.08	Consulting Agreement between the Bank and W. Robert Griswold, Jr. dated March 11, 2006.	Filed herewith.
13.01	2007 Annual Report.	Filed herewith.
14.01	Code of Ethical Conduct	Filed herewith.
23.01	Consent of Moss Adams LLP.	Filed herewith.
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.02	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.01	Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.

EXHIBIT 10.07

RETIREMENT AGREEMENT AND RELEASE

THIS AGREEMENT is made and entered into as of March 11, 2006, by and between Bank of Marin, a California corporation (hereinafter all referred to as "Employer"), and W. Robert Griswold, Jr. (hereinafter referred to as "Employee"), as follows:

Employee has been and is employed by Employer. Employee has decided to retire from such employment and from his positions as Chief Executive Officer, President and director of Employer effective at the close of business on June 30, 2006. Employer and Employee agree that Employee shall be retained as a consultant to Employer pursuant to the terms of the Consulting Agreement of even date herewith (the "Consulting Agreement"). Employer and Employee wish to set forth their agreed terms of Employee's retirement and desire to settle all legal rights and obligations resulting from, or that could be alleged to result from, the employment relationship or the retirement from such relationship, in accordance with the terms set forth below.

1. Retirement. Employer and Employee agree that Employee hereby resigns as an employee, director and officer of Employer effective at the close of business on June 30, 2006. Employee shall continue to serve as President and Chief Executive Officer of Employer through and including June 30, 2006, at his current compensation and benefit level and shall fully carry out and perform all duties and obligations as President and Chief Executive Officer through such date. Effective concurrently with the effectiveness of the resignation of Employee at the close of business on June 30, 2006, Employee's successor, designated by employer's Board of Directors, will be appointed President and Chief Executive Officer of Employer. From the date of this Agreement through and including June 30, 2006, Employee shall exert his full time and attention, with the assistance of his designated successor and Employer's consultant David McLeod, to the transition of the leadership of Employer from Employee to his successor, to be made effective July 1, 2006. At all times, Employee will positively and in good faith support the transition of leadership of Employer to Employee's successor.

As consideration for Employee's services to Employer for all periods ending June 30, 2006, Employee shall be entitled to the following:

(a) Employee shall receive a bonus for 2005, payable on or before March 15, 2006, in the amount of $136,850, except that any portion of such bonus that Employee has previously elected to have paid on a deferred basis in accordance with Employer's Officer Deferred Compensation Plan shall be paid in accordance with such plan.

(b) Prior to the close of business on June 30, 2006, Employer shall pay to Employee all salary and director's fees earned to that date together with accrued and unpaid vacation through that date.

(c) All payments under items (a) and (b) above shall be less deductions for federal and state withholding and other applicable taxes and deductions as required by law.

(d) Employee will be entitled to continue his medical insurance coverage in Employer's plan for its employees subsequent to June 30, 2006, entirely at the expense of Employee and pursuant to the terms and conditions applicable to employees who retire at age 55 after ten (10) years of service.

(e) Employer and Employee shall fulfill their obligations under Employer's Officer Deferred Compensation Plan and Stock Option Plan and all written agreements governing Employee's options to purchase common stock of Employer.

Employee acknowledges that the foregoing is a complete description of all compensation that he will be entitled to receive from Employer with respect to his services to Employer for periods ending June 30, 2006.

2. Consideration. As consideration for Employee's release of all Claims against Employer, as set forth in paragraph 3 below, Employer tenders, and Employee agrees to accept, a payment of $136,850. The payment shall be less deductions for federal and state withholding and other applicable taxes and deductions as required by law. The consideration shall be paid in full at the close of business on June 30, 2006, subject to the condition precedent that Employee shall have executed the Release Renewal, as defined at the end of paragraph 3 below.

3. Release. Employee and Employer each irrevocably and unconditionally release the other from any and all Claims made, to be made, or which might have been made as a consequence of Employee's employment by Employer, or arising out of the termination of the employment relationship, or arising out of any acts committed or omitted during the existence of the employment relationship. Employee and Employer each agree that they will not file, claim, sue, or cause or permit to be filed or claimed, any action for damages or any other relief against the other involving any matter occurring in the past up to the date of this Agreement.

For purposes of this Agreement, the term "Claim(s)" shall in addition to any definitions of Claims set forth above, include, but not be limited to, the following:

(a) Any and all actions, causes of action, suits, debts, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, and expenses (including attorneys' fees and other costs actually incurred), pertaining to Employee's employment by Employer or the termination of such employment, or any other nature whatsoever, in contract or tort and in law or equity.

(b) Any action or claim that could arise under federal, state, or local law, regulation, or executive order, including but not limited to, actions under Title VII of the Civil Rights Act of 1964, as amended; the Equal Pay Act, as amended; the Fair Labor Standards Act, as amended; the Federal Family and Medical Leave Act, the California Family Rights Act; the Americans with Disabilities Act, as amended; the Employee Retirement Income Security Act of 1974, as amended; the California Labor Code; the California Fair Employment and Housing Act; the National Labor Relations Act, as amended; and the Age Discrimination in Employment Act, to the fullest extent permitted by law.

At the close of business on June 30, 2006, Employer and Employee shall execute the agreement entitled Release Renewal (the "Release Renewal") set forth at the end of this document immediately following the signatures of Employer and Employee. Employee's execution of the Release Renewal is a condition of his entitlement to receive the consideration provided for in paragraph 2 above.

4. Covenant Not to Sue. Each of Employee and Employer hereby covenants and agrees not to assert any claim, or file, claim, sue or cause or permit to be filed or claimed, any action for damages or any other relief against the other with respect to any Claim that has been released. Any attempt to initiate any such Claim shall constitute a breach of this Agreement. In the event of any such breach, Employee shall immediately return to Employer all consideration paid to Employee pursuant to paragraph 2 above.

5. Section 1542. It is the intention of Employee and Employer that this Agreement will act as a bar to each and every Claim, including such Claims which Employee and Employer do not know or suspect to exist. Employee and Employer acknowledge that they may hereafter discover the existence of additional claims or facts with respect to the subject matter of this Agreement and which, if known, or suspected at the time of signing this Agreement, may have materially affected this settlement. Employee and Employer expressly waive any and all rights and benefits conferred upon Employee or Employer by the provisions of Section 1542 of the California Civil Code or any comparable statutory provisions, and expressly consent, that this Agreement will be given full force and effect according to each and all of its express terms and provisions, including as well those related to unknown and unsuspected claims, demands, and causes, and demands and causes of action described above. Section 1542 provides:

> **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

6. References; Nondisparagement. Any requests for employment references for Employee, whether written or oral, must be made directly to Employer's then current Chairman of the Board. References solicited from persons other than Employer's Chairman of the Board will not be provided, and if provided, will not be authorized by Employer. In response to a reference request for Employee, the parties agree that Employer will provide only job title, dates of employment, and final salary. Employee shall refrain from defaming, disparaging, or otherwise speaking negatively of Employer, or any of its customers or personnel, to any other person, business, or third party, and Employer shall refrain from defaming, disparaging, or otherwise speaking negatively of Employee to any other person, business, or third party.

7. Review and Revocation. By signing this Agreement Employee certifies that he has read all of this Agreement, and knowingly and voluntarily consents to its terms. Employee certifies that Employer has advised Employee in writing to consult with an attorney before signing this Agreement to be sure that Employee understands the meaning of the terms and conditions in the Agreement. Employee also certifies that Employee has been given at least twenty-one (21) days to consider this Agreement, that Employee's signature below indicates either that Employee has taken twenty-one (21) days to consider this Agreement, or has knowingly and voluntarily waived some or all of this consideration period. Employee has seven (7) days from the date of signing this Agreement to revoke the Agreement, after which the Agreement is final and binding ("Effective Date").

8. Confidentiality. Employee agrees that the terms of this Agreement are considered a confidential document by Employer, and agrees, except as required by law, not to disclose the terms to any other person or entity without the advance written consent of Employer. This nondisclosure provision does not apply to Employee's spouse, attorney or tax advisor so long as the excepted individuals are provided with a copy of this provision and agree not to further disclose in accordance with the terms of this provision.

9. Non-Admission. The parties agree that this Agreement is not an admission of wrongdoing, fault, guilt or liability on the part of Employer under any federal, state, or local law, whether statutory or common law.

10. Entire Agreement/Legality. Both parties agree that this Agreement supersedes any prior agreements or representations between the parties, oral or otherwise, pertaining to the subject matter of this Agreement, and that all such prior agreements are null and void. No representations, obligations, understandings, or agreements, oral or otherwise, exist between the parties except as expressly stated in the Agreement. This Agreement may be amended or terminated only by a written document signed by Employer and Employee.

If any portion or term of this Agreement is found to be invalid by any court, agency, or other competent authority, the remaining lawful terms will remain in full force and effect; provided, however, that if the release provisions in paragraph three (3) are not fully enforced as a bar to any claim made by Employee against Employer, then the monies received by Employee in consideration of the release under paragraph 3 of this Agreement will be returned to Employer.

11. State Law Governs. The Agreement will be governed by and construed according to the Laws of the State of California.

12. Arbitration. If a dispute or controversy arises regarding the performance of either party under the terms of this Agreement or regarding the enforceability of any terms of this Agreement, then the parties agree that such dispute or controversy shall be resolved by binding arbitration in Marin County, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association or such other rules or arbitrator as the parties mutually agree. A judgment upon any decision of the arbitrator may be entered in any court having jurisdiction thereof. The costs of the arbitration shall be borne equally by the parties. The prevailing party in any such proceeding shall be entitled to recover a sum equal to its reasonable attorneys' fees incurred.

/s/WRG
Employee
Initials

/s/J.A.
Employer
Initials

13. Consultations With Attorney. Employee acknowledges that Employer has urged that he consult with an attorney, and that he has had the opportunity to consult with an attorney, of Employee's choice prior to executing this Agreement

14. Acknowledgment. Employee acknowledges that he has read this Agreement, and he fully understands it. Employee agrees that no representations inconsistent with this Agreement have been made to Employee and Employer has not made any promises, agreements or statements concerning the terms or effect of this Agreement other than those contained herein. Employee further acknowledges that after consideration of this Retirement Agreement and Release, that he has signed this Agreement as a voluntary act and without coercion or force of any kind whatsoever.

ACCEPTED BY EMPLOYEE
/s/ W. Robert Griswold, Jr.
W. Robert Griswold, Jr.

3/11/06
Date

ACCEPTED BY EMPLOYER
Bank of Marin
By: */s/ Judith O'Connell Allen*
Its: Chairman of Board

3/11/06
Date

Release Renewal

Employer and Employee hereby agree that the release set forth in paragraph 3 of the foregoing Retirement Agreement and Release is renewed and made effective once again as of the close of business on June 30, 2006, as if originally given on such date.

ACCEPTED BY EMPLOYEE
/s/ W. Robert Griswold, Jr.
W. Robert Griswold, Jr.

Dated: June 30, 2006

ACCEPTED BY EMPLOYER
Bank of Marin
By: */s/ Judith O'Connell Allen*
Its: Chairman of Board

Dated: June 30, 2006

EXHIBIT 10.08

CONSULTING AGREEMENT

This Agreement is made and entered into as of March 11, 2006, by and between Bank of Marin, a California corporation (the "Company") and W. Robert Griswold, Jr. (hereinafter referred to as "Consultant").

RECITALS

Consultant has, by reason of his many years of experience in the banking business and particularly in the banking business in Marin County, California and through his employment with the Company, acquired a unique and valuable knowledge of the business of the Company.

The Company wishes to engage Consultant's expertise in order to facilitate the future growth and prosperity of the Company.

Consultant is desirous of making his expertise available to the Company on the terms set forth below.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants contained herein, and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. Effectiveness. This Agreement has been executed in connection with the Retirement Agreement and Release of even date herewith between the Company and Consultant, and the effectiveness of this Agreement is subject to the fulfillment by the parties' of their obligations under the Retirement Agreement and Release.

2. Duties. The Company retains Consultant and Consultant agrees to render reasonable bank related services to the Company to the best of his ability, upon and subject to the terms and conditions set forth herein. Consultant shall render such consulting services to the Company as are requested by the Company from time to time during the Consultation Period, as defined in Section 4 below. Consultant shall have no obligation to render any consulting services to the Company unless requested pursuant to this Agreement. Consultant will devote his utmost skill and knowledge to the performance of consulting duties to the extent requested to provide consulting services by the Company, but in no event to exceed sixteen (16) hours in any one (1) month period, except that whenever Consultant does not provide sixteen (16) hours of service in a month, the hours of service not provided shall be carried forward and added to the maximum number of hours that may be required in any subsequent month, except that not more than a cumulative current total of thirty-two (32) hours may be carried forward at any time.

3. Independent Contractor. Consultant is an independent contractor and it is understood and agreed by Consultant and the Company that, as a result of entering into this Agreement, the Company does not intend to appoint Consultant the agent, employee or other legal representative of the Company and that Consultant shall have no power or authority to assume, create or incur any liability or obligation of any kind, express or implied, against or in the name of, or on behalf of the Company in any transaction with a third party. Consultant shall not be eligible to participate in any benefit plan or program available to Company employees nor shall the Company be responsible for tax withholding or other requirements imposed by federal or state law upon employees.

4. Term. The Company hereby retains Consultant's services, and Consultant accepts such retention, for the period beginning July 1, 2006, and ending June 30, 2008, or such earlier date as the parties mutually agree, unless terminated earlier pursuant to Section 7 below. Such term is herein referred to as the "Consultation Period."

5. Compensation. Consultant shall not be entitled to any compensation of any kind from the Company except the Company shall pay to Consultant an annual consulting fee of $261,300, payable in 12 equal monthly installments of $21,555 (the "Consulting Fee"). The Consulting Fee during the term of this Agreement is due to Consultant as consideration for Consultant committing to perform and performing the duties required by Section 2 above.

6. Method of Work and Benefits. Consultant shall not receive, and shall not be entitled to receive, any benefits from the Company other than payment of the sums due under Section 5 above. Consultant shall not have an office at the Company premises but may use available space and equipment necessary for him to discharge his responsibilities within the Company premises or otherwise necessary when undertaking consulting assignments outside the Company premises, i.e., cell phone. Consultant shall determine his own working hours and methods for carrying out the consulting assignments requested by the Company.

7. Termination. This Agreement and the services required of Consultant hereunder, shall terminate prior to its expiration date under the following conditions:

(a) Termination for Good Cause. The Company shall have "good cause" to terminate Consultant's relationship if Consultant engages in the following:

(i) any willful appropriation, destruction, or damage to property or funds belonging to the Company or its employees, clients, or visitors;

(ii) sexual, verbal or physical harassment or discrimination towards any employee, customer, supplier, contractor or visitor of the Company;

(iii) dishonesty in connection with the Company's business;

(iv) breach of any of the provisions of Section 9 hereof;

(v) Consultant fails or refuses to perform faithfully and diligently the consulting duties described in Section 2 after fifteen (15) days written notice from the Company; or

(vi) Consultant fails or refuses to comply with the written policies, standards and regulations of the Company which from time to time may be established, which failure or refusal is not cured within fifteen (15) days after written notice thereof is given by the Company.

8. Payment Upon Termination for Good Cause. In the event Consultant's relationship with the Company is terminated for good cause, as set forth in Section 7(a), he shall receive notice of termination and shall be entitled only to the compensation set forth in Section 5 above prorated through the date of said notice. As an independent contractor Consultant recognizes that he has no rights to other benefits otherwise accruing to employees of the Company.

9. Covenants Regarding Competitive and Other Businesses. Consultant covenants and agrees, and such covenants and agreements are of the essence of this Agreement, that:

(a) Protection of Confidential Information. Consultant recognizes and acknowledges that during his tenure as President and Chief Executive Officer of the Company, he has dealt with and has had access to information relating to the Company's business which is not in the public domain, and that during his term as a consultant to the Company hereunder he may deal with and have access to additional information of that nature. With the exception of such information that is included in public filings made with state or federal agencies or associations or that otherwise falls into the category of information generally known to the public, Consultant recognizes and stipulates that information designated or treated by the Company as confidential ("Confidential Information") is a valuable and unique asset of the Company's business, developed and perfected over considerable time and at substantial expense to the Company. Consultant agrees that he will not divulge, disclose, or communicate to anyone, directly or indirectly, either during the term of his consulting or thereafter, any Confidential Information of any kind, nature, or description. The parties hereto acknowledge that any breach of the terms of this subsection is a material breach of this Agreement.

(b) Surrender of Documents. Upon termination of his consulting duties for any reason, Consultant will immediately surrender to the Company all Confidential Information of the Company in his possession, including all correspondence, written memoranda, computer files, diagrams, books, records and notebooks, as well as any and all other tangible Confidential Information, and all copies thereof, relating in any way to the business of the Company, whether prepared by Consultant or by others.

(c Non-Competition. Although Consultant is free to accept other consulting engagements during the term of this Agreement, Consultant will at all times devote reasonable time and effort to the duties described in Section 2 above and Consultant expressly agrees that during the term of his engagement by the Company he will not, without the prior written consent of the Company, be interested or involved, directly or indirectly. in any form, fashion, or manner, as a partner, officer, director, stockholder owning or controlling in excess of ten percent (10%) of the outstanding shares or equity, advisor, employee, consultant, agent, or in any other form or capacity, in any other bank or financial institution in the California counties of Marin, Sonoma or San Francisco.

(d) Non-Solicitation. During the term of his consulting and for six months thereafter, Consultant agrees that he will not, directly or indirectly, either for himself or for any other person, firm, company or corporation (i) call upon, solicit, divert, or attempt to solicit or divert business from any person, firm or corporation which was a customer of the Company during Consultant's consulting with the Company or prior employment with the Company or (ii) solicit or induce any of the Company's employees to terminate their employment relationship with the Company, or any subcontractor to terminate any business relationship with the Company, in either case, for any reason.

(e) Enforcement of Covenants. If, at the time of enforcement of any of the provisions of this Agreement, a court shall hold that the period, scope or geographical area of the restrictions stated herein are unreasonable under the circumstances then existing, the parties agree that the maximum period, scope or area reasonable under such circumstances shall be substituted for the period, scope or area stated herein, with respect to the enforcement of such provisions then at issue.

10. Life Insurance. Employer shall be entitled, at its expense and for its benefit, to obtain life insurance with respect to Employee during the Consultation Period, and Employee shall, to the extent requested by Employer, cooperate with Employer in obtaining such coverage.

11. General Provisions.

(a) Payments. All payments due to Consultant pursuant to the terms of this Agreement shall be delivered in person or by electronic deposit as directed by Consultant in writing, with the first payment due July 31, 2006.

(b) Assignability. This Agreement is for the personal services of Consultant and as such is not assignable by Consultant to or assumable by any other party without the consent of the Company. The Company may assign this Agreement to any successor in interest to the Company or to any other entity controlling, controlled by or under common control with the Company or buy out the remaining term of this Consulting Agreement.

(c) Notices. Any notices to be given hereunder by either party to the other may be affected by either personal delivery in writing, or by mail, registered or certified, postage prepaid, with a return receipt requested. Mailed notices shall be addressed to the other party to the address appearing beneath the party's signature on this Agreement, but each party may change its address by written notice in accordance with this Section 11(c). Notice delivered personally shall be deemed communicated as of the date of delivery.

(d) Entire Agreement. Consultant acknowledges receipt of this Agreement and agrees that this Agreement represents the entire agreement with the Company concerning the subject matter hereof.

(e) Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

(f) No Waiver. Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, or prevent that party from thereafter enforcing each and every other provision of this Agreement.

(g) Applicable Law. This Agreement shall be interpreted, construed, governed and enforced in accordance with the laws of the State of California.

(h) Amendments. No amendment or modification of the terms of this Agreement shall be valid unless in writing and signed by the parties thereto.

(i) Arbitration. If a dispute or controversy arises regarding the performance of either party under the terms of this Agreement or regarding the enforceability of any terms of this Agreement, then the parties agree that such dispute or controversy shall be resolved by binding arbitration in Marin County, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association or such other rules or arbitrator as the parties mutually agree. A judgment upon any decision of the arbitrator may be entered in any court having jurisdiction thereof. The costs of the arbitration shall be borne equally by the parties. The prevailing party in any such proceeding shall be entitled to recover a sum equal to its reasonable attorneys' fees incurred.

/s/WRG	/s/J.A.
Consultant Initials	The Company Initials

IN WITNESS WHEREOF, this Consulting Agreement has been executed and delivered by and on behalf of the parties hereto as of the first day above written.

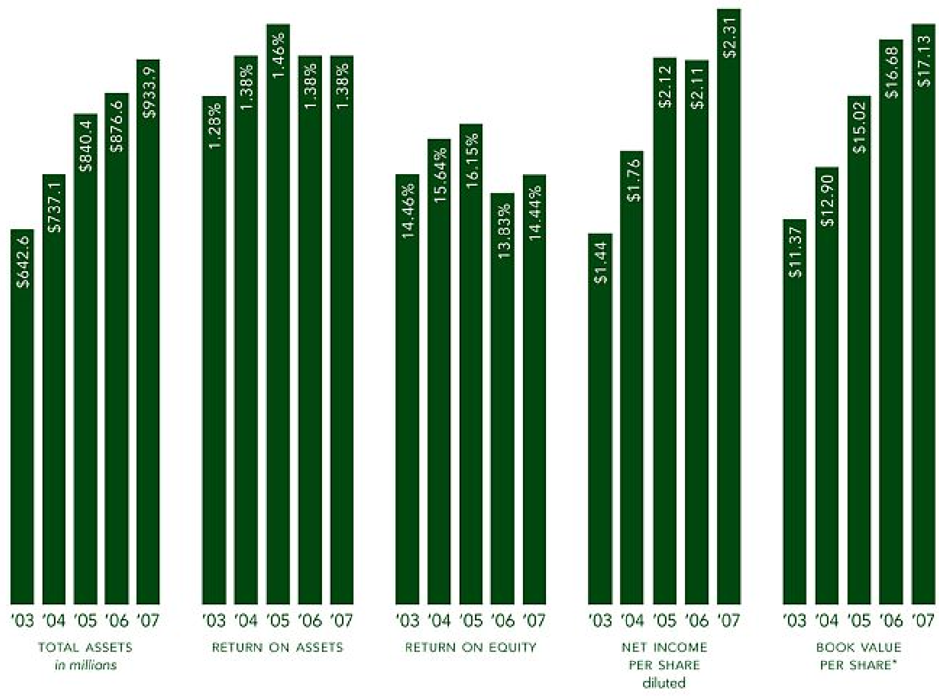
THE CONSULTANT	THE COMPANY BANK OF MARIN
/s/ W. Robert Griswold, Jr. W. Robert Griswold, Jr.	By: /s/ Judith O'Connell Allen Its: Chairman of Board
Address: 149 So. Temelec Circle Sonoma, CA 95476	Address: 50 Madera Blvd. Corte Madera, CA 94925

EXHIBIT 13.01

BANK OF MARIN BANCORP
2007 ANNUAL REPORT

TABLE OF CONTENTS

Financial Performance



*Restated for all stockdividens and stock splits.

Selected Financial Data

As of For the Year Ended December 31,	2007	2006	2005	2004	2003	06/'07
(dollars in thousands, except per share data)						% change
At December 31						
Total assets	$ 933,901	$ 876,578	$ 840,449	$ 737,094	$ 642,607	6.5%
Total loans	724,878	719,778	686,661	576,957	450,881	0.7%
Total deposits	834,642	736,697	721,172	645,079	584,116	13.3%
Total stockholders' equity	87,774	89,525	78,221	65,608	55,577	(2.0)%
Equity-to-asset ratio	9.4%	10.2%	9.3%	8.9%	8.6%	
For year ended December 31						
Net interest income	$ 42,742	$ 41,733	$ 39,442	$ 32,237	$ 27,656	2.4%
Provision for possible loan losses	685	1,266	1,541	934	686	(45.9)%
Non-interest income	5,718	3,972	3,708	3,643	2,960	44.0%
Non-interest expense	27,673	25,891	22,498	19,620	17,817	6.9%
Net income	12,324	11,883	11,737	9,518	7,473	3.7%
Net income per share (diluted)*	2.31	2.11	2.12	1.76	1.44	9.5%
Cash dividend payout ratio	21.4%	20.8%	8.4%	20.1%	0.0%	

**Restated for all stock dividends and stock splits.*

On July 1, 2007, Bank of Marin Bancorp became the parent holding company for Bank of Marin. Financial information prior to July 1, 2007 pertains to Bank of Marin. Subsequent to that date, the information pertains to Bank of Marin Bancorp. The information is comparable for all periods as the sole subsidiary of Bank of Marin Bancorp is Bank of Marin.

DIVIDEND INFORMATION, STOCK PRICE AND MARKETPLACE DESIGNATION

In April 2006 and April 2005, the Board of Directors declared 5% stock dividends. In April 2004, the Board of Directors declared a 3-for-2 stock split.

	2007	2006	2005	2004
Q1	$ 0.12	$ 0.10	—	—
Q2	$ 0.13	$ 0.12	—	$ 0.40
Q3	$ 0.13	$ 0.12	$ 0.10	—
Q4	$ 0.13	$ 0.12	$ 0.10	—

During 2007, there were 4,139 reported trades at prices ranging from a high of $39.49 to a low of $27.00. In 2006 there were 2,961 trades ranging from a high of $37.00 to a low of $30.00.

Bank of Marin Bancorp common stock trades on the NASDAQ Capital Market under the symbol BMRC. There were approximately 700 holders of record of the Bank of Marin Bancorp's common stock as of February 20, 2008.

BUSINESS OF THE BANK

General

On July 1, 2007 (the "Effective Date"), a bank holding company reorganization was completed whereby Bank of Marin Bancorp ("Bancorp") became the parent holding company for Bank of Marin (the "Bank"), its sole subsidiary. On the Effective Date, a tax-free exchange was completed whereby each outstanding share of Bank of Marin common stock was converted into one share of Bank of Marin Bancorp common stock and Bank of Marin became a wholly-owned subsidiary of the holding company. Bancorp assumed the ticker symbol BMRC, which was formerly used by Bank of Marin. Prior to the Effective Date, Bank of Marin filed reports and proxy statements with the Federal Deposit Insurance Corporation ("FDIC") pursuant to Sections 12 of the Securities Exchange Act of 1934 (the "1934 Act").

Upon formation of the holding company, Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended, which subjects Bancorp to Federal Reserve Board reporting and examination requirements. Bank of Marin was incorporated in August 1989, received its charter from the California Superintendent of Banks (now the California Department of Financial Institutions) and commenced operations in January 1990. The Bank is an insured bank under the Federal Deposit Insurance Act.

Market Area and Customer Base

The Bank's primary market area reaches from southern Sonoma County south to San Francisco and lies between the Pacific Ocean on the west and San Pablo Bay to the east. The Bank's customer base is made up of business and personal banking relationships from the communities near the branch office locations.

Loans

The Bank offers a broad range of commercial and retail lending programs that includes commercial loans, construction financing, consumer loans, and home equity loans and lines of credit. Through a third party vendor, the Bank also offers a proprietary Visa credit card combined with a rewards program to its customers, as well as a Business Visa program for business and professional customers. For reporting purposes the lending programs are consolidated into the general categories of commercial loans, real estate loans and installment loans. At December 31, 2007, these broad categories totaled $724.9 million, and accounted for approximately 17%, 78% and 5%, respectively, of the loan portfolio. Of the real estate loans, 46% are non-owner occupied commercial real estate loans, 23% are owner occupied commercial real estate loans, 17% are construction loans, 8% are personal real estate loans and 6% are home equity loans. The interest rates on commercial loans are either fixed or tied to the Wall Street Journal prevailing prime rate and change as rate changes are reported. The loan portfolio is fairly evenly split between the two interest rate types. Commercial lines of credit generally have terms of one to two years. Commercial term loans generally have terms of three to five years.

Loans secured by real property include commercial real estate loans, consumer loans, lines of credit and construction financing. Commercial real estate loans are generally written for ten years with fixed rates for the first 5 years, which are then adjusted based on an indexed spread for the remaining 5 years. Consumer real estate secured loans include equity lines of credit and installment loans for various consumer purposes. Generally, equity lines are for a term of ten years or less and are secured by first or second deeds of trust on residential properties and bear interest at a floating rate tied to the Wall Street Journal prevailing prime rate. Usually, home equity installment loans are for a term of 15 years or less and have a fixed rate of interest.

The Bank offers construction financing to developers of single-family and multi-family residences and commercial real estate properties. Construction loans are typically repaid through permanent financing by the Bank or from other financial institutions. Usually these loans have terms of twelve to eighteen months, have fixed rates of interest or floating rates tied to the Wall Street Journal prevailing prime rate, and are secured by deeds of trust.

Deposits

The Bank offers a variety of checking and savings accounts, and a number of time deposit alternatives, including interest bearing and non-interest bearing personal and business checking accounts and time certificates of deposit. The Bank also offers remote deposit capture and direct deposit of payroll, social security and pension checks. A valet pick-up service is available to the Bank's professional and business clients. Bank of Marin's ATM system is linked into the STAR, PLUS and NYCE networks, and the Bank offers a proprietary Visa debit card. The Bank offers its depositors 24-hour access to their accounts by telephone and to both consumer and business accounts through its internet banking products.

Bank of Marin attracts deposits from individuals, merchants, small to medium sized businesses and professionals who live and/or work in its market areas. Approximate 88% of the Bank's deposits come from Marin and southern Sonoma counties. Approximately 62% of the Bank's deposits are from businesses and 38% are from individuals.

Wealth Management Services

The Bank offers Wealth Management Services which include customized investment portfolio management, financial planning, trust administration, estate settlement and custody services. The Bank also offers 401(k) plan services to small and medium businesses through a third party vendor.

Private Banking

In February 2007 the Bank introduced branch-based private banking to select customers as a natural extension of the Bank's services. The Bank's Private Banking includes deposit services, loans, investment management, trust administration, financial planning and advice on charitable giving.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of financial condition and results of operations for each of the years in the three-year period ended December 31, 2007 should be read in conjunction with Bancorp's financial statements and related notes thereto, included in this Annual Report. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

Earnings per share and book value per share amounts in 2005 have been restated to reflect the 5% stock dividend declared in April 2006.

Holding Company

On May 8, 2007 Bank of Marin shareholders approved the formation of a bank holding company. On July 1, 2007, the holding company, Bank of Marin Bancorp, acquired Bank of Marin as its wholly owned subsidiary. The holding company is expected to provide flexibility in meeting the financing needs of the Bank and in responding to evolving changes in the banking and financial services industries. See Note 1 of the Notes to Financial Statements.

Share Repurchase Programs

In October 2006, Bank of Marin received approval from the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC) to buy back up to 10%, or approximately 545,884 of the Bank's 5,458,838 then-outstanding shares, not to exceed $15 million. The repurchase program allowed the Bank to purchase common shares for a period of approximately twelve months from the approval date in the open market or in privately negotiated transactions. In 2006 the Bank repurchased 115,625 shares at prices ranging from $32.43 to $36.25 for a total cost of $4.0 million. In 2007 through February 28, the Bank purchased an additional 289,692 shares at prices ranging from $36.05 to $39.10 for a total cost of $11.0 million, thereby concluding this share repurchase program.

In November 2007 Bancorp's Board of Directors approved an additional plan to repurchase common shares of Bancorp up to $5 million. No regulatory approval was required for this repurchase plan as Bancorp was exempted under the provisions of Regulation Y of the Federal Reserve Board. In November and December 2007, Bancorp repurchased a total of 51,732 shares at an average price of $29.96 for a total cost of $1.5 million. In 2008 through January 31, Bancorp purchased an additional 5,100 shares at an average price of $28.75 for a total cost of $147 thousand.

For discussion of stock dividends and share repurchases, see Note 9 of the Notes to Financial Statements.

Forward-Looking Statements

This discussion of financial results includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended, (the "1934 Act"). Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

Bancorp's forward-looking statements include descriptions of plans or objectives of management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "intend," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact Bancorp's earnings in future periods. A number of factors - many of which are beyond management's control - could cause future results to vary materially from current management expectations. Such factors include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, real estate values and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting Bancorp's operations, pricing, products and services. These and other important factors are detailed in the Risk Factors section of Bancorp's 2007 Form 10-K as filed with the SEC, copies of which are available from Bancorp at no charge. Forward-looking statements speak only as of the date they are made. Bancorp does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

Management considers three accounting policies to be critical: the Allowance for Loan Losses, Share-Based Payment and Fair Value Option for Financial Assets and Liabilities.

Allowance for Loan Losses

Management has considered the accounting principles upon which Bank of Marin Bancorp's financial reporting depends and has determined the allowance for loan losses to be the most critical accounting policy. The allowance for loan losses is discussed in further detail beginning on page 20 of this Annual Report. The Bank formally assesses the adequacy of the allowance for loan losses on a quarterly basis. Determination of the adequacy is based on ongoing assessments of the probable risk in the outstanding loan portfolio. These assessments include the periodic re-grading of loans based on changes in their individual credit characteristics including delinquency, seasoning, recent financial performance of the borrower, economic factors, changes in the interest rate environment, and other factors as warranted. Loans are initially graded when originated. They are reviewed as they are renewed, when there is a new loan to the same borrower and/or when identified facts demonstrate heightened risk of default. Review of larger problem loans occurs at least quarterly. Confirmation of the quality of the grading process is obtained by independent credit reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies.

The Bank's method for assessing the appropriateness of the allowance includes specific allowances for identified problem loans, an allowance factor for pools of credits, and allowances for changing environmental factors (e.g., portfolio trends, concentration of credit, growth, economic factors). Allowances for identified problem loans are based on specific analysis of individual credits. Loss estimation factors for loan pools are based on analysis of local economic factors applicable to each loan pool. Due to the Bank's minimal historic losses, loss estimation factors are based only in part on the previous historical loss experience for each pool. Allowances for changing environmental factors are management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

Share-Based Payment

On January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standard ("SFAS") No.123R, "*Share-Based Payment*," which requires that all share-based payments, including stock-options, be recognized as an expense in the income statement based on the grant-date fair value of the award with a corresponding increase to common stock.

For additional discussion of the impact of SFAS No.123R, see Notes 1, 9, and 10 of the Notes to Financial Statements.

Fair Value Option for Financial Assets and Financial Liabilities and Fair Value Measurements

Effective January 1, 2007, Bank of Marin elected early adoption of 159, "*The Fair Value Option for Financial Assets and Financial Liabilities"* and SFAS No. 157,"*Fair Value Measurements."* Upon adoption of SFAS No. 159, the Bank selected the fair value option for its indirect auto loan portfolio. The changes in fair value of the selected financial instruments after the initial adoption at each balance sheet date were recorded through earnings prior to the sale of the portfolio on June 5, 2007. The Bank determined fair value at January 1, 2007 and March 31, 2007 based on certain criteria including weighted average interest rate, remaining term and FICO credit score. The expected cash flows were discounted using Treasury rates and a spread above the Treasury rate was applied based on recent sales of similar assets. The assumptions represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, the Bank's recorded unrealized gain in the first quarter of 2007 could have been materially different from that reflected in these financial statements.

As a result of the Bank's fair value measurement election for the auto loan portfolio, the Bank recorded a cumulative-effect adjustment of $1.5 million, net of tax, as a reduction of retained earnings as of January 1, 2007. In addition, $190 thousand and $520 thousand of pre-tax net gains were recorded in the Bank's second and first quarter earnings, respectively (2 cents and 6 cents per diluted share, respectively, on an after-tax basis), representing the change in fair value of such instruments during those periods after giving effect to the cumulative-effect adjustment.

For Additional discussion of the impact of the Adoption of SFAS No. 157 and 159, see Note 15 of the Notes to Financial Statements.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"*. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations Bancorp engages in will be recorded and disclosed following existing generally accepted accounting principles until January 1, 2009. Bancorp expects SFAS No. 141R would have an impact on its consolidated financial statements when effective if it acquires another company, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions Bancorp consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements,"* which provides guidance for accounting and reporting of noncontrolling (minority) interests in consolidated financial statements. The statement is effective for fiscal years and interim periods within fiscal years beginning on or after December 15, 2008. Bancorp does not hold minority interests in subsidiaries, therefore it is expected that SFAS No. 160 will have no impact on its financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007, with early adoption allowed effective January 1, 2007 in conjunction with the early adoption of SFAS No. 159. The adoption of SFAS No. 157 effective January 1, 2007 did not impact financial position or results of operations.

On February 15, 2007, the FASB released SFAS No. 159, which permits entities to choose to measure eligible financial instruments at fair value at specified election dates. Under SFAS No. 159 an entity records unrealized gains and losses in earnings on items for which the fair value option has been elected at each subsequent reporting date. The objective is to mitigate volatility in reported earnings without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years ending on or after November 15, 2007, with early adoption allowed effective January 1, 2007.

Effective January 1, 2007, the Bank elected early adoption of SFAS No. 159. Upon adoption, the Bank selected the fair value option for its indirect auto loan portfolio, which was subsequently sold on June 5, 2007. For further information on the financial effect of SFAS No. 159 see, Note 15 of the Notes to Financial Statements.

In July 2006, the FASB issued Interpretation (FIN) No. 48, *"Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109,"* which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes."* FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. For tax positions that meet the more-likely-than-not threshold, an enterprise may recognize only the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. The cumulative effect of applying the provisions of FIN 48 would be recognized as an adjustment to the beginning balance of retained earnings. FIN 48 was adopted January 1, 2007 and has not had a material impact on financial condition or results of operations.

In September 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 064-4 (EITF 06-4), "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."* EITF 06-4 requires employers to recognize a liability for future benefits provided through endorsement split-dollar life insurance arrangements that extend into postretirement periods in accordance with SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions* or APB Opinion No. 12, *Omnibus Opinion-1967*." The provisions of EITF 06-4 become effective on January 1, 2008 and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption, or through retrospective application to all prior periods. The Bank's split-dollar life insurance benefits are limited to the employee's active service period. Therefore it is expected that EITF 06-4 will have no impact on financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R)."* SFAS No. 158 requires employers to recognize the under-funded or over-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after December 15, 2008. As the Bank has no pension or other post-retirement benefit plans, it is expected that SFAS No. 158 will have no impact on financial condition or results of operations.

Executive Summary

The majority of Bancorp's and the Bank's assets and liabilities are monetary. As a result, movement of interest rates plays a large part in the risk to earnings.

In 2006, the Bank's earnings were impacted by interest rate compression in which its deposit rates rose rapidly while loan rates remained flat. The rise in deposit rates stemmed primarily from local market competition while loan rates reflected general economic conditions in which the interest yield curve was flat. A more normal yield curve slopes upward giving a premium to longer term assets, such as term loans.

2007 was a year of rapid change. In the first half of the year, competition for funds in the Bank's service area continued to put upward pressure on deposit rates while economic factors resulted in relatively flat loan rates. As a result of a management decision, the Bank sold its less profitable indirect auto loan portfolio. The Bank also sold its Visa portfolio to a third party vendor who can provide a more flexible product while retaining the Bank's branding on the Visa card. Proceeds from these sales markedly improved the Bank's liquidity, which lessened pressure to compete on deposit pricing and provided funds for more profitable lending activity. Beginning in August through the end of 2007, in response to sudden turmoil in the housing market and concerns over a possible recession, the Federal Reserve lowered its Federal funds rate (the rate at which banks may borrow from each other) by 100 basis points, resulting in lower offered deposit rates by the Bank, which positively affected the interest margin, along with the reinvestment of loan sale proceeds into higher-yielding relationship loans. Although variable rate loans adjusted downward with the decline in the Prime rate, the yield on fixed rate loans, which comprise about half of the loan portfolio, remain relatively unchanged. These changes resulted in a significant improvement to the net interest margin in the fourth quarter of 2007.

In January 2008, the Federal Reserve continued dropping target rates by another 125 basis points, and management expects rate cuts to continue. This will result in loans repricing downward. Potentially the largest factor to affect the Bank's net interest margin in 2008 could be the level to which the Bank is responsive to competitive deposit pricing in its market, which will be influenced by the Bank's liquidity level.

Bancorp's serving area has been somewhat insulated from the recent turmoil in the residential housing market due to the upscale nature of its market and relatively stable housing prices due to limited area for housing expansion. Bancorp itself has not been impacted by defaults on sub-prime mortgages. Bancorp holds no sub-prime mortgage loans nor does it invest in mortgage-backed securities collateralized by sub-prime loans. A relatively small portion of the loan portfolio (6.2%) is comprised of residential loans, which primarily relate to "tenancy in common" loans made to highly qualified applicants at a maximum loan to value of 80%. This product has shown resiliency in the recently volatile residential housing market. An additional 4.7% of the loan portfolio is comprised of home equity loans and lines of credit, at a maximum loan to value of 80%, in which historical delinquencies have been minimal. Credit quality remains very strong with only $144 thousand in non-accrual loans at December 31, 2007.

Through two share repurchase programs in 2006 and 2007, management has used excess capital to enhance earnings per share. Shares totaling 341,424 were repurchased in 2007 for $12.6 million and shares totaling 115,625 were repurchased in 2006 for $4.0 million under the repurchase programs.

Management is constantly alert for opportunities to offset the impact of interest rate compression on earnings including offering new fee income services and expansion of the franchise. The decision to create a bank holding company was made in order to provide additional flexibility in meeting financing needs, to facilitate acquisition of other banks and move into other financial services. In May of 2007, a loan production office was opened in San Francisco to help drive commercial loan and core deposit growth. Bancorp has received regulatory approval to open a second branch in Mill Valley which is scheduled to open in the second quarter of 2008.

Banking is a highly regulated industry. Management continually monitors the Bank's compliance with regulatory requirements including capital adequacy and liquidity. Upon formation of the bank holding company, Bank of Marin Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended which subjects Bancorp to Federal Reserve Board reporting and examination requirements. As a California state-chartered insured bank, the Bank remains subject to regulation and periodic examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation.

RESULTS OF OPERATIONS

Overview

Highlights of Bancorp's results are presented in the following table:

(dollars in thousands, except per share data)	As of and for the 12 months ended December 31, 2007	2006	2005
For the period:			
Net income	$ 12,324	$ 11,883	$ 11,737
Net income per share*			
Basic	$ 2.38	$ 2.21	$ 2.28
Diluted	$ 2.31	$ 2.11	$ 2.12
Return on average equity	14.44%	13.83%	16.15%
Return on average assets	1.38%	1.38%	1.46%
Cash dividend payout ratio	21.43%	20.81%	8.37%
Efficiency ratio	57.10%	56.65%	52.14%
At period end:			
Book value per share*	$ 17.13	$ 16.68	$ 15.02
Total assets	$ 933,901	$ 876,578	$ 840,449
Total loans	$ 724,878	$ 719,778	$ 686,661
Total deposits	$ 834,642	$ 736,697	$ 721,172
Loan-to-deposit ratio	86.85%	97.70%	95.21%

* These per-share amounts have been adjusted for all stock splits and dividends.

The 2007 financial performance for Bancorp produced growth in loans and deposits, with net income increasing $441 thousand from the prior year. Net income for 2007 was $12.3 million or $2.31 per share (diluted) compared with $11.9 million or $2.11 per share (diluted) in 2006. Net income for 2007 includes pre-tax non-recurring net gains of $710 thousand related to the second-quarter sale of the $76 million indirect auto loan portfolio and pre-tax non-recurring gains of $387 thousand from the third-quarter sale of the Bank's $1.5 million Visa portfolio. The 2007 net income also includes a pre-tax non-recurring charge of $242 thousand recorded in the fourth quarter for the potential obligation to Visa Inc. in connection with certain litigation indemnifications provided to Visa Inc. by Visa member banks. Net income for 2006 includes $610 thousand of one-time prior-period tax benefits, including interest on enterprise zone loans for 2002 through 2005.

Total deposits reached $834.6 million at December 31, 2007, an increase of $97.9 million or 13.3% from the prior year. Despite heightened competition for deposits among banks in general and community banks in particular, the Bank's market share of total Marin County deposits increased from 8.95% to 9.50% for the six-month period from December 2006 to June 2007 (the latest date for which the information is available).

Total gross loans finished the year at $724.9 million compared to $719.8 million in 2006, representing an increase of $5.1 million or 0.7%. Excluding the indirect auto portfolio, which was sold in the second quarter of 2007, loans increased 14.1% over 2006. The Bank's loan quality remains strong, with non-performing loans of $144 thousand at December 31, 2007, $49 thousand at December 31, 2006 and zero at December 31, 2005. In 2007, the Bank provided $685 thousand to the allowance for loan losses, and net charge-offs were $85 thousand. Approximately $89 thousand of recoveries on indirect auto loans were recorded in other income during 2007 subsequent to recording these loans at their fair value. This compares to a provision of $1.3 million and net charge-offs of $358 thousand in 2006. At year-end 2007 and 2006, the allowance for loan losses as a percentage of total loans was 1.05% and 1.11%, respectively.

Assets of Bancorp totaled $933.9 million at December 31, 2007, an increase of $57.3 million or 6.5% from December 31, 2006.

Bancorp's return on average assets (ROA) remains unchanged from year ended 2006 to 2007 whereas the return on average equity (ROE) increased for the same period**.** ROE increased 61 basis points, primarily due to common share repurchases and an increase in net income of $441 thousand from the prior year. In 2007 Bancorp's ROA and ROE were, respectively, 1.38% and 14.44% compared to 1.38% and 13.83% in 2006.

Net interest income reached $42.7 million, an increase of $1.0 million or 2.4% over 2006. The interest income component of net interest income was up 6.1% to $61.8 million, and is the result of both growth in interest-earning assets and higher asset yields in most categories. Total interest expense of $19.1 million in 2007 was up from 2006 by $2.5 million, or 15.2%, mainly attributable to higher rates paid on deposits, primarily money market accounts.

Non-interest income is comprised of service charges on deposit accounts, Wealth Management Services (WMS) revenue and other income, including non-recurring gains previously discussed. In 2007, total non-interest income totaled $5.7 million, which is an increase of $1.7 million or 44.0% over 2006. Excluding non-recurring items, non-interest income in 2007 grew $649 thousand, or 16.3% over 2006. Service charges on deposit accounts increased from $1.0 million in 2006, to $1.3 million in 2007. WMS revenue grew to $1.2 million, an increase of $162 thousand, and other income finished the year at $2.1 million compared to $1.9 million in the prior year.

Non-interest expenses increased from $25.9 million in 2006 to $27.7 million in 2007, an increase of $1.8 million or 6.9%. The overall efficiency of Bancorp changed from 56.65% in 2006 to 57.10% in 2007. These changes reflected expenses associated with the one-time costs for the formation of the holding company, higher FDIC insurance premiums, and the hiring of new personnel.

Summary of Quarterly Results of Operations

Table 1 sets forth the quarterly results of operations for 2007 and 2006.

Table1 Summarized Statement of Operations

	2007 Quarters Ended				2006 Quarters Ended			
(Dollars in thousands)	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Interest income	$ 15,700	$ 15,830	$ 15,439	$ 14,872	$ 15,290	$ 14,875	$ 14,302	$ 13,844
Interest expense	4,221	5,042	4,961	4,875	4,725	4,457	3,923	3,473
Net interest income	11,479	10,788	10,478	9,997	10,565	10,418	10,379	10,371
Provision for loan losses	345	200	75	65	477	287	242	260
Net interest income after provision for loan losses	11,134	10,588	10,403	9,932	10,088	10,131	10,137	10,111
Non-interest income	1,231	1,586	1,393	1,508	1,037	996	997	942
Non-interest expense	7,028	6,926	7,030	6,689	6,471	6,585	6,593	6,242
Income before provision for income taxes	5,337	5,248	4,766	4,751	4,654	4,542	4,541	4,811
Provision for income taxes	2,079	2,059	1,863	1,777	1,427	1,437	1,900	1,901
Net income	$ 3,258	$ 3,189	2,903	2,974	$ 3,227	$ 3,105	$ 2,641	$ 2,910
Net income per common share*								
Basic	$ 0.63	$ 0.62	$ 0.56	$ 0.57	$ 0.59	$ 0.57	$ 0.50	$ 0.56
Diluted	$ 0.62	$ 0.60	$ 0.54	$ 0.55	$ 0.57	$ 0.55	$ 0.47	$ 0.52

* These per-share amounts have been adjusted for all stock splits and dividends.

Net Interest Income

Net interest income is the difference between the interest earned on loans, investments and other interest-earning assets and the interest expense on deposits and other interest-bearing liabilities. Net interest income is impacted by changes in general market interest rates and by changes in the amounts and composition of interest earning assets and interest bearing liabilities. The table below indicates net interest income, net interest margin, and net interest rate spread for each period presented. Net interest margin is expressed as net interest income divided by average earning assets. Net interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate incurred on total interest-bearing liabilities. Both of these measures are reported on a taxable-equivalent basis. Net interest margin is the higher of the two because it reflects interest income earned on assets funded with non-interest bearing sources of funds, which include demand deposits and stockholders' equity.

Table 2, Distribution of Average Statements of Condition and Analysis of Net Interest Income, compares interest income and interest earning assets with interest expense and interest bearing liabilities for the three years 2007, 2006 and 2005. The table also indicates net interest income, net interest margin and net interest rate spread for each year.

Table 2 Distribution of Average Statements of Condition and Analysis of Net Interest Income

(dollars in thousands)	2007 Average Balance	2007 Interest Income/ Expense (1)	2007 Yield/ Rate (1)	2006 Average Balance	2006 Interest Income/ Expense (1)	2006 Yield/ Rate (1)	2005 Average Balance	2005 Interest Income/ Expense (1)	2005 Yield/ Rate (1)
Assets									
Federal funds sold and other short-term investments	$ 42,584	$ 2,209	5.19%	$ 4,503	$ 226	5.01%	$ 4,343	$ 156	3.58%
Investment securities									
U.S. Treasury securities	315	8	2.43	3,086	76	2.45	7,082	155	2.19
U.S. Government agencies	75,775	3,759	4.96	84,185	3,707	4.40	73,212	2,930	4.00
Other	11,110	656	5.92	5,830	297	5.10	8,701	448	5.14
Municipal bonds	13,067	641	4.91	14,955	758	5.07	21,838	1,141	5.23
Loans and banker's acceptances (2)	703,087	54,730	7.78	701,732	53,447	7.62	640,694	44,988	7.02
Total interest-earning assets	845,938	62,003	7.33	814,291	58,511	7.18	755,870	49,818	6.60
Cash and due from banks	24,364			28,322			32,407		
Bank premises and equipment, net	8,185			6,343			4,229		
Interest receivable and other assets, net	16,301			13,307			10,989		
Total assets	$ 894,788			$ 862,263			$ 803,495		
Liabilities and Stockholders' Equity									
Interest-bearing transaction accounts	$ 76,673	$ 301	0.39	$ 75,336	$ 293	0.39	$ 70,710	$ 276	0.39
Savings and money market accounts	414,592	14,161	3.42	358,027	10,979	3.07	333,165	5,530	1.66
Time accounts	86,268	3,465	4.02	104,205	3,837	3.68	116,302	3,396	2.92
Purchased funds	16,097	765	4.76	23,008	1,078	4.68	16,074	543	3.38
Borrowed funds	5,000	407	8.14	5,000	391	7.82	5,000	298	5.97
Total interest-bearing liabilities	598,630	19,099	3.19	565,576	16,578	2.93	541,251	10,043	1.86
Demand accounts	204,146			205,512			185,873		
Interest payable and other liabilities	6,648			5,262			3,676		
Stockholders' equity	85,364			85,913			72,695		
Total liabilities & stockholders' equity	$ 894,788			$ 862,263			$ 803,495		
Net interest income		$ 42,904			$ 41,933			$ 39,775	
Net interest margin			5.07%			5.15%			5.26%
Net interest rate spread			4.14%			4.25%			4.74%

(1) Yields and interest income are presented on a taxable-equivalent basis using the Federal statutory rate of 35 percent for 2007 and 2006 and 34 percent for 2005.
(2) Average balances on loans outstanding include non-performing loans, if any. The amortized portion of net loan origination fees (costs) isincluded in interest income on loans, representing an adjustment to the yield.

The tax-equivalent net interest margin declined to 5.07% in 2007 compared to 5.15% in 2006, and declined in 2006 from 5.26% in 2005. During the two year period beginning in 2006, the tax-equivalent net interest margin was impacted by a higher cost of funds driven by competition for deposits only partially offset by higher yields on interest-earning assets. In 2006, the margin was also impacted by increased levels of overnight borrowings to support loan growth. Competition for deposits eased somewhat in the second half of 2007 as liquidity improved from the sale of the Bank's $76 million indirect auto portfolio. Initially the proceeds were invested in Federal funds and other short-term investments yielding approximately the same overall return as the sold portfolio. In the second half of 2007, the funds were reinvested in higher-yielding relationship loans. The drop of 100 basis points in the Federal funds borrowing rate in the latter part of 2007 resulted in lower offered rates on deposits, favorably impacting the net interest margin.

Total average interest earning assets increased $31.6 million, or 3.9% in 2007 over 2006 and $58.4 million in 2006 over 2005. The composition of average interest-earning assets shifted in 2007 compared to 2006 and 2005, primarily reflecting the sale of the indirect auto loan portfolio and the subsequent investment of the proceeds.

Due to a rise in average market interest rates on the largest components of earning assets, which are loans and agency securities, the average yield on interest earning assets increased 15 basis points in 2007 over 2006 and 58 basis points in 2006 over 2005.

The yield on the loan portfolio, which comprised 83.1% and 86.2% of average earning assets in 2007 and 2006, respectively, increased 16 basis points in 2007 from 2006 and increased 60 basis points in 2006 over 2005. The increase in 2007 loan yields reflects loan originations at higher yields, the paydown of loans at lower yields and the write-down to fair value and subsequent sale of the lower-yielding indirect auto portfolio. The increase in the yield on loans in 2006 over 2005 is primarily attributable to the increasing interest-rate environment at the time, partially offset by the effect of competitive pressures on rates.

The yield on the portfolio of agency securities which comprised 9.0% and 10.3% of average earning assets in 2007 and 2006, respectively, increased 56 basis points in 2007 over 2006 and 40 basis points in 2006 over 2005. Agency securities generally have shorter lives than other securities in the portfolio and will mature or be called more quickly. The increase in yield on agency securities in 2007 over 2006 primarily relates to maturities and paydowns of securities at lower yields and purchases of securities at higher yields. The yield on agency securities improved in 2006 over 2005 primarily due to the purchases of higher-yielding securities in a rising rate environment. The yield on other securities increased 82 basis points in 2007 over 2006 and decreased 4 basis points in 2006 over 2005. Other securities consist of corporate debt securities, FHLB stock, on which dividends are paid at varying rates, collateralized mortgage obligations and corporate bonds. The yield on other securities increased in 2007 over 2006 due to the addition of high-yielding corporate debt securities. The yield on municipal bond securities declined 16 basis points in both 2007 over 2006 and 2006 over 2005 due to maturities of higher yielding bonds.

Market rates are in part based on the Federal Reserve Open Market Committee target Federal funds interest rate (the interest rate banks charge each other for short-term borrowings). The change in the Federal funds sold and purchased rates is the result of target rate changes implemented by the Federal Reserve. In 2007 there was a 100 basis point decrease in the Federal funds target rate between September and December. In 2006, a 100 basis point increase occurred over the first half of the year. The yield on Federal funds sold and other short-term investments increased 29 basis points in 2007 over 2006 and 143 basis points in 2006 over 2005, reflecting the average rates in those periods.

The average balance of interest-bearing liabilities increased $33.1 million, or 5.8% in 2007 and $24.3 million, or 4.5% in 2006. In 2007, an increase in savings and money market accounts, partially due to higher offered rates, was partially offset by the decline in time accounts and purchased funds. In 2006, an increase in savings and money market accounts and purchased funds was partially offset by the decline in time accounts.

The rate on interest bearing liabilities increased 26 basis points in 2007 over 2006 and 107 basis points in 2006 over 2005. The overall cost of liabilities is affected by offered rates and the mix of deposits and liabilities. In 2007, the rate on savings and money market accounts increased 35 basis points over 2006 and the rate on time deposits increased 34 basis points. In 2006 the increases to savings and money market accounts totaled 141 basis points and increases to time deposits totaled 76 basis points.

In 2007, demand deposits, on which no interest is paid, decreased to 26.1% of average deposits, down from 27.7% in 2006. This shift increases the overall cost of funds. Savings and money market accounts increased to 53.0% of average deposits in 2007 up from 48.2% in 2006, while time deposits decreased to 11.0% of average deposits from 14.0% in the same period. Interest bearing transaction accounts were 9.8% and 10.1% of average deposits in 2007 and 2006, respectively.

Average purchased funds in 2007 decreased $6.9 million over 2006 and increased $6.9 million in 2006 over 2005. The decrease in 2007 related to paydowns using the proceeds generated by the sale of the indirect auto portfolio. The increase in 2006 over 2005 related to the support of loan growth. The rate on purchased funds increased 8 basis points in 2007 over 2006 and 130 basis points in 2006 over 2005, reflecting the changes in the Federal funds target rate.

Interest rate changes can create fluctuations in the net interest margin due to an imbalance in the timing of repricing or maturity of assets or liabilities. Interest rate risk exposure is managed with the goal of minimizing the impact of interest rate volatility on the net interest margin. The net interest margin may decline slightly if rates fall due to the high level of Federal funds sold at year-end as a result of a $53.0 million short-term deposit placed with the Bank in late December 2007. With a lower level of Federal funds, as would be expected in 2008, the net interest margin could increase slightly in the short term as deposits reprice downward and loan repricing lags. If rates rise, generally net interest income would rise; however, net interest income may decline slightly if non-maturity deposit rates become sensitive to competition.

Table 3, Analysis of Changes in Net Interest Income, separates the change in net interest income into two components: (1) volume - change caused by increases or decreases in the average asset and liability balances outstanding, and (2) yield/rate - changes in average yields on earning assets and average rates for interest bearing liabilities. Table 3 shows the impact on income of balance sheet changes and the changes in market interest rate levels which occurred during 2007 and 2006.

The chart indicates that for 2007 and 2006, the increase in interest income was evenly impacted by rate and volume. The increase in interest expense was more attributable to rate increases than volume increases in both years.

Table 3 Analysis of Changes in Net Interest Income

(Dollars in thousands)	2007 compared to 2006 Volume	2007 compared to 2006 Yield/ Rate*	2007 compared to 2006 Total	2006 compared to 2005 Volume	2006 compared to 2005 Yield/ Rate*	2006 compared to 2005 Total
Assets						
Federal funds sold	$ 1,975	$ 8	$ 1,983	$ 6	$ 64	$ 70
Investment securities						
U. S. Treasury securities	(67)	(1)	(68)	(147)	68	(79)
U. S. government agencies	(391)	443	52	465	312	777
Other	305	54	359	(147)	(4)	(151)
Municipal bonds	(102)	(15)	(117)	(357)	(26)	(383)
Loans and bankers' acceptances	103	1,180	1,283	4,479	3,980	8,459
Total interest-earning assets	1,823	1,669	3,492	4,299	4,394	8,693
Liabilities						
Interest-bearing transaction accounts	5	3	8	18	(1)	17
Savings and money market accounts	1,849	1,333	3,182	441	5,008	5,449
Time accounts	(700)	328	(372)	(379)	820	441
Purchased funds	(330)	17	(313)	282	253	535
Borrowed funds	-	16	16	---	93	93
Total interest-bearing liabilities	824	1,697	2,521	362	6,173	6,535
Net Interest Income	$ 999	$ (28)	$ 971	$ 3,937	$ (1,779)	$ 2,158

* Variances due to changes in both yield/rate and volume (mix) are allocated to yield/rate.

Provision for Loan Losses

The Bank formally assesses the adequacy of the allowance on a quarterly basis. The Bank provides as an expense an amount to bring the allowance for loan losses to a level to provide adequate coverage for probable loan losses. The adequacy of the allowance for loan losses is evaluated based on several factors, including growth of the loan portfolio, analysis of probable losses in the portfolio and recent loss experience. Actual losses on loans are charged against the allowance, and the allowance is increased through the provision charged to expense. For further discussion, see sections captioned "Critical Accounting Policies and "Allowance for Loan Losses."

The Bank's provision for loan losses in 2007 was $685 thousand versus $1.3 million for 2006 and $1.5 million in 2005. The provision for loan losses declined in 2007 compared to 2006 reflecting the amount deemed necessary to maintain the allowance at a level considered adequate to provide for probable losses inherent in the portfolio, and also reflected the absence of the indirect auto portfolio subsequent to its sale, which previously accounted for a significant portion of the total charge-offs for the Bank.

Net charge-offs for 2007 totaled $85 thousand compared with $358 thousand in 2006 and $536 thousand in 2005. The decline in net charge-offs in 2007 from 2006 is the result of the absence of charge-offs and recoveries on the indirect auto portfolio, which was accounted for at fair value in accordance with SFAS No. 159 beginning January 1, 2007 and was sold during the quarter ended June 30, 2007. Approximately $89 thousand of recoveries on indirect auto loans were recorded in other income during 2007 subsequent to recording these loans at their fair value.

Table 4, Non-performing Assets at December 31, shows that there was one non-performing asset at December 31, 2007, one non-performing asset at December 31, 2006 and no non-performing assets at the prior three year ends.

Table 4 Non-performing Assets at December 31

(Dollars in thousands)	2007	2006	2005	2004	2003
Non accrual loans	$ 144	$ 49	$ ---	$ ---	$ ---
Accruing loans past due 90 days or more	---	---	---	---	---
Other real estate owned	---	---	---	---	---
Total non-performing assets	$ 144	$ 49	$ 0	$ 0	$ 0

The Bank's policy is to place loans on non-accrual status when management believes that there is serious doubt as to the collection of principal or interest, or when they become contractually past due by 90 days or more with respect to principal or interest, except for loans that are both well secured and in the process of collection. When loans are placed on non-accrual status, any accrued but uncollected interest is reversed from current income.

Non-interest Income

Non-interest income includes service charges on deposit accounts, Wealth Management Services (WMS) income and other income. Non-interest income grew to $5.7 million in 2007, up from $4.0 million in 2006 and $3.7 million in 2005.

Table 5 Significant Components of Non-interest Income
Net gain on indirect auto and

	Year Ended December 31,			2007 compared to 2006		2006 compared to 2005	
(dollars in thousands)	2007	2006	2005	Amount Increase (Decrease)	Percent Increase (Decrease)	Amount Increase (Decrease)	Percent Increase (Decrease)
Service charges on deposit accounts	$ 1,251	$ 1,007	$ 1,044	$ 244	24.2%	$ (37)	(3.5)%
Wealth Management Services	1,229	1,067	958	162	15.2%	109	11.4%
Net gain on indirect auto and Visa portfolios	1,097	---	---	1,097	100.0%	---	---
Other non-interest income							
Earnings on Bank owned life insurance	577	505	442	72	14.3%	63	14.3%
Customer banking fees and other charges	536	506	483	30	5.9%	23	4.8%
Other income	1,028	887	781	141	15.9%	106	13.6%
Total other non-interest income	2,141	1,898	1,706	243	12.8%	192	11.3%
Total non-interest income	$ 5,718	$ 3,972	$ 3,708	$ 1,746	44.0%	$ 264	7.1%

The adoption of SFAS No. 159 and the subsequent sale of the indirect auto loan portfolio generated a pre-tax net gain in 2007 of $710 thousand and the sale of the Visa portfolio generated a pre-tax net gain of $387 thousand, resulting in total net gains of $1.1 million. Excluding these gains, non-interest income increased $649 thousand or 16.3% in 2007 over 2006.

Service charges on deposits in 2007 increased by $244 thousand. This increase is primarily attributable to an increase effective April 1, 2007, in the fees the Bank charges for checks drawn against insufficient funds as well as reduced earnings credits provided to certain customer accounts. WMS revenue increased $162 thousand over the prior year. This increase is primarily the result of growth in assets under management and market appreciation of assets. The increase in "other" income in 2007 of $243 thousand is primarily due to an increase in Bank owned life insurance (due to additional investment of $1.2 million in September 2006 and a gradually increasing yield), and higher miscellaneous income (which included $89 thousand of indirect auto loan recoveries subsequent to recording these loans at their fair value). The increase in "other" income in 2006 reflects fees from a program introduced in 2006 for first mortgages through a third-party vendor, higher miscellaneous income and cash management fees.

Non-interest Expense

Table 6, Significant Components of Non-interest Expense, summarizes the amounts and changes in dollars and percentages. In 2007 non-interest expense increased 6.9%. In 2006, non-interest expense increased 15.1**%.** The Bank's efficiency ratio (the ratio of non-interest expense divided by the sum of non-interest income and net interest income) increased to 57.10% in 2007 from 56.65% in 2006 and from 52.14% in 2005.

Table 6 Significant Components of Non-interest Expense

		Year Ended December 31,		2007 compared to 2006		2006 compared to 2005	
(dollars in thousands)	2007	2006	2005	Amount Increase (Decrease)	Percent Increase (Decrease)	Amount Increase (Decrease)	Percent Increase (Decrease)
Salaries and related benefits	$ 15,900	$ 15,490	$ 13,819	$ 410	2.6%	$ 1,671	12.1%
Occupancy and equipment	2,871	2,624	2,074	247	9.4%	550	26.5%
Depreciation & amortization	1,246	998	846	248	24.8%	152	18.0%
Data processing fees	1,657	1,537	1,330	120	7.8%	207	15.6%
Professional services	1,681	1,269	809	412	32.5%	460	56.9%
Other non-interest expense							
Advertising	297	387	427	(90)	(23.3)%	(40)	(9.4)%
Director expense	395	495	415	(100)	(20.2)%	80	19.3%
Other expense	3,626	3,091	2,778	535	17.3%	313	11.3%
Total other non-interest expense	4,318	3,973	3,620	345	8.7%	353	9.8%
Total non-interest expense	$ 27,673	$ 25,891	$ 22,498	$ 1,782	6.9%	$ 3,393	15.1%

In 2007, salaries and benefits costs increased by $410 thousand or 2.6%. This increase is due to normal annual salary increases, partially offset by a slight decrease in net full-time equivalent (FTE) employees to 190, down from 194 at year-end 2006. In 2007 there were expenses of $854 thousand for the Bank's Employee Stock Ownership and Savings Plan (ESOP), and $1.1 million for staff and officer incentive bonus plans. In comparing 2006 with 2005, salaries and benefits costs increased by $1.7 million or 12.1%, primarily due to a higher number of FTE, regular salary adjustments, as well as $555 thousand of expenses recorded in connection with the implementation of SFAS No. 123R, partially offset by lower incentive bonuses. In 2006 there were expenses of $900 thousand for the ESOP, and $1.1 million for staff and officer incentive bonus plans.

The increases in 2007 in occupancy and equipment costs of $247 thousand are largely due to a full year's expense related to the lease of a new facility housing the Bank's loan production, operations and administrative personnel, the addition of a new loan office lease, and annual rent increases in the branch facilities. The increases in 2006 in occupancy and equipment costs of $550 thousand, are largely due to the lease of the new facility housing the Bank's loan production, operations and administrative personnel in July 2006 and the addition of a new branch lease in April of 2006, as well as annual rent increases.

The increase in depreciation and amortization of $248 thousand in 2007 reflects expenses associated with the remodeling of the Bank's Northgate branch, a full year of amortization of the new facility housing the Bank's loan production, operations and administrative personnel as well as expenses associated with the opening of a new loan office. The increase in depreciation of $152 thousand in 2006 over 2005 reflects expenses associated with the amortization of leasehold improvements, furniture and equipment in the Bank's new administrative, operations and loan production facility as well as expenses associated with the two branches opened in the first quarter of 2006 and late in the third quarter of 2005.

In 2007 data processing costs increased $120 thousand or 7.8% due to the contractually stipulated price increases that are part of the Bank's long-term agreement with its data processing provider and also due to costs associated with regulatory compliance and the implementation of new products and services. In 2006, data processing costs increased $207 thousand or 15.6%. This increase was largely attributable to the contractually stipulated price increases that are part of the Bank's long-term agreement with its data processing provider, the increased use of internet banking and bill pay by the Bank's customers, and one-time expenses in 2006 relating to the move to the Bank's new administrative facility.

In 2007 professional services increased $412 thousand or 32.5% from 2006. This increase reflected higher legal and accounting expenses, primarily associated with the implementation of the holding company as well as a full year of a consulting agreement that commenced in July of 2006. In 2006 professional services increased $460 thousand or 56.9% which reflected higher executive recruiting and accounting expenses as well as six months of the consulting agreement that commenced in July of 2006.

Other non-interest expenses of $4.3 million represent a $345 thousand or 8.7% increase over 2006. In 2007, other non-interest expense includes a pre-tax non-recurring charge of $242 thousand recorded in the fourth quarter for the potential obligation to Visa U.S.A. in connection with certain litigation indemnifications provided to Visa U.S.A. by Visa member banks. The change also includes increases in FDIC insurance and information technology costs, partially offset by decreases in other losses, director expenses, and advertising. In November 2006, the FDIC issued a final rule, effective January 1, 2007 that created a new deposit insurance premium system for banks. The new assessment system results in annual assessments to the Bank of 5 to 7 basis points per $100 of insured deposits. In 2006, other non-interest expense increased $353 thousand, or 9.8%, over 2005. The change includes a $105 thousand loss on lease, moving expenses relating to the Bank's new facility, other regulatory costs, special events, loss on disposal of assets relating to the move, partially offset by a decline in advertising and other processing costs.

Provision for Income Taxes

Bancorp reported a provision for income taxes of $7.8 million, $6.7 million, and $7.4 million for the years 2007, 2006 and 2005, respectively. The effective tax rates were 38.7%, 35.9% and 38.6% at December 31, 2007, 2006 and 2005, respectively. These provisions reflect accruals for taxes at the applicable rates for Federal income and California franchise taxes based upon reported pre-tax income, and adjusted for the effects of all permanent differences between income for tax and financial reporting purposes (such as earnings on qualified municipal securities and certain life insurance products). Therefore, there are normal fluctuations in the effective rate from period to period based on the relationship of net permanent differences to income before tax. The majority of the reduction in the provision for income taxes from 2005 to 2006 pertains to one-time prior-period tax benefits, including interest on enterprise zone loans for 2002 through 2005. The Bank has not been subject to an alternative minimum tax (AMT). See Note 12 of the Notes to Financial Statements for additional discussion of Provision for Income Taxes.

Short-period Federal and California tax returns will be filed for the Bank for the period ending July 1, 2007. Thereafter, consolidated returns will be filed for Bancorp and the Bank. Bancorp and the Bank have entered into a tax allocation agreement which provides that income taxes shall be allocated between the parties on a separate entity basis. The intent of this agreement is that each member of the consolidated group will incur no greater tax liability than it would have incurred on a stand-alone basis.

FINANCIAL CONDITION

Investment Securities

The Bank maintains an investment securities portfolio to provide liquidity and earnings on funds that have not been loaned. Management determines the maturities and the types of securities to be purchased based on the need for liquidity to fund loans and the desire to attain a high investment yield. Table 7 shows the makeup of the securities portfolio at December 31, 2007 and 2006.

Table 7 Investment Securities

Type and Maturity Grouping	December 31, 2007				December 31, 2006			
(Dollars in thousands)	Principal Amount	Book Value (2)	Market Value	Average Yield	Principal Amount	Book Value (2)	Market Value	Average Yield
Held to maturity								
State and municipal (1)								
Due within 1 year	$ 1,010	$ 1,010	$ 1,017	4.81%	$ 1,810	$ 1,814	$ 1,820	4.76%
Due after 1 but within 5 years	4,990	5,165	5,200	3.34	4,585	4,761	4,747	3.54
Due after 5 but within 10 years	3,340	3,391	3,470	3.94	3,150	3,271	3,311	3.79
Due after 10 years	3,550	3,616	3,551	3.44	3,210	3,317	3,238	3.34
Total	12,890	13,182	13,238	3.64	12,755	13,163	13,116	3.73
Corporate debt securities and other								
Due within 1 year	---	---	---	---	1,000	996	1,008	7.57
Due after 1 but within 5 years	---	---	---	---	---	---	---	---
Due after 5 but within 10 years	---	---	---	---	---	---	---	---
Due after 10 years	---	---	---	---	---	---	---	---
Total	---	---	---	---	1,000	996	1,008	7.57
Total held to maturity	12,890	13,182	13,238	3.64	13,755	14,159	14,124	4.01
Available for sale								
U. S. Treasury								
Due within 1 year	---	---	---	---	2,500	2,511	2,504	2.38
Due after 1 but within 5 years	---	---	---	---	---	---	---	---
Due after 5 but within 10 years	---	---	---	---	---	---	---	---
Due after 10 years	---	---	---	---	---	---	---	---
Total	---	---	---	---	2,500	2,511	2,504	2.38
U. S. government agencies								
Due within 1 year	17,386	17,388	17,376	4.76	8,024	8,023	7,938	3.06
Due after 1 but within 5 years	44,010	44,285	44,045	4.93	42,377	42,558	41,963	4.59
Due after 5 but within 10 years	4,623	4,575	4,619	5.58	13,113	13,277	13,095	5.04
Due after 10 years	8,573	8,715	8,475	5.41	5,803	5,884	5,782	3.92
Total	74,592	74,963	74,515	4.99	69,317	69,742	68,778	4.44
Corporate CMOs								
Due within 1 year	---	---	---	---	2,165	2,165	2,128	5.25
Due after 1 but within 5 years	2,483	2,487	2,474	5.38	737	741	737	5.92
Due after 5 but within 10 years	---	---	---	---	---	---	---	---
Due after 10 years	---	---	---	---	1,072	1,072	1,067	5.13
Total	2,483	2,487	2,474	5.38	3,974	3,978	3,932	5.34
Corporate debt securities and other								
Due within 1 year	10,000	10,000	10,000	5.60	---	---	---	---
Due after 1 but within 5 years	---	---	---	---	---	---	---	---
Due after 5 but within 10 years	---	---	---	---	---	---	---	---
Due after 10 years	---	---	---	---	---	---	---	---
Total	10,000	10,000	10,000	5.60	---	---	---	---
Total available for sale	87,075	87,450	86,989	5.07	75,791	76,231	75,214	4.42
Total	$ 99,965	$ 100,632	$ 100,227	4.88%	$ 89,546	$ 90,390	$ 89,338	4.36%

(1) Interest income and yields on tax-exempt securities are not presented on a tax-equivalent basis. Maturities for securities are based on expected versus contractual maturities.

(2) Book value reflects cost, adjusted for accumulated amortization and accretion. No securities are less than investment grade.

The Bank's investment securities portfolio, consisting primarily of U.S. government agencies, state and municipal securities, corporate debt securities and corporate collateralized mortgage obligations (CMO's), increased $10.8 million or 12.1% in 2007. U.S. government agency securities made up 74.4% of the portfolio and increased by $5.7 million. Corporate debt securities made up 10.0% of the portfolio. Corporate collateralized mortgage obligation securities made up 2.5% of the portfolio and decreased by $1.5 million, while state and municipal securities increased by $19 thousand and represented 13.1% of the portfolio. The weighted average maturity of the portfolio at December 31, 2007 was approximately fifty-one months.

Total mortgage backed securities in the portfolio at December 31, 2007 were $54.4 million which consisted of $8.4 million pass-through securities issued by FNMA and FHLMC (Federal Home Loan Mortgage Corporation), $43.5 million other mortgage backed securities issued or guaranteed by FNMA, FHLMC, or GNMA, and $2.5 million of collateralized mortgage obligations issued by corporations. See Note 2 of the Notes to Financial Statements for more information on investment securities.

Loans

Although loans other than indirect auto loans increased $89.2 million, loans overall only increased by $5.5 million from December 31, 2006 to December 31, 2007 due to the sale of the indirect auto portfolio. In the first quarter of 2007, the Bank elected to adopt the SFAS No. 159 and record its indirect auto portfolio at fair value. In connection with this event, an unrealized loss of $3.5 million was recorded as a reduction of loans, and the allowance for loan losses was reduced by $1.0 million. These changes were recorded, net of tax, as a reduction to retained earnings.

Commercial loans increased by $6.9 million in 2007 compared to 2006, and real estate loans increased by $78.0 million in the same period. The increase in commercial loan totals resulted from a targeted emphasis on commercial and industrial lending, specifically asset-based lines of credit, as well as the opening of the San Francisco loan production office. Commercial real estate loans increased due to ongoing demand complemented by opportunities that surfaced as a result of the Bank’s active involvement in its trade area. The Bank seeks to maintain a loan portfolio that is well balanced in terms of borrowers, collateral and maturities. Approximately 84% and 75% of the Bank's outstanding loans are secured by real estate at December 31, 2007 and 2006, respectively. Of the real estate loans, 46% are non-owner occupied commercial real estate loans, 23% are owner occupied commercial real estate loans, 17% are construction loans, 8% are personal real estate loans and 6% are home equity loans. The Bank's commercial real estate loan portfolio is weighted towards term loans for which the primary source of repayment is cash flow from net operating income of the real estate property. Table 8 shows an analysis of loans by type.

Table 8 Loans Outstanding by Type at December 31

(In thousands)	2007	2006	2005	2004	2003
Commercial loans	$ 124,336	$ 117,391	$ 144,510	$ 120,006	$ 105,847
Real estate					
Commercial	389,741	311,692	282,564	250,326	196,703
Construction	97,153	116,790	112,116	81,549	44,471
Residential	78,860	58,912	36,304	30,692	28,052
Installment					
Indirect Auto loans	---	84,141	77,612	68,769	49,617
Other installment	34,788	30,852	33,555	25,615	26,191
Total loans	724,878	719,778	686,661	576,957	450,881
Less Allowance for loan losses	7,575	8,023	7,115	6,110	5,458
Net Loans	$ 717,303	$ 711,755	$ 679,546	$ 570,847	$ 445,423

Table 9 shows a slightly more even split between fixed rate and variable rate loans within the portfolio in 2007 when compared to 2006. In 2007, the Bank's fixed rate loans were 50.8% of the portfolio, and the variable portion was 49.2%. The large majority of the variable rate loans are tied to independent indices (such as the Wall Street Journal prime rate or the Treasury Constant Maturities). Substantially all loans with an original term of more than five years have provisions for the fixed rates to reset, or convert to a variable rate, after one, three or five years.

Table 9 Loan Portfolio Maturity Distribution and Interest Rate Sensitivity

	December 31, 2007				December 31, 2006			
(In thousands)	Fixed Rate	Variable Rate	Total	Percent	Fixed Rate	Variable Rate	Total	Percent
Due within 1 year	$ 60,885	$ 110,827	$ 171,712	23.7%	$ 80,688	$ 113,872	$ 194,560	27.0%
Due after 1 but within 5 years	111,150	92,687	$ 203,837	28.1%	136,569	86,862	223,431	31.0%
Due after 5 years	196,011	153,318	$ 349,329	48.2%	165,562	136,225	301,787	42.0%
Total	$ 368,046	$ 356,832	$ 724,878	100.0%	$ 382,819	$ 336,959	$ 719,778	100.0%
Percentage	50.77%	49.23%	100.00%		53.20%	46.80%	100.00%	

Note: The "Due within 1 year" data includes demand loans, overdrafts and past due loans.

Allowance for Loan Losses

Credit risk is inherent in the business of lending. As a result, the Bank maintains an allowance for loan losses to absorb losses inherent in the Bank's loan portfolio. This is maintained through periodic charges to earnings. These charges are shown in the Statement of Operations as provision for loan losses. All specifically identifiable and quantifiable losses are immediately charged off against the allowance. The balance of the Bank's allowance for loan losses is an estimate of the remaining losses inherent in the portfolio.

The allowance for loan losses as a percent of total loans at December 31, 2007 was 1.05% versus 1.11% at the end of 2006. At December 31, 2005, the allowance for loan losses as a percent of total loans was 1.04%. Based on the current conditions of the loan portfolio, management believes that the $7.6 million allowance for loan losses at December 31, 2007 is adequate to absorb losses inherent in the Bank's loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio. Table 10 shows the activity in the allowance for loan losses for each of the years in the five-year period ended December 31, 2007. At December 31, 2007, the Bank had one non-accrual loan of $144 thousand. At December 31, 2006, the Bank had one non-accrual loan of $49 thousand.

With the adoption of SFAS No. 159, the indirect auto loan portfolio was recorded at fair value. As a result, an unrealized loss of $3.5 million was recorded as a reduction of loans, and the allowance for loan losses was reduced by $1.0 million, which is reflected in the table below. See Note 15 of the Notes to Financial Statements for additional information.

Table 10 Allowance for Loan Losses at December 31

(Dollars in thousands)	2007	2006	2005	2004	2003
Beginning balance	$ 8,023	$ 7,115	$ 6,110	$ 5,458	$ 5,035
Cumulative-effect adjustment of adoption of SFAS No. 159	$ (1,048)				
Provision charged to expense	685	1,266	1,541	934	685
Loans charged off					
Commercial	---	(172)	(362)	(6)	(146)
Construction	---	---	---	---	---
Real estate	---	---	---	---	---
Installment	(115)	(424)	(402)	(421)	(230)
Total	(115)	(596)	(764)	(427)	(376)
Loan loss recoveries					
Commercial	---	35	6	1	14
Construction	---	---	---	---	---
Real estate	---	---	---	---	---
Installment	30	203	222	144	100
Total	30	238	228	145	114
Net loans charged off	(85)	(358)	(536)	(282)	(262)
Ending balance	$ 7,575	$ 8,023	$ 7,115	$ 6,110	$ 5,458
Total loans outstanding at end of year, before deducting allowance for loan losses	$ 724,878	$ 719,778	$ 686,661	$ 576,957	$ 450,881
Average total loans outstanding during year	$ 703,087	$ 701,732	$ 640,694	$ 514,299	$ 434,908
Ratio of allowance for loan losses to total loans at end of year	1.05%	1.11%	1.04%	1.06%	1.21%

The Components of the Allowance for Loan Losses

As stated previously in "Critical Accounting Policies," the overall allowance consists of a specific allowance, an allowance factor, and an allowance for changing environmental factors. The first component, the specific allowance, results from the analysis of identified problem credits and the evaluation of sources of repayment including collateral, as applicable. Through management's ongoing loan grading process, individual loans are identified that have conditions that indicate the borrower may be unable to pay all amounts due under the contractual terms. These loans are evaluated individually by management and specified allowances for loan losses are established where applicable.

The second component, the allowance factor, is an estimate of the probable inherent losses across the major loan categories in the Bank's loan portfolio. This analysis is based on loan grades by pool and current general economic and business conditions. Confirmation of the quality of the Bank's grading process is obtained by independent reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies. This analysis covers the Bank's entire loan portfolio but excludes any loans that were analyzed individually for specific allowances as discussed above. The total amount allocated for this component is determined by applying loss estimation factors to outstanding loans.

There are limitations to any credit risk grading process. The number of loans makes it impractical to review every loan every quarter. Therefore, it is possible that some currently performing loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may deliberately or inadvertently omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

The third component of the allowance for credit losses is an economic component that is not allocated to specific loans or groups of loans, but rather is intended to absorb losses caused by portfolio trends, concentration of credit, growth, and economic trends.

At December 31, 2007, the allowance for loan losses was $7.6 million consisting of a specific allowance of zero, an allowance factor of $6.0 million, and an economic allowance of $1.6 million. At December 31, 2006, the allowance for loan losses was $8.0 million consisting of a specific allowance of zero, an allowance factor of $6.3 million, and an economic allowance of $1.7 million.

Table 11 shows the allocation of the allowance by loan type as well as the percentage of total loans in each of the same loan types.

Table 11 Allocation of Allowance for Loan Losses

	December 31, 2007		December 31, 2006		December 31, 2005		December 31, 2004		December 31, 2003	
(Dollars in thousands)	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans
Commercial	$ 1,989	17.2%	$ 1,923	16.3%	$ 2,510	21.1%	$ 2,320	20.8%	$ 2,288	23.4%
Construction	1,659	13.4	1,995	16.2	1,764	16.3	1,315	14.1	734	9.8
Real Estate	3,292	64.6	2,533	51.5	1,435	46.4	1,260	48.7	1,319	44.2
Installment	635	4.8	1,572	16.0	1,406	16.2	1,215	16.4	1,117	22.6
Total allowance for loan losses	$ 7,575		$ 8,023		$ 7,115		$ 6,110		$ 5,458	
Total percent		100.00%		100.00%		100.00%		100.00%		100.00%

Deposits

Deposits increased by $97.9 million at December 31, 2007, as compared to December 31, 2006. The 2007 year-end deposit balance includes a $53.0 million short-term deposit placed with the Bank in December. Deposits are used to fund the Bank's interest earning assets. The Bank does not accept brokered deposits and has only a nominal amount of public funds. Tables 12 and 13 show the relative composition of the Bank's average deposits for the years 2007, 2006 and 2005, and the maturity groupings for the Bank's time deposits of $100,000 or more.

Table 12 Distribution of Average Deposits

	Year ended December 31,					
	2007		2006		2005	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Demand	$ 204,147	26.1%	$ 205,512	27.7%	$ 185,873	26.3%
Interest checking	76,673	9.8	75,336	10.1	70,710	10.0
Savings	43,754	5.6	58,881	7.9	79,482	11.3
Money market	370,837	47.5	299,146	40.3	253,683	35.9
Time deposits						
Less than $100,000	37,417	4.8	40,732	5.5	39,683	5.6
$100,000 or more	48,851	6.2	63,473	8.5	76,619	10.9
Total time deposits	86,268	11.0	104,205	14.0	116,302	16.5
Total Average Deposits	$ 781,679	100.0%	$ 743,080	100.0%	$ 706,050	100.0%

Note: Refer to Table 2 for the average amount of and the average rate paid on each deposit category.

Table 13 Maturities of Time Deposits of $100,000 or more at December 31

	December 31,		
(Dollars in thousands)	2007	2006	2005
Three months or less	$ 19,431	$ 19,041	$ 47,155
Over three months through six months	10,638	12,063	7,249
Over six months through twelve months	13,164	15,023	16,729
Over twelve months	7,437	7,912	20,795
Total	$ 50,670	$ 54,039	$ 91,928

Commitments

The following is a summary of the Bank's contractual commitments as of December 31, 2007.

Table 14 Contractual Obligations at December 31

		Payments due by period			
(Dollars in thousands)	<1 year	1-3 years	4-5 years	>5 years	Total
Operating leases	$ 2,175	$ 3,853	$ 2,666	$ 11,139	$ 19,833
Subordinated debt	---	---	---	5,000	5,000
Total	$ 2,175	$ 3,853	$ 2,666	$ 16,139	$ 24,833

The contract amount of loan commitments not reflected on the Statement of Condition was $224.5 million at December 31, 2007, and $218.8 million at December 31, 2006.

As permitted or required under California law and to the maximum extent allowable under that law, Bancorp has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at Bancorp's request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments Bancorp could be required to make under these indemnification obligations is unlimited; however, Bancorp has a director and officer insurance policy that mitigates Bancorp's exposure and enables Bancorp to recover a portion of any future amounts paid. Bancorp believes the estimated fair value of these indemnification obligations is minimal.

Capital Adequacy

As discussed in Note 16 of the Notes to Financial Statements, the Bank's capital ratios are above regulatory guidelines to be considered "well capitalized" and Bancorp's ratios exceed the required minimum ratios for capital adequacy purposes. The Bank's total risk based capital ratio decreased from 12.56% at December 31, 2006, to 11.61% at December 31, 2007. The decline in the risk based capital ratio is due primarily to share repurchases under approved stock repurchase programs. Bancorp's total risk based capital ratio at December 31, 2007 was 12.06%. See Notes 9 and 16 of the Notes to Financial Statements.

Liquidity

The goal of liquidity management is to provide adequate funds to meet both loan demands and unexpected deposit withdrawals. This goal is accomplished by maintaining an appropriate level of liquid assets, and formal lines of credit with correspondent banks that enable the Bank to borrow funds as needed. The Bank's Asset/Liability Management Committee is responsible for establishing and monitoring the Bank's liquidity targets and strategies.

Bank management regularly adjusts its investments in liquid assets based upon its assessment of expected loan demand, expected deposit flows, yields available on interest-earning securities and the objectives of the Bank's asset/liability management program.

The Bank obtains funds from the repayment and maturity of loans as well as deposit inflows, investment security maturities and paydowns, Federal funds purchased, FHLB advances, and other borrowings. In the year ended December 31, 2007, an additional source of liquidity was the sale of the indirect auto portfolio. The Bank's primary uses of funds are the origination of loans, the purchase of investment securities, maturing CDs, demand deposit withdrawals, repayment of borrowings and dividends to common shareholders.

The Bank must retain and attract new deposits, which depends upon the variety and effectiveness of its customer account products, service and convenience, and rates paid to customers. Any decline in retail deposit funding would adversely impact the Bank's liquidity. Bank management anticipates that Federal funds purchased and FHLB advances will continue to be important sources of funding in the future, and management expects there to be adequate collateral for such funding requirements. A decline in Bancorp's or the Bank's credit rating would adversely affect the Bank's ability to borrow and/or the related borrowing costs, thus impacting the Bank's liquidity.

As presented in the accompanying consolidated statements of cash flows, the sources of liquidity vary between periods. Consolidated cash and cash equivalents at December 31, 2007 and December 31, 2006 totaled $76.3 million and $38.8 million, respectively. The primary sources of funds during the year ended December 31, 2007 were $100.0 million in the sale of securities available for sale, a $97.9 million increase in deposits (including a $53.0 million short-term deposit placed with the Bank in December 2007), $78.6 million from the sale of the indirect auto and Visa portfolios and $27.4 million from paydowns and maturities of securities. The primary uses of funds were $135.8 million in investment securities purchases, $86.2 million in loan originations (net of principal collections), $39.4 million payoff of Federal funds purchased and FHLB advances and $13.5 million in repurchases of common stock.

At December 31, 2007, the Bank's cash and cash equivalents, Federal funds sold and unpledged assets maturing within one year totaled $104.0 million. The remainder of the unpledged securities portfolio of $51.0 million provides additional liquidity. At year-end 2006, the Bank's cash, Federal funds sold and unpledged securities maturing within one year totaled $51.5 million. The remainder of the unpledged securities portfolio of $57.5 million at December 31, 2006 provided additional liquidity. Taken together, these liquid assets equaled 16.6% and 12.4% of the Bank's assets at December 31, 2007 and 2006 respectively. The increase in liquid assets as a percent of total assets at December 31, 2007 is primarily related to a short-term deposit placed with the Bank at the end of December 2007.

The Bank anticipates that cash and cash equivalents on hand and its sources of funds will provide adequate liquidity for its operating, investing and financing needs and its regulatory liquidity requirements for the foreseeable future. Management monitors the Bank's liquidity position daily, balancing loan fundings/payments with changes in deposit activity and overnight investments. The Bank's emphasis on local deposits combined with its 9.3% equity capital base, provides a very stable funding base. In addition to cash and cash equivalents, the Bank has substantial additional borrowing capacity including unsecured lines of credit totaling $65.0 million with correspondent banks and a $3.7 million line of credit with the Federal Reserve Bank to borrow overnight, which were not drawn upon at December 31, 2007. The Bank is a member of the Federal Home Loan Bank of San Francisco (FHLB) and has a line of credit (secured under terms of a blanket collateral agreement by a pledge of loans) for advances of $184.8 million, which was unused as of December 31, 2007, at an interest rate that is determined daily. Borrowings under the line are limited to eligible collateral.

As of December 31, 2007, the Bank had undisbursed loan commitments of $224.5 million, including $118.4 million under commercial lines of credit (these commitments are contingent upon customers maintaining specific credit standards), $59.6 million under revolving home equity lines, and $35.2 million under undisbursed construction loans. These commitments, to the extent used, are expected to be funded through current liquidity, repayment of existing loans and normal deposit growth. Over the next twelve months $69.3 million of time deposits will mature. The Bank expects these funds to be replaced with new time or savings accounts.

The primary source of funds for Bancorp is dividends from the Bank. The primary uses of funds are shareholder dividends, stock repurchases and ordinary operating expenses. Management anticipates that there will be sufficient earnings at the Bank level to provide dividends to Bancorp to meet its funding requirements for the foreseeable future.

Market Risk Management

Bancorp's most significant form of market risk is interest rate risk. The risk is inherent in its deposit and lending activities. Bancorp's management together with the Asset Liability Management Committee (ALCO), which is comprised of certain directors of the Bank, has sought to manage rate sensitivity and maturities of assets and liabilities to minimize the exposure of its earnings and capital to changes in interest rates. Additionally, interest rate risk exposure is managed with the goal of minimizing the impact of interest rate volatility on its net interest margin.

Activities in asset and liability management include, but are not limited to, lending, accepting deposits and investing in securities. Interest rate risk is the primary market risk associated with asset and liability management. Sensitivity of net interest income (NII) and Capital to interest rate changes results from differences in the maturity, or repricing, of asset and liability portfolios. To mitigate interest rate risk, the structure of the Statement of Condition is managed with the objective of correlating the movements of interest rates on loans and investments with those of deposits. The asset and liability policy sets limits on the acceptable amount of change to NII and Capital in changing interest rate environments. The Bank uses simulation models to forecast NII and Capital.

Exposure to interest rate risk is reviewed at least quarterly by the ALCO and the Board of Directors. They utilize interest rate sensitivity simulation models as a tool for achieving these objectives and for developing ways in which to improve profitability. A simplified statement of condition is prepared on a quarterly basis as a starting point, using as inputs, actual loans, investments and deposits. If potential changes to net equity value and net interest income resulting from hypothetical interest changes are not within the limits established by the Board of Directors, management may adjust the asset and liability mix to bring interest rate risk within approved limits.

In the simulation of NII and Capital under various interest rate scenarios, the simplified statement of condition is processed against at least six interest rate change scenarios. In addition to a flat rate scenario, which assumes interest rates are unchanged, the six scenarios include three 100 basis point increases and three 100 basis point decreases. Each of these scenarios assumes that the change in interest rates is immediate and interest rates remain at the new levels.

Table 15 summarizes the effect on NII and Capital due to changing interest rates as measured against the flat rate scenario.

Table 15 Effect of Interest Rate Change on Net Interest Income and Capital

Changes in Interest Rates (in basis points)	Estimated change in NII (as percent of NII) at December 31, 2007	2006	Estimated change in capital (as percent of capital) at December 31, 2007	2006
up 300	1.0%	(9.0)%	0.5%	(4.3)%
up 200	0.6%	(5.9)%	0.3%	(2.8)%
up 100	0.3%	(3.0)%	0.2%	(1.4)%
unchanged	---	---	---	---
down 100	(1.0)%	(0.5)%	(0.5)%	(0.2)%
down 200	(2.1)%	(1.9)%	(1.1)%	(0.9)%
down 300	(3.6)%	(3.0)%	(1.9)%	(1.4)%

The above table estimates the impact of interest rate changes. The estimated changes are within the Bank's policy guidelines established by ALCO. The table indicates that the Bank is slightly asset sensitive in a declining rate environment. This situation reflects the relatively high level of Fed funds sold at December 31, 2007 which reprice immediately when rates decline. The sensitivity will mitigate somewhat as Federal funds sold decline. In 2006, it was estimated that in 2007, the Bank would be somewhat liability sensitive when rates rose, and slightly asset sensitive when rates declined. This was driven, in great part, by assumptions made as to how the Bank would respond to competitive pressures in the marketplace under various interest rate scenarios.

As with any simulation model or other method of measuring interest rate risk, certain limitations are inherent in the process. For example, although certain of the Bank's assets and liabilities may have similar maturities or repricing time frames, they may react differently to changes in market interest rates. In addition, the changes in interest rates on certain categories of either the Bank's assets or liabilities may precede or lag changes in market interest rates.

Also, the actual rates and timing of prepayments on loans and investment securities could vary significantly from the assumptions used in the various scenarios. Further, changes in US Treasury rates accompanied by a change in the shape of the yield curve could produce different results from those presented in the table. Accordingly, the results presented should not be relied upon as indicative of actual results in the event of changing market interest rates.

Interest rate sensitivity is a function of the repricing characteristics of the Bank's assets and liabilities. One aspect is the time frame within which the interest earning assets and interest bearing liabilities are subject to change in interest rates at repricing or maturity. An analysis of the repricing time frames is called a "gap" analysis because it shows the gap between the amounts of assets and liabilities repricing in each of several periods of time. Another aspect is the relative magnitude of the repricing for each category of interest earning asset and interest bearing liability given various changes in market rates. Gap analysis gives no indication of the relative magnitude of repricing. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of change in market rates. Interest rate sensitivity gaps are calculated as the difference between the amounts of assets and liabilities that are subject to repricing during various time periods.

Table 16 shows the Bank's repricing gaps as of December 31, 2007. Due to the limitations of gap analysis, as described above, the Bank does not generally use it in managing interest rate risk. Instead the Bank relies on the more sophisticated simulation model described above as its primary tool in measuring and managing interest rate risk.

Table 16 Interest Rate Sensitivity

(Dollars in thousands)	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over one year	Total
At December 31, 2007						
Interest Earning Assets						
Funds sold	$ 47,500	$ ---	$ ---	$ ---	$ ---	$ 47,500
Investment securities	20,003	4,989	1,648	1,746	71,785	100,171
Loans	179,293	8,134	16,651	47,872	472,928	724,878
Total	246,796	13,123	18,299	49,618	544,713	872,549
Interest Bearing Liabilities						
Transaction and savings deposits	531,429	---	---	---	---	531,429
Other borrowings	---	5,000	---	---	---	5,000
Time deposits less than $100,000	3,286	7,316	8,113	7,637	5,919	32,271
Time deposits $100,000 or more	11,409	8,129	10,532	12,886	7,714	50,670
Total	546,124	20,445	18,645	20,523	13,633	619,370
Demand Deposits	---	---	---	---	220,272	220,272
Sensitivity for period	(299,328)	(7,322)	(346)	29,095	310,808	32,907
Sensitivity - cumulative	$ (299,328)	$ (306,650)	$ (306,996)	$ (277,901)	$ 32,907	

Deferred Compensation Obligations

The Bank maintains a nonqualified, unfunded deferred compensation plan for certain key management personnel. Under this plan, participating employees may defer compensation, which will entitle them to receive certain payments upon retirement, death, or disability. The plan provides for payments for up to fifteen years commencing upon retirement and reduced benefits upon early retirement, disability, or termination of employment. The participating employee may elect to receive payments over periods not to exceed fifteen years. At December 31, 2007, the Bank's aggregate payment obligations under this plan totaled $2.2 million.

Off Balance Sheet Arrangements

The Bank makes commitments to extend credit in the normal course of business to meet the financing needs of its customers. For additional information, see Note 17 of the Notes to Financial Statements.

Borrowings

Short-term borrowings consist primarily of Federal funds purchased and borrowings from the FHLB of San Francisco.

Federal Home Loan Bank Borrowings
At December 31, 2007, the Bank had no overnight borrowings with the FHLB compared to $29.4 million at December 31, 2006. Based on a blanket collateral agreement by a pledge of loans, at December 31, 2007 the FHLB line provided for maximum borrowings of approximately $184.8 million.

Federal Funds Purchased from Correspondent Banks
The Bank has available unsecured lines of credit totaling $65.0 million for Federal funds transactions with correspondent banks. At December 31, 2007, no Federal funds were purchased by the Bank.

Federal Reserve Line of Credit
The Bank also has available a line of credit with the Federal Reserve Bank totaling $3.7 million at December 31, 2007, secured by an agency security.

Subordinated Debt
On June 17, 2004, the Bank issued a 15-year, $5 million subordinated debenture through a pooled trust preferred program. The interest rate on the debentures is paid quarterly at the three-month LIBOR plus 2.48%. The debenture is subordinated to the claims of depositors and other creditors of the Bank. The principal is due on June 17, 2019.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Bank of Marin Bancorp

We have audited the accompanying consolidated statements of condition of Bank of Marin Bancorp and subsidiary, (Bancorp) as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. We have also audited Bank of Marin Bancorp's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Bank of Marin Bancorp's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the Bancorp's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bank of Marin Bancorp as of December 31, 2007 and 2006 and the results of their operations and cash flows for each of the three years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion Bank of Marin Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

As discussed in Note 1 to the financial statements, effective January 1, 2006, Bancorp changed its method of accounting for share-based payment arrangements to conform to Statement of Financial Accounting Standard No. 123(R), Share–Based Payments. As discussed in Note 15 to the consolidated financial statements, effective January 1, 2007, Bancorp adopted the provisions of SFAS No. 157, Fair Value Measurements and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities.

/s/ Moss Adams
Stockton, California
March 12, 2008

504 Redwood Blvd
Novato, CA 94949

March 12, 2008

To the Shareholders:

Management Report Regarding Internal Control and Compliance with Designated Laws and Regulations

Management of the Bank of Marin Bancorp ("Bancorp") is responsible for preparing the Bancorp's annual financial statements. Management is also responsible for establishing and maintaining internal control over financial reporting presented in conformity with both generally accepted accounting principles and regulatory reporting. Bancorp's internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management assessed Bancorp's internal control over financial reporting presented in conformity with both generally accepted accounting principles and regulatory reporting requirements as of December 31, 2007. The assessment was based on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Management believes that, as of December 31, 2007, Bancorp maintained effective internal control over financial reporting presented in conformity with both generally accepted accounting principles and regulatory reporting requirements. Management also believes that there was satisfactory compliance during 2007 with the designated laws and regulations.

/s/ Russell A. Colombo
Russell A. Colombo, President and Chief Executive Officer

/s/ Christina J. Cook
Christina J. Cook, EVP and Chief Financial Officer

CONSOLIDATED STATEMENT OF CONDITION
at December 31, 2007 and December 31, 2006

(in thousands, except share data)	December 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 28,765	$ 37,283
Fed funds sold	47,500	1,500
Cash and cash equivalents	76,265	38,783
Investment securities		
Held to maturity, at amortized cost	13,182	14,159
Available for sale (at fair market value, amortized cost $87,450 at 12/31/07and $76,231 at 12/31/06)	86,989	75,214
Total investment securities	100,171	89,373
Loans, net of allowance for loan losses of $7,575 at 12/31/07 and $8,023 at 12/31/06	717,303	711,755
Bank premises and equipment, net	7,821	8,446
Interest receivable and other assets	32,341	28,221
Total assets	$ 933,901	$ 876,578
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$ 220,272	$ 206,201
Interest bearing		
Transaction accounts	110,174	75,993
Savings and money market	421,255	365,850
Time	82,941	88,653
Total deposits	834,642	736,697
Federal funds purchased and Federal Home Loan Bank borrowings	---	39,400
Subordinated debenture	5,000	5,000
Interest payable and other liabilities	6,485	5,956
Total liabilities	846,127	787,053
Stockholders' Equity		
Common stock, no par value		
Authorized - 15,000,000 shares		
Issued and outstanding - 5,122,971 shares at 12/31/07 and 5,366,416 at 12/31/06	51,059	61,355
Retained earnings	36,983	28,760
Accumulated other comprehensive loss, net	(268)	(590)
Total stockholders' equity	87,774	89,525
Total liabilities and stockholders' equity	$ 933,901	$ 876,578

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS
for the fiscal years ended December 31, 2007, December 31, 2006 and December 31, 2005

(in thousands, except per share amounts)	December 31, 2007	December 31, 2006	December 31, 2005
Interest income			
Interest and fees on loans held in portfolio	$ 52,668	$ 53,447	$ 44,988
Interest on auto loans held for sale	2,062	---	---
Interest on investment securities			
U.S. Treasury securities	8	76	155
Securities of U.S. Government agencies	3,759	3,707	2,930
Obligations of state and political subdivisions (tax exempt)	479	558	808
Corporate debt securities and other	656	297	448
Interest on Federal funds sold	2,209	226	156
Total interest income	61,841	58,311	49,485
Interest expense			
Interest on interest bearing transaction accounts	301	293	276
Interest on savings and money market deposits	14,161	10,979	5,530
Interest on time deposits	3,465	3,837	3,396
Interest on borrowed funds	1,172	1,469	841
Total interest expense	19,099	16,578	10,043
Net interest income	42,742	41,733	39,442
Provision for loan losses	685	1,266	1,541
Net interest income after provision for loan losses	42,057	40,467	37,901
Non-interest income			
Service charges on deposit accounts	1,251	1,007	1,044
Wealth Management Services	1,229	1,067	958
Net gain on indirect auto and Visa portfolios	1,097	---	---
Other income	2,141	1,898	1,706
Total non-interest income	5,718	3,972	3,708
Non-interest expense			
Salaries and related benefits	15,900	15,490	13,819
Occupancy and equipment	2,871	2,624	2,074
Depreciation and amortization	1,246	998	846
Data processing	1,657	1,537	1,330
Professional services	1,681	1,269	809
Other expense	4,318	3,973	3,620
Total non-interest expense	27,673	25,891	22,498
Income before provision for income taxes	20,102	18,548	19,111
Provision for income taxes	7,778	6,665	7,374
Net income	$ 12,324	$ 11,883	$ 11,737
Net income per common share:*			
Basic	$ 2.38	$ 2.21	$ 2.28
Diluted	$ 2.31	$ 2.11	$ 2.12
Weighted average shares used to compute net income per common share:*			
Basic	5,187	5,385	5,164
Diluted	5,330	5,639	5,516
Dividends declared per common share	$ 0.51	$ 0.46	$ 0.20

* 2005 was restated for the 5% stock dividend declared in April 2006.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended December 31, 2005, December 31, 2006 and December 31, 2007

(dollar amounts in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Taxes	Total
Balance at December 31, 2004	4,609,685	$ 40,208	$ 25,640	$ (240)	$ 65,608
Comprehensive income:					
Net income	---	---	11,737		11,737
Other comprehensive income					
Net change in unrealized loss on available for sale securities (net of tax benefit of $381)	---	---	---	(526)	(526)
Comprehensive income	---	---	11,737	(526)	11,211
Stock options exercised	106,709	1,351	---	---	1,351
Tax benefit from exercised stock options	---	680			680
Stock issued on 5% stock dividend declared on April 14	233,025	8,340	(8,357)	---	(17)
Cash dividends paid	---	---	(990)	---	(990)
Stock issued in payment of director fees	10,829	378	---	---	378
Balance at December 31, 2005	4,960,248	$ 50,957	$ 28,030	$ (766)	$ 78,221
Comprehensive income:					
Net income	---	---	11,883	---	11,883
Other comprehensive income					
Net change in unrealized loss on available for sale securities (net of tax liability of $128)	---	---	---	176	176
Comprehensive income	---	---	11,883	176	12,059
Stock options exercised	258,207	3,307	---	---	3,307
Tax benefit from exercised stock options	---	1,394	---	---	1,394
Stock repurchased, including commission costs	(115,625)	(3,968)	---	---	(3,968)
Stock-based compensation	---	555	---	---	555
Stock issued on 5% dividend declared on April 13	250,658	8,678	(8,705)	---	(27)
Cash dividends paid	---	---	(2,448)	---	(2,448)
Stock issued in payment of director fees	12,928	432	---	---	432
Balance at December 31, 2006	5,366,416	$ 61,355	$ 28,760	$ (590)	$ 89,525
Cumulative-effect adjustment of adoption of SFAS No.159	---	---	(1,452)	---	(1,452)
Comprehensive income:					
Net income	---	---	12,324	---	12,324
Other comprehensive income					
Net change in unrealized loss on available for sale securities (net of tax liability of $234)	---	---	---	322	322
Comprehensive income	---	---	12,324	322	12,646
Stock options exercised	112,496	1,620	---	---	1,620
Tax benefit from exercised stock options	---	729	---	---	729
Stock repurchased, including commission costs	(365,823)	(13,483)	---	---	(13,483)
Stock issued under employee stock purchase plan	292	8	---	---	8
Stock-based compensation	---	502			502
Cash dividends paid	---	---	(2,649)	---	(2,649)
Stock issued in payment of director fees	9,590	328	---	---	328
Balance at December 31, 2007	5,122,971	$ 51,059	$ 36,983	$ (268)	$ 87,774

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the fiscal years ended December 31, 2007, December 31, 2006 and December 31, 2005

(in thousands)	December 31, 2007	December 31, 2006	December 31, 2005
Cash Flows from Operating Activities:			
Net income	$ 12,324	$ 11,883	$ 11,737
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	685	1,266	1,541
Compensation payable in common stock	258	465	410
Stock-based compensation expense	502	555	---
Excess tax benefits from exercised stock options	(535)	(1,394)	---
Amortization and accretion of investment security premiums, net	150	487	821
Depreciation and amortization	1,246	998	846
Net gain on indirect auto and Visa portfolios	(1,097)	---	---
Net loss on disposition and sale of furniture and equipment	---	50	---
Net change in operating assets and liabilities:			
Interest receivable	106	(257)	(621)
Interest payable	(1)	292	89
Deferred rent and other rent-related expenses	108	164	---
Other assets	(3,412)	(1,870)	(2,762)
Other liabilities	1,221	1,060	1,709
Total adjustments	(769)	1,816	2,033
Net cash provided by operating activities	11,555	13,699	13,770
Cash Flows from Investing Activities:			
Purchase of securities held-to-maturity	(2,056)	(1,087)	(1,205)
Purchase of securities available-for-sale	(135,767)	(10,471)	(33,630)
Proceeds from paydowns/maturity of:			
Securities held-to-maturity	2,925	8,663	15,915
Securities available-for-sale	24,505	22,011	19,511
Proceeds from sale of securities	100,000	---	992
Proceeds from sale of indirect auto and Visa loans	78,599	---	---
Loans originated and principal collected, net	(86,234)	(33,475)	(110,240)
Purchase of bank owned life insurance policies	---	(1,159)	(698)
Proceeds from disposition of assets	---	12	---
Additions to premises and equipment	(621)	(3,855)	(1,969)
Net cash used in investing activities	(18,649)	(19,361)	(111,324)
Cash Flows from Financing Activities:			
Net increase in deposits	97,945	15,525	76,093
Proceeds from stock options exercised	1,620	3,307	2,031
Net (decrease) increase in Federal Funds purchased and Federal Home Loan Bank borrowings	(39,400)	8,400	13,200
Common stock repurchased	(13,483)	(3,968)	---
Dividends paid in cash	(2,649)	(2,448)	(990)
Stock issued under employee stock purchase plan	8	---	---
Cash paid for fractional shares	---	(27)	(17)
Excess tax benefits from exercised stock options	535	1,394	---
Net cash provided by financing activities	44,576	22,183	90,317
Net increase (decrease) in cash and cash equivalents	37,482	16,521	(7,237)
Cash and cash equivalents at beginning of period	38,783	22,262	29,499
Cash and cash equivalents at end of period	$ 76,265	$ 38,783	$ 22,262
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 19,101	$ 16,285	$ 9,911
Cash paid for income taxes	$ 6,295	$ 6,075	$ 7,400

Non-Cash Transactions: The fiscal ended December 31, 2007 reflected a cumulative-effect adjustment of the adoption of SFAS No. 159, which included non-cash decreases to net loans of $2.5 million and retained earnings of $1.5 million, and a non-cash increase to other assets of $1.0 million. The fiscal year ended December 31, 2006 included non-cash increases to both fixed assets and other liabilities representing tenant improvements paid for by the landlord for the Bank's administrative facility totaling $617 thousand. This amount is amortized over the fifteen-year term of the lease.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

Introductory Explanation

On July 1, 2007 (the “Effective Date”), a bank holding company reorganization was completed whereby Bank of Marin Bancorp (Bancorp) became the parent holding company for Bank of Marin (the “Bank”), its sole subsidiary. On the Effective Date, a tax-free exchange was completed whereby each outstanding share of the Bank was converted into one share of Bank of Marin Bancorp and the Bank became a wholly-owned subsidiary of the holding company. The information contained in the financial statements and accompanying footnotes for periods subsequent to the reorganization relate to consolidated Bank of Marin Bancorp. Periods prior to the reorganization relate to Bank of Marin only. The information is comparable for all periods as the sole subsidiary of Bancorp is the Bank.

The consolidated financial statements include the accounts of Bancorp and its wholly-owned bank subsidiary. All material intercompany transactions have been eliminated. In the opinion of Management, the consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations, changes in stockholders’ equity and cash flows. All adjustments are of a normal, recurring nature.

Note 1: Summary of Significant Accounting Policies

Nature of Operations: Bancorp, through its sole subsidiary, Bank of Marin (a California state-chartered bank), provides a wide range of financial services to customers, who are predominantly professionals, small and middle-market businesses, and individuals who work and/or reside in Marin and southern Sonoma counties. The Bank operates eight branches in Marin County and three in southern Sonoma County, as well as a loan production office in San Francisco. The accounting and reporting policies of Bancorp and Bank conform with generally accepted accounting principles and general practice within the banking industry. A summary of the more significant policies follows.

Investment Securities are classified as "held to maturity," "trading securities" or "available for sale." Investments classified as held to maturity are those that the Bank has the ability and intent to hold until maturity and are reported at cost, adjusted for the amortization or accretion of premiums or discounts. Investments classified as trading securities are reported at fair value, with unrealized gains and losses included in earnings. Investments classified as available for sale are reported at fair value, with unrealized gains and losses, net of related tax, if any, reported as a separate component of comprehensive income and included in stockholders' equity until realized. For the majority of the Bank's securities, fair values are determined based upon quoted prices for similar securities.

At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other than temporary based upon the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions and interest rate trends. A decline in the market value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains and losses for securities are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Loans are reported at the principal amount outstanding net of deferred fees and the allowance for loan losses. Interest income is accrued daily using the simple interest method. Loans are placed on non-accrual status when management believes that there is serious doubt as to the collection of principal or interest, or when they become contractually past due by 90 days or more with respect to principal or interest, except for loans that are both well secured and in the process of collection. When loans are placed on non-accrual status, any accrued but uncollected interest is reversed from current-period interest income and additional income is recorded only after the loan is brought current or after all principal has been collected. Loan origination and commitment fees, offset by certain direct loan origination costs, are deferred and amortized as yield adjustments over the contractual lives of the related loans.

Allowance for Loan Losses is based upon estimates of loan losses and is maintained at a level considered adequate to provide for probable losses inherent in the loan portfolio. The allowance is increased by provisions charged to expense and reduced by net charge-offs. In periodic evaluations of the adequacy of the allowance balance, Management considers the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors. The allowance for loan losses is based on estimates and ultimate losses may vary from current estimates.

Management's method for assessing the appropriateness of the allowance includes specific allowances for identified problem loans, an allowance factor for pools of credits and allowances for changing environmental factors (e.g., portfolio trends, concentration of credit, growth, economic factors, etc.). Allowances for identified problem loans are based on specific analysis of individual credits. Loss estimation factors for loan pools are based on analysis of local economic factors applicable to each loan pool. Due to the Bank's minimal historic losses, loss estimation factors are based only in part on the previous historical loss experience for each pool. Allowances for changing environmental factors are management's best estimate of the probable impact these changes have had on the loan portfolio as a whole.

Management considers a loan to be impaired when it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. For loans determined to be impaired, the extent of the impairment is measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate or based on the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through an allocation of the allowance for loan losses. ALCO reviews the adequacy of the allowance for loan losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in the judgment of the ALCO and management, changes are warranted.

Transfers of Financial Assets: The Bank has entered into certain participation agreements with other organizations. The Bank accounts for these transfers of financial assets as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through either (a) an agreement to repurchase them before their maturity or (b) the ability to otherwise cause the holder to return specific assets. No gain or loss has been recognized by the Bank on the sale of these participation interests.

Premises and Equipment consist of leasehold improvements, furniture, fixtures and equipment and are stated at cost, less accumulated depreciation and amortization, which are calculated on a straight-line basis over the estimated useful life of the property or the term of the lease (if less). Furniture and fixtures are depreciated over 8 years and equipment is generally depreciated over 3 to 20 years. Leasehold improvements are amortized over the terms of the leases or their estimated useful lives, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Employee Stock Ownership Plan (ESOP) and Related Debt: Bancorp accounts for shares acquired by its ESOP in accordance with the guidelines established by the American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." As Bancorp recognizes compensation cost for the ESOP, these funds become committed for the purchase of Bancorp common shares into the plan. To the extent that the fair value of Bancorp's ESOP shares committed to be released differ from the cost of those shares, the differential is charged or credited to equity. The ESOP may be externally leveraged and, as such, the ESOP debt is recorded as a liability and interest expense is recognized on such debt. The ESOP shares not yet committed to be released are accounted for as a reduction in stockholders' equity.

Income Taxes reported in the financial statements are computed based on an asset and liability approach. Bancorp recognizes the amount of taxes payable or refundable for the current year, and deferred tax assets and liabilities for the future tax consequences that have been recognized in the financial statement or tax returns. The measurement of tax assets and liabilities is based on the provisions of enacted tax laws. Bancorp files consolidated federal and combined state income tax returns.

Cash and Cash Equivalents include cash, due from banks and Federal funds sold . At December 31, 2007, $851 thousand of cash and cash equivalents was pledged to collateralize interest rate swaps.

Earnings per share are based upon the weighted average number of common shares outstanding during each year. The following table shows weighted average basic shares, potential common shares related to stock options, and weighted average diluted shares. Basic earnings per share are based upon the weighted average number of common shares outstanding during each period. Diluted earnings per share are based upon the weighted average number of common shares and potential common shares outstanding during each period. Earnings per share and share amounts for 2005 have been retroactively adjusted for the 5% stock dividend in 2006.

(in thousands)		2007		2006		2005
Weighted average basic shares outstanding		5,187		5,385		5,164
Add: Potential common shares related to stock options		143		254		352
Weighted average diluted shares outstanding		5,330		5,639		5,516
Anti-dilutive shares not included in the calculation of diluted earnings per share		80		88		64
Net income	$	12,324		11,883		11,737
Earnings per share (basic)	$	2.38	$	2.21	$	2.28
Earnings per share (diluted)	$	2.31	$	2.11	$	2.12

Share-Based Compensation On January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standard No. 123R (SFAS No. 123R) *"Share-Based Payment,"* which requires that all share-based payments to employees, including stock options, be recognized as an expense in the income statement based on the grant date fair value of the award with a corresponding increase in common stock. The fair value, as defined in SFAS No.123R, is amortized over the implied service period, which is generally the vesting period. Prior to January 1, 2006, the Bank accounted for its share-based payments in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" under which no stock-based compensation was required to be recognized in net income for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

Under SFAS No. 123R, Bancorp determines fair value at grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividend yield and the risk-free interest rate over the expected life of the option. The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock based award and stock price volatility. The assumptions used represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been materially different from that recorded in its financial statements. In addition, Bancorp is required to estimate the expected vesting period. If Bancorp's actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different.

Upon adoption of SFAS No. 123R on January 1, 2006, the Bank elected the disclosure provisions using the modified-prospective-transition method. Under that method, compensation cost recognized in 2006 includes a) compensation cost for all share-based option awards granted prior to, but not yet vested as of January 1, 2006 and b) compensation cost for all share-based option awards granted subsequent to January 1, 2006.

The results for prior periods have not been restated. However, had compensation cost for the stock option plans been determined in accordance with SFAS No. 123R in 2005, the Bank's net income and earnings per share would have been reduced to the pro forma amounts in the following table:

(in thousands except per share data)		Year Ended December 31, 2005
Net income as reported	$	11,737
Stock-based compensation expense, net of taxes		(833)
Pro forma net income	$	10,904
Earnings per share*		
As reported (basic)	$	2.28
As reported (diluted)	$	2.12
Pro forma (basic)	$	2.11
Pro forma (diluted)	$	1.98
Weighted average fair value of options granted during the year*	$	11.06

* These numbers have been adjusted for the 5% stock dividend declared in April 2006.

Derivative Financial Instruments and Hedging Activities

Fair Value Hedges: Certain of the Bank's interest rate swap contracts that are designated as fair value hedges qualify for short-cut hedge accounting in accordance with SFAS No. 133 "*Accounting for Derivative Instruments and Hedging Activities,"* as amended, as they are aligned to perfectly offset the change in the fair value of the designated fixed-rate loan. The interest rate swaps are carried on the balance sheet at their fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative) and offset in other non-interest income. As a result of interest rate fluctuations, the hedged fixed-rate loan will gain or lose market value. In this fair value hedging strategy, this unrealized gain or loss in market value will be recorded as an adjustment to the hedged loan and offset in other non-interest income. Under this scenario, the change in fair value of the interest rate swap perfectly offsets the change in fair value of the loan, resulting in zero impact to net income.

Certain of the Bank's interest rate swap contracts are designated as fair value hedges, whereby non-short cut accounting treatment is applied under SFAS No. 133. The interest rate swaps are closely aligned to offset the change in the fair value of the designated fixed-rate loan and are tested for effectiveness on a quarterly basis. The interest rate swaps are carried on the balance sheet at their fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative) and offset in interest income. In this fair value hedging strategy, the unrealized gain or loss due to changes in fair value of the hedged fixed-rate loan is recorded as an adjustment to the hedged loan and offset in interest income. Prior to loan funding, the yield maintenance agreement was carried on the balance sheet in other assets or other liabilities with the changes in fair value offset in interest income. The fair value of the yield maintenance agreement upon loan funding and simultaneous designation remains on the balance sheet as an asset and is amortized using the effective yield method over the life of the resulting loan. The net effect of recognizing the interest rate swap, the yield maintenance agreement and the changes in the fair value of the hedged loan on the balance sheet as assets or liabilities is an insignificant amount of ineffectiveness recognized in interest income.

Non-designated Hedges: Both yield maintenance agreements with net settlement features that meet the definition of a derivative and the undesignated interest rate swaps used to mitigate the agreement's change in value are recorded as assets or liabilities with offsetting gains and losses recorded directly to interest income. The Bank's forward swap was considered to be a non-designated hedge prior to its designation in the third quarter of 2007.

Comprehensive Income for Bancorp includes net income reported on the statement of operations and changes in the fair value of available for sale investments, net of related taxes, reported as a component of stockholders' equity.

Segment Information The Bank's two operating segments include the traditional community banking activities provided through its eleven branches and its Wealth Management Services. The activities of these two segments are monitored and reported by management as separate operating segments. The accounting policies of the segments are the same as those described in this note. The Bank evaluates segment performance based on total segment revenue and does not allocate expenses between the segments. Wealth Management Services revenues were $1,229 thousand in 2007, $1,067 thousand in 2006 and $958 thousand in 2005, which are included in non-interest income in the statement of operations. The revenues of the community banking segment are reflected in all other income lines in the statement of operations.

Reclassifications Certain amounts in prior years' financial statements have been reclassified to conform with the current presentation. These reclassifications have no effect on previously reported net income.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"*. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations Bancorp engages in will be recorded and disclosed following existing generally accepted accounting principles until January 1, 2009. Bancorp expects SFAS No. 141R would have an impact on its consolidated financial statements when effective if it acquires another company, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions Bancorp consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements,"* which provides guidance for accounting and reporting of noncontrolling (minority) interests in consolidated financial statements. The statement is effective for fiscal years and interim periods within fiscal years beginning on or after December 15, 2008. Bancorp does not hold minority interests in subsidiaries, therefore it is expected that SFAS No. 160 will have no impact on its financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007, with early adoption allowed effective January 1, 2007 in conjunction with the early adoption of SFAS No. 159. The adoption of SFAS No. 157 effective January 1, 2007 did not impact financial position or results of operations.

On February 15, 2007, the FASB released SFAS No. 159, which permits entities to choose to measure eligible financial instruments at fair value at specified election dates. Under SFAS No. 159 an entity records unrealized gains and losses in earnings on items for which the fair value option has been elected at each subsequent reporting date. The objective is to mitigate volatility in reported earnings without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years ending on or after November 15, 2007, with early adoption allowed effective January 1, 2007.

Effective January 1, 2007, the Bank elected early adoption of SFAS No. 159. Upon adoption, the Bank selected the fair value option for its indirect auto loan portfolio, which was subsequently sold on June 5, 2007. For further information on the financial effect of SFAS No. 159 see Note 15.

In July 2006, the FASB issued Interpretation (FIN) No. 48, *"Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109,"* which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes."* FIN 48 establishes a "more-likely-than-not" recognition threshold that must be met before a tax benefit can be recognized in the financial statements. For tax positions that meet the more-likely-than-not threshold, an enterprise may recognize only the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. The cumulative effect of applying the provisions of FIN 48 would be recognized as an adjustment to the beginning balance of retained earnings. FIN 48 was adopted January 1, 2007 and has not had a material impact on financial condition or results of operations.

In September 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 064-4 (EITF 06-4), "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."* EITF 06-4 requires employers to recognize a liability for future benefits provided through endorsement split-dollar life insurance arrangements that extend into postretirement periods in accordance with SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions* or APB Opinion No. 12, *Omnibus Opinion-1967*." The provisions of EITF 06-4 become effective on January 1, 2008 and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption, or through retrospective application to all prior periods. The Bank's split-dollar life insurance benefits are limited to the employee's active service period. Therefore it is expected that EITF 06-4 will have no impact on financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132(R)."* SFAS No. 158 requires employers to recognize the under-funded or over-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The new measurement date requirement applies for fiscal years ending after December 15, 2008. As the Bank has no pension or other post-retirement benefit plans, it is expected that SFAS No. 158 will have no impact on financial condition or results of operations.

Note 2: Investment Securities

The amortized cost and fair market value of investment securities at December 31, 2007 and 2006 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
2007 Held to Maturity				
Obligation of state & political subdivisions	$ 13,182	$ 139	$ (83)	$ 13,238
Corporate debt securities and other	---	---	---	---
Total held to maturity	13,182	139	(83)	13,238
2007 Available for Sale				
U. S. Treasury Securities	---	---	---	---
Securities of U.S. Government Agencies	74,963	132	(580)	74,515
Corporate CMOs	2,487	4	(17)	2,474
Corporate debt securities and other	10,000	---	---	10,000
Total available for sale	87,450	136	(597)	86,989
Total	$ 100,632	$ 275	$ (680)	$ 100,227
2006 Held to Maturity				
Obligation of state & political subdivisions	$ 13,163	$ 67	$ (114)	$ 13,116
Corporate debt securities and other	996	12	---	1,008
Total held to maturity	14,159	79	(114)	14,124
2006 Available for Sale				
U. S. Treasury Securities	2,511	---	(7)	2,504
Securities of U.S. Government Agencies	69,742	11	(975)	68,778
Corporate CMOs	3,978	---	(46)	3,932
Corporate debt securities and other	---	---	---	---
Total available for sale	76,231	11	(1,028)	75,214
Total	$ 90,390	$ 90	$ (1,142)	$ 89,338

The amortized cost and estimated market value of investment securities at December 31, 2007 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2007			
	Held to Maturity		Available for Sale	
(In thousands)	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Within one year	$ 1,010	$ 1,017	$ 27,388	$ 27,376
After one but within five years	$ 5,165	$ 5,200	$ 46,772	$ 46,519
After five years through ten years	$ 3,391	$ 3,470	$ 4,575	$ 4,619
After ten years	$ 3,616	$ 3,551	$ 8,715	$ 8,475
Total	$ 13,182	$ 13,238	$ 87,450	$ 86,989

In the year ended December 31, 2007, $100.0 million in short-term available for sale securities were sold at no gain or loss as these securities were very short-term in nature, with an average hold period from seven to twenty-eight days. In the year ended December 31, 2006, no investment securities were sold and accordingly no gains or losses were recognized. During 2005, the Bank sold one security due to deterioration of the issuer's creditworthiness. The proceeds from the sale totaled $992 thousand and resulted in a gain of $1 thousand.

At December 31, 2007, investment securities carried at $5.2 million were pledged with the Federal Reserve Bank of San Francisco: $1.4 million to secure the Bank's Treasury, Tax and Loan account, and $3.8 million to provide collateral for potential future borrowings to meet unusual short-term liquidity needs. At December 31, 2007, investment securities carried at $13.2 million were pledged with the State of California: $12.2 million to secure public deposits in compliance with the Local Agency Security Program and $1.0 million to provide collateral for trust deposits. In addition, at December 31, 2007, investment securities carried at $2.3 million were pledged to collateralize an internal Wealth Management Services checking account.

Investment securities with unrealized losses at December 31, 2007 are summarized and classified according to the duration of the loss period as follows:

December 31, 2007

		≤ 12 continuous months		> 12 continuous months
(In thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity				
Obligations of state & political subdivisions	$ ---	$ ---	$ 4,461	$ (83)
Corporate debt securities and other	---	---	---	---
Total held to maturity	---	---	4,461	(83)
Available for sale				
U.S. Treasury Securities	---	---	---	---
Securities of U. S. Government Agencies	2,855	(22)	39,144	(558)
Corporate CMOs	---	---	1,994	(17)
Corporate debt securities and other	---	---	---	---
Total available for sale	2,855	(22)	41,138	(575)
Total temporarily impaired securities	$ 2,855	$ (22)	$ 45,599	$ (658)

December 31, 2006

		≤ 12 continuous months		> 12 continuous months
(In thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity				
Obligations of state & political subdivisions	$ 2,176	$ (6)	$ 5,682	$ (108)
Corporate debt securities and other	---	---	---	---
Total held to maturity	2,176	(6)	5,682	(108)
Available for sale				
U.S. Treasury Securities	---	---	2,504	(7)
Securities of U. S. Government Agencies	3,456	(43)	61,589	(932)
Corporate CMOs	2,866	(41)	1,067	(5)
Corporate debt securities and other	---	---	---	---
Total available for sale	6,322	(84)	65,160	(944)
Total temporarily impaired securities	$ 8,498	$ (90)	$ 70,842	$ (1,052)

Management periodically evaluates each investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. Included are twenty-three securities at December 31, 2007 and forty-one securities at December 31, 2006, with fair values of $48.5 million and $79.3 million, respectively, and unrealized losses of $680 thousand and $1.1 million, respectively.

Management has determined that no investment security is impaired due to credit quality and no investment security is other-than-temporarily impaired. This temporary impairment is attributable to general changes in short-term interest rates as measured by the U.S. Treasury yield curve.

Note 3: Loans

The majority of the Bank's loan activity is with customers located in California, primarily in the counties of Marin, San Francisco and southern Sonoma. Although the Bank has a diversified loan portfolio, a large portion of the loans are for commercial real estate, and many of the Bank's loans are secured by real estate in Marin, San Francisco and Sonoma Counties. Approximately 84% and 75% of the loans were secured by real estate at December 31, 2007 and 2006, respectively.

Effective January 1, 2007, the Bank elected the early-adoption provisions of SFAS No. 159, which permits entities to choose to measure eligible financial instruments at fair value at specified election dates. Upon adoption, the Bank selected the fair value option for the indirect auto loan portfolio, which was subsequently sold on June 5, 2007. See Note 15.

Outstanding loans by type, net of deferred loan fees of $2.9 million and $2.8 million at December 31, 2007 and 2006, respectively, are as follows:

(In thousands)	2007	2006
Commercial loans	$ 124,336	$ 117,391
Real estate		
Commercial owner-occupied	132,614	123,601
Commercial investor	257,127	188,091
Construction	97,153	116,790
Residential (a)	78,860	58,912
Installment		
Indirect auto loans	---	84,141
Other installment	34,788	30,852
Total loans	724,878	719,778
Less Allowance for loan losses	(7,575)	(8,023)
Net Loans	$ 717,303	$ 711,755

(a) The residential loan portfolio includes no sub-prime loans at December 31, 2007 and December 31, 2006.

At December 31, 2007, the Bank had one non-accrual loan totaling $144 thousand and at December 31, 2006, the Bank had one non-accrual loan totaling $49 thousand. Neither of these loans was past due greater than 90 days at December 31 of their respective years.

At December 31, 2007, the Bank's FHLB line of credit was secured under terms of a blanket collateral agreement by a pledge of certain qualifying collateral, including loans.

The Bank has, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal stockholders and their associates. These transactions, including loans, are granted on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with others. Likewise, these transactions do not involve more than the normal risk of collectability or present other unfavorable features.

An analysis of net loans to related parties for the years ended December 31, 2007 and 2006 is as follows:

(In thousands)	2007	2006
Balance at beginning of year	$ 3,394	$ 4,627
New loans to related parties	4,811	2,821
Repayments	(306)	(4,054)
Balance at end of year	$ 7,899	$ 3,394

The undisbursed commitment to related parties as of December 31, 2007, was $410 thousand.

Note 4: Allowance for Loan Losses

Activity in the allowance for loan losses for each of the three years ended December 31 follows:

(In thousands)	2007	2006	2005
Beginning balance	$ 8,023	$ 7,115	$ 6,110
Cumulative-effect adjustment of adoption of SFAS No. 159	(1,048)	---	---
Provision for loan loss charged to expense	685	1,266	1,541
Loans charged off	(115)	(596)	(764)
Loan loss recoveries	30	238	228
Ending balance	$ 7,575	$ 8,023	$ 7,115
Total loans outstanding at end of year, before deducting allowance for loan losses	$ 724,878	$ 719,778	$ 686,661
Average total loans outstanding during the year	$ 703,087	$ 701,438	$ 640,726
Ratio of allowance for loan losses to total loans at end of year	1.05%	1.11%	1.04%

Loans classified as non-accrual amounted to $144 thousand at December 31, 2007 and $49 thousand at December 31, 2006. At December 31, 2005 no loans were classified as non-accrual.

At December 31, 2007, the Bank had one impaired loan totaling $144 thousand. At December 31, 2006, the bank had one impaired loan totaling $49 thousand. At December 31, 2005 the Bank had no impaired loans. The average recorded investment in impaired loans was $104 thousand for the year ended December 31, 2007, $1.8 million for the year ended December 31, 2006 (primarily related to two loans, one of which paid off and one that was sold), and $214 thousand for the year ended December 31, 2005. There was no specific valuation allowance recorded against these loans.

The gross interest income that would have been recorded had non-accrual loans been current totaled $11 thousand in the year ended December 31, 2007 and $223 thousand in the year ended December 31, 2006. For the year ended December 31, 2005 the amount of foregone interest due to non-accrual loans was not significant.

Effective January 1, 2007, the Bank elected the early-adoption provisions of SFAS No. 159, which permits entities to choose to measure eligible financial instruments at fair value at specified election dates. Upon adoption, the Bank selected the fair value option for the indirect auto loan portfolio, which was subsequently sold on June 5, 2007. In conjunction with the adoption of SFAS No. 159, the allowance for loan losses was reduced by $1.0 million, which is reflected in the table above. See Note 15.

Note 5: Bank Premises and Equipment

A summary of Bank premises and equipment at December 31 follows:

(In thousands)	2007	2006
Leasehold improvements	$ 9,501	$ 9,260
Furniture and equipment	8,617	8,245
Subtotal	18,118	17,505
Accumulated depreciation and amortization	(10,297)	(9,059)
Bank premises and equipment, net	$ 7,821	$ 8,446

The amount of depreciation and amortization was $1.2 million, $998 thousand and $846 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

Note 6: Bank Owned Life Insurance

The Bank has purchased life insurance policies on the lives of certain officers of the Bank ($14.1 million cash surrender value at December 31, 2007 and $13.5 million cash surrender value at December 31, 2006) to finance employee benefit programs. The investment in the Bank owned life insurance (BOLI) policies are reported in "interest receivable and other assets" at the cash surrender value of the policies. The cash surrender value includes both the Bank's original premiums invested in the life insurance policies and the accumulated accretion of policy income since inception of the policies. Income of $577 thousand in 2007 and $504 thousand in 2006 was recognized on the life insurance policies and is reported in "other non-interest income."

Note 7: Deposits

Total time deposits were $82.9 million and $88.7 million at December 31, 2007 and 2006, respectively. Of these amounts, $50.7 million and $54.0 million represented time deposits greater than $100,000 at December 31, 2007 and 2006, respectively. Interest on time deposits was $3.5 million, $3.8 million and $3.4 million in 2007, 2006 and 2005, respectively. Scheduled maturities of these deposits at December 31, 2007 follows:

(In thousands)	2008	2009	2010	2011	2012	Thereafter	Total
Scheduled maturities of time deposits	$ 69,308	$ 7,625	$ 3,400	$ 744	$ 1,864	---	$ 82,941

The Bank accepts deposits from shareholders, directors and employees in the normal course of business, and the terms are comparable to those with non-affiliated parties.

Note 8: Borrowings

Purchased Funds – At December 31, 2007, the Bank had no overnight borrowings or other short-term debt compared to $29.4 million at December 31, 2006, which consisted of overnight borrowings from the Federal Home Loan Bank ("FHLB"). Short-term borrowing available to the Bank of $184.8 million consists of a line of credit for advances with FHLB secured under terms of a blanket collateral agreement by a pledge of loans. The Bank also has unsecured lines of credit totaling $65.0 million with correspondent banks for overnight borrowings. In general, interest rates on these lines approximate the Federal funds target rate.

Federal Home Loan Bank Advance – During the third quarter of 2005, the Bank obtained a three-year fixed-rate advance with Federal Home Loan Bank for $10.0 million. Each month, the Bank paid an annualized fixed rate of interest of 4.23% on the three-year advance. Although the advance was due upon maturity in the third quarter of 2008, the Bank repaid the advance in full in December of 2007.

Federal Reserve Line of Credit – The Bank also has available a line of credit with the Federal Reserve Bank of San Francisco totaling $3.7 million as of December 31, 2007. This line of credit is secured by an agency security.

Subordinated Debt – On June 17, 2004 the Bank issued a 15-year, $5.0 million subordinated debenture through a pooled trust preferred program, which matures on June 17, 2019. The Bank has the right to redeem the debenture, in whole or in part, at the redemption price at principal amounts in multiples of $1.0 million on any interest payment date on or after June 17, 2009. The interest rate on the debenture changes quarterly and is paid quarterly at the three-month LIBOR plus 2.48%. The rate at December 31, 2007 was 7.47%. The debenture is subordinated to the claims of depositors and other creditors of the Bank.

Borrowings at December 31, 2007 and 2006 are summarized as follows:

	2007			2006		
(In thousands)	Carry Value	Average Balance	Average Rate	Carry Value	Average Balance	Average Rate
Overnight borrowings	$ ---	$ 6,836	5.35%	$ 29,400	$ 13,008	4.68%
FHLB three-year advance	---	9,260	4.23%	10,000	10,000	4.23%
Subordinated debenture	5,000	5,000	8.14%	5,000	5,000	7.82%

The maximum amount outstanding at any month end for overnight borrowings was $38.5 million and $39.0 million, during 2007 and 2006, respectively.

Note 9: Stockholders' Equity

On July 1, 2007, the Effective Date, the bank holding company reorganization was completed and the Bank repurchased a total of 24,399 common shares of the Bank for $876 thousand from six shareholders who dissented to the exchange of these shares for Bancorp common stock. Also, on the Effective Date, after the repurchase, each remaining outstanding share of the Bank was converted into one share of Bank of Marin Bancorp and the Bank became a wholly-owned subsidiary of the holding company.

Upon the adoption of SFAS No. 159 for its indirect auto loan portfolio, the Bank recorded a cumulative-effect adjustment as a charge to retained earnings totaling $1.5 million effective January 1, 2007. See Note 15.

In October 2006, the Bank received approval from the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC) to buy back up to 10%, or up to 545,884 of the Bank's 5,458,838 then-outstanding shares, not to exceed $15 million. The repurchase program allowed the Bank to purchase common shares for a period of twelve months from the approval date in the open market or in privately negotiated transactions. In 2006, the Bank purchased 115,625 shares at an average price of $34.26 per share for a total cost of $4.0 million. In the first quarter of 2007, the Bank purchased an additional 289,692 shares at an average price of $38.10 for a total cost of $11.0 million, thereby completing the share repurchase under the approved program.

In November 2007 Bancorp's Board of Directors approved an additional plan to repurchase common shares of Bancorp up to $5 million. No regulatory approval was required for this repurchase plan as Bancorp was exempted under the provisions of Regulation Y of the Federal Reserve Board. In November and December 2007, Bancorp repurchased a total of 51,732 shares at an average price of $29.96 per share for a total cost of $1.5 million.

The Bank executed the repurchase transactions pursuant to the Securities and Exchange Commission's Rule 10b-18. All shares repurchased under both programs were made in open market transactions and were part of publicly announced repurchase programs.

A quarterly cash dividend program was implemented in the third quarter of 2005. A summary of cash dividends paid to shareholders, which are recorded as a reduction of retained earnings, is presented below.

	Years ended December 31		
(in thousands except per share data)	2007	2006	2005
Cash dividends	$ 2,649	$ 2,448	$ 990
Cash dividends per share	$ 0.51	$ 0.46	$ 0.20

Included in cash dividends in 2007 is $5 thousand paid to shareholders in connection with the redemption of all the preferred share purchase rights issued pursuant to the Bank's Rights Agreement of August 11, 2003. Each right entitled the registered holder to purchase from the Bank one one-hundredth of a share of Series A Junior Participating Preferred stock, no par value of Bank at a price of $125 per one one-hundredth of a preferred share, subject to adjustments. The redemption, in anticipation of the formation of a bank holding company, was effective June 14, 2007 at a redemption price of $0.001 per right. On that same day, Bank of Marin Bancorp's Board of Directors executed a Rights Agreement substantially similar to the Bank's agreement and has issued replacement rights to purchase shares of Bancorp under the new Rights Agreement to shareholders of record as of July 23, 2007. The Bank of Marin Bancorp Rights Agreement is designed to discourage takeovers that involve abusive tactics or do not provide fair value to shareholders.

Under California State banking laws, payment of dividends is restricted to the lesser of retained earnings or the amount of undistributed net profits from the three most recent fiscal years. Under this restriction, approximately $12.4 million of the retained earnings balance was available for payment of dividends as of December 31, 2007.

On April 13, 2006, and April 14, 2005, the Board of Directors declared 5% stock dividends. Cash was paid in lieu of issuing fractional shares. Earnings per share amounts and information with respect to stock options have been restated for all years presented to reflect the stock dividends.

Under SFAS No. 123R which was implemented in January 2006, the fair value of stock options on the grant date is recorded as a compensation expense on the income statement over the service period with a corresponding increase in common stock. In addition, the Bank records tax benefits on the exercise of non-qualified stock options and on the disqualifying disposition of incentive stock options, which are accounted for as an addition to common stock with a corresponding decrease in accrued taxes payable. See Note 10 for further information on accounting for stock options and share-based payments.

Stock-based compensation also includes compensation expense related to the Employee Stock Purchase Plan, which was implemented in the third quarter of 2007, whereby employees may purchase common shares of Bancorp at a five percent discount. The discount amount is recorded as compensation expense at the time of the purchase, with a corresponding increase in common stock.

Stock-based compensation and tax benefits on exercised options are shown below.

	Years ended December 31		
(in thousands)	2007	2006	2005*
Stock-based compensation	$ 502	$ 555	$ ---
Tax benefits on exercised options	$ 729	$ 1,394	$ 680

*Accounting for stock-based compensation in accordance with SFAS No. 123R, which requires share-based payments to be recorded as an expense, was implemented January 1, 2006.

Note 10: Stock Option and Purchase Plans

Effective July 1, 2007, Bank of Marin Bancorp adopted an Employee Stock Purchase Plan whereby employees of Bancorp and its subsidiary may purchase Bancorp common shares through payroll deductions of between one percent and fifteen percent of pay in each pay period. Shares are purchased quarterly at a five percent discount from the closing market price on the last day of the quarter. The plan calls for 200,000 common shares to be set aside for employee purchases.

On January 1, 2006, the Bank adopted the provisions of Statement of Financial Accounting Standard No. 123R (SFAS No. 123R), "*Share-Based Payment,*" which requires that all share-based payments to employees, including stock options, be recognized as an expense in the income statement based on the grant date fair value of the award with a corresponding increase in common stock. The fair value, as defined in SFAS No. 123R, is amortized over the implied service period, which is generally the vesting period.

As of May 8, 2007, the 2007 Equity Plan was approved by shareholders. The 2007 Equity Plan was subsequently adopted by Bank of Marin Bancorp as part of the holding company formation described in Note 1. Awards under the 2007 Equity Plan now relate to shares of common stock of Bank of Marin Bancorp. All new stock-based compensation awards from the approval date forward are granted through the 2007 Equity Plan.

The 2007 Equity plan provides financial incentives for selected employees, advisors and non-employee directors. Terms of the plan provide for the issuance of up to 500,000 shares of common stock for these employees, advisors and non-employee directors. The Compensation Committee of the Board of Directors has the authority in its discretion to determine those employees, advisors and non-employee directors who will receive an award, the timing of awards, the vesting schedule for each award, the type of award to be granted, the number of shares of Bancorp stock to be subject to each option and restricted stock award, and all other terms and conditions of any award.

The Bank has two additional stock option plans, the 1999 Stock Option Plan and the 1989 Stock Option Plan for full-time, salaried officers and employees who have substantial responsibility for the successful operation of the Bank. Upon approval of the 1999 Stock Option Plan, no new awards were granted under the 1989 Stock Option Plan. Upon approval of the 2007 Equity Plan, no new awards were granted under the 1999 Stock Option Plan.

Terms of the 1999 Stock Option Plan and the 1989 Stock Option Plan provided for the issuance of up to 1,115,629 and 975,189 shares, respectively, of common stock for these officers and employees. Terms of the 1999 Stock Option and the 1989 Stock Option plans also provided for the issuance of up to 190,965 and 192,113 shares, respectively, for non-employee directors.

Stock options granted pursuant to the 1989 and 1999 Stock Option Plans were subsequently adopted by Bank of Marin Bancorp as part of the holding company formation described in Note 1. Stock options under these plans now relate to shares of common stock of Bank of Marin Bancorp.

Options are issued at the fair market value of the stock at the date of grant. Options to officers and employees granted prior to January 1, 2006, vested 20% immediately and 20% on each anniversary of the grant for four years. Options granted subsequent to January 1, 2006, vested 20% on each anniversary of the grant for five years. All officer and employee options expire ten years from the grant date. Options granted to non-employee directors vest 20% immediately and 20% on each anniversary of the grant for four years. Director options expire seven years from the grant date.

A summary of activity for options for the years ended December 31, 2005, December 31, 2006 and December 31, 2007 is presented below. The amounts in 2005 have been restated to reflect the 5% stock dividend declared on April 13, 2006.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Term (in years)
Options outstanding at December 31, 2004	802,179	$ 14.38	---	---
Granted	96,732	32.87	---	---
Cancelled/forfeited	(6,340)	24.89	---	---
Exercised	(115,015)	11.75	$ 2,438	---
Options outstanding at December 31, 2005	777,556	16.99	$ 12,025	5.41
Exercisable (vested) at December 31, 2005	587,390	$ 13.89	$ 10,865	4.47
Options outstanding at December 31, 2005	777,556	$ 16.99	---	---
Granted	79,351	33.30	---	---
Cancelled/forfeited	(49,335)	25.18	---	---
Exercised	(261,307)	12.65	$ 5,340	---
Options outstanding at December 31, 2006	546,265	20.69	$ 11,303	5.44
Exercisable (vested) at December 31, 2006	383,842	$ 16.28	$ 6,249	4.17
Options outstanding at December 31, 2006	546,265	$ 20.69	---	---
Granted	54,551	34.87	---	---
Cancelled/forfeited	(6,345)	30.17	---	---
Exercised	(112,496)	14.40	$ 2,532	---
Options outstanding at December 31, 2007	481,975	23.64	$ 3,593	5.47
Exercisable (vested) at December 31, 2007	327,948	$ 19.12	$ 3,560	4.23

As of December 31, 2007, there was $933 thousand of total unrecognized compensation expense related to non-vested stock options. This cost is expected to be recognized over a weighted average period of approximately 14.4 months.

A summary of the options outstanding and exercisable by price range as of December 31, 2007 is presented in the following table:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding as of 12/31/2007	Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$10.01 - $15.00	159,047	2.5	$ 12.08	159,047	$ 12.08
$15.01 - $20.00	49,708	3.7	$ 16.99	49,708	$ 16.99
$20.01 - $25.00	11,107	5.1	$ 20.48	11,107	$ 20.48
$25.01 - $30.00	56,303	6.3	$ 26.53	43,216	$ 26.46
$30.01 - $35.00	158,002	7.6	$ 33.06	62,886	$ 32.83
$35.01 - $40.00	47,808	9.2	$ 35.20	1,984	$ 35.37
	481,975			327,948	

The following table summarizes share-based compensation expense under SFAS No. 123R for the years ended December 31, 2006 and December 31, 2007.

(in thousands except fair value data)	Year Ended December 31, 2007	Year Ended December 31, 2006
Net income as reported	$ 12,324	$ 11,833
Stock based compensation included in salaries and related benefits	502	555
Tax benefit of share-based compensation included in provision for income taxes	(83)	(80)
Share-based compensation net of tax	$ 419	$ 475
Weighted-average fair value of options granted	$ 7.46	$ 7.93
Weighted-average fair value of options vested	$ 7.61	$ 9.30

Bancorp determines fair value at grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividend yield and the risk-free interest rate over the expected life of the option.

The weighted average assumptions used in the pricing model are noted in the table below. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of the common stock.

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Risk-free interest rate	4.64%	5.06%	4.38%
Expected dividend yield	1.38%	1.37%	1.13%
Expected life in years	7	7	9
Expected price volatility	12.30%	12.53%	22.87%

For options granted prior to January 1, 2006, and valued in accordance with Statement of Financial Accounting Standard No. 123,"*Accounting for Stock-Based Compensation*," (SFAS No. 123), the Bank recognized option forfeitures as they occurred.

For options granted after January 1, 2006, and valued in accordance with SFAS 123R, the fair value of the option is expensed on a straight-line basis over the vesting period. Forfeitures are estimated and expense is recognized only for those shares expected to vest. The estimated forfeiture rate, based on historical forfeiture experience, was 7.5% in 2007.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock based award and stock price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been materially different from that reflected in these financial statements. If the actual forfeiture rate is materially different from the estimate, the share-based compensation expense could be materially different.

Note 11: Benefit Plans

In 2003 the Bank established an Officer Deferred Compensation Plan that allows key executive officers designated by the Board of Directors of the Bank to defer up to 80% of their salary and 100% of their annual bonus. Amounts deferred earn interest at a rate set annually by the Board of Directors. The interest rate was set at 8.25% for 2007, 7.25% for 2006, and 7.25% for 2005. The Bank's deferred compensation obligation of $2.2 million and $1.8 million at December 31, 2007 and 2006, respectively, is included in "interest payable and other liabilities."

The Bank also established a Split Dollar Plan and a Survivor Income Plan in 2003 for officers designated by the Board of Directors. Death benefits are provided under the specific terms of these plans. The Bank has purchased life insurance policies on the designated officers in connection with these plans. The expense recognized under this plan totaled $79 thousand, $67 thousand and $56 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

The Bank's 401(k) Plan commenced in May 1990 and is available to all employees. Under this plan employees can defer up to 50% of their total compensation, up to the maximum amount allowed by the Internal Revenue Code. The Bank will match 50% of each participant's contribution up to a maximum match of $4 thousand annually. Employer contributions totaled $383 thousand, $409 thousand and $338 thousand for the years ended December 31, 2007, 2006 and 2005, respectively.

In 1999 the 401(k) Plan was amended to include an employee stock ownership component and was renamed the Bank of Marin Employee Stock Ownership and Savings Plan (the “Plan”.) Under the terms of the Plan, as amended, a portion of the Bank's profits, as determined by the Board of Directors, is contributed to the Plan each year either in common stock or in cash for the purchase of Bank of Marin Bancorp stock. For the years ended December 31, 2007, 2006 and 2005 the Bank contributed $854 thousand, $900 thousand and $889 thousand, respectively. Generally, cash dividends on Bancorp’s stock held by the Plan are used to purchase additional shares in the open market. All shares of the Bancorp’s stock held by the Plan are included in the calculations of basic and diluted earnings per share.

Contributions to the Plan for both the matching contribution and for the purchase of Bank of Marin stock are included in "salaries and benefits." Employer contributions vest at a rate of 20% per year over a five-year period.

Note 12: Income Taxes

The current and deferred components of the income tax provision for each of the three years ended December 31 are as follows:

(In thousands)	2007	2006	2005
Current tax provision			
Federal	$ 5,993	$ 5,800	$ 6,113
State	1,847	1,514	2,220
Total current	7,840	7,314	8,333
Deferred tax (benefit)/liability			
Federal	(128)	(494)	(769)
State	66	(155)	(190)
Total deferred	(62)	(649)	(959)
Total income tax provision	$ 7,778	$ 6,665	$ 7,374

Income taxes recorded directly to comprehensive income are not included above. These income tax benefits or liabilities relating to changes in the unrealized gains and losses on available for sale securities amounted to $(234) thousand, $128 thousand and $381 thousand in 2007, 2006 and 2005, respectively.

The following table shows the tax effect of the Bank's cumulative temporary differences as of December 31:

(In thousands)	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 3,374	$ 3,557
Depreciation	397	366
State franchise tax	547	541
Deferred compensation	950	797
Net unrealized loss on securities available for sale	194	428
Other	330	145
Deferred tax liabilities:		
Loan origination costs	(190)	(180)
Other	(146)	(26)
Net deferred tax asset	$ 5,456	$ 5,628

Based upon the level of historical taxable income and projections for further taxable income over the periods during which the deferred tax assets expect to be deductible, management believes it is more likely than not the Bank will realize the benefit of the deferred tax assets.

The effective tax rate of the Bank for 2007, 2006 and 2005 differs from the current Federal statutory income tax rate as follows:

	2007	2006	2005
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
California franchise tax, net of federal tax benefit	6.2	6.1	6.9
Stock based compensation	0.8	1.1	---
Tax exempt interest on municipal securities and loans	(1.6)	(1.8)	(1.6)
Prior year tax adjustments	(0.3)	(3.3)	---
Tax exempt earnings on bank owned life insurance	(1.2)	(1.1)	(1.0)
Other permanent differences	(0.2)	(0.1)	(0.7)
Effective Tax Rate	38.7%	35.9%	38.6%

Bancorp files a consolidated return in the U.S. Federal tax jurisdiction and a combined report in the State of California tax jurisdiction. Prior to the formation of Bancorp in 2007, the Bank filed in the U.S. Federal and California jurisdictions on a stand-alone basis. None of the entities are subject to examination by taxing authorities for years before 2004 for U.S. Federal or for years before 2003 for California.

Bancorp adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. No adjustments were identified for unrecognized tax benefits that required an adjustment to the January 1, 2007 beginning tax reserve. Bancorp had no tax reserve for uncertain tax positions at December 31, 2007. Bancorp does not anticipate providing a reserve for uncertain tax positions in the next twelve months. Bancorp has elected to record interest and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007, 2006 and 2005, neither the Bank nor Bancorp had an accrual for interest and penalties associated with uncertain tax positions.

Note 13: Commitments and Contingencies

The Bank rents certain premises and equipment under long-term non-cancelable operating leases expiring at various dates through the year 2022. At December 31, 2007, the approximate minimum future commitments payable under non-cancelable contracts for leased premises are as follows:

(In thousands)	2008	2009	2010	2011	2012	Thereafter	Total
Operating leases	$ 2,175	$ 2,037	$ 1,816	$ 1,383	$ 1,283	$ 11,139	$ 19,833

Rent expense included in "occupancy" totaled $2.3 million, $2.0 million and $1.5 million in 2007, 2006 and 2005, respectively.

Bancorp may be party to legal actions which arise from time to time as part of the normal course of its business. Bancorp believes, after consultation with legal counsel, that it has meritorious defenses in these actions, and that the liability, if any, will not have a material adverse effect on the financial position, results of operations, or cash flows of Bancorp.

Bancorp is responsible for its proportionate share of certain litigation indemnifications provided to Visa U.S.A. by its member banks in connection lawsuits related to anti-trust charges and interchange fees. Bancorp recorded a liability of $242 thousand in the fourth quarter of 2007 to cover its potential liability. Bancorp expects to fully reverse this liability in 2008 upon the initial public offering of Visa Inc., which became the parent company of Visa U.S.A. during a restructuring in 2007. A portion of the proceeds from the initial public offering is expected to be set aside by Visa Inc. to cover this litigation on behalf of its member banks.

As permitted or required under California law and to the maximum extent allowable under that law, Bancorp has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at Bancorp's request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments Bancorp could be required to make under these indemnification obligations is unlimited; however, Bancorp has a director and officer insurance policy that mitigates Bancorp's exposure and enables Bancorp to recover a portion of any future amounts paid. Bancorp believes the estimated fair value of these indemnification obligations is minimal.

Note 14: Fair Value of Financial Instruments

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2007 and 2006 are presented below.

	2007		2006	
(In thousands)	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial assets				
Cash and cash equivalents	$ 76,265	$ 76,265	$ 38,783	$ 38,783
Investment securities	100,171	100,227	89,373	89,338
Loans, net	717,303	718,184	711,755	704,341
Accrued interest receivable	4,085	4,085	4,191	4,191
Financial liabilities				
Deposits	834,642	835,151	736,697	735,969
Federal funds purchased	---	---	29,400	29,400
Federal Home Loan Bank borrowings	---	---	10,000	9,805
Subordinated debenture	5,000	5,000	5,000	5,000
Accrued interest payable	796	796	797	797

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

Cash and Cash Equivalents - Cash and cash equivalents are valued at their carrying amounts because of the short-term nature of these instruments.
Investment Securities - Investment securities are valued at the quoted market prices. See Note 2 for further analysis.
Loans - Loans with variable interest rates are valued at the current carrying value, because these loans are regularly adjusted to market rates. The fair value of fixed rate loans with remaining maturities in excess of one year is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.
Accrued Interest Receivable and Payable - The accrued interest receivable and payable balance approximates its fair value.
Deposits - The fair value of non-interest bearing deposits, interest bearing transaction accounts and savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using current rates offered for deposits of similar remaining maturities.
Federal Funds Purchased - The balance represents its fair value due to the short-term nature of these borrowings.
Federal Home Loan Bank Borrowings - The fair value is estimated by discounting the future cash flows using current rates offered for similar borrowings.
Subordinated Debenture - The balance represent its fair value as it has a variable interest rate.
Commitments - The fair value of commitments represents the carrying amount of the related unamortized loan fees and is not material.

Note 15: Fair Value Measurements

The Bank performs fair-market valuations on certain assets as a result of the application of accounting guidelines that were in effect prior to the adoption of SFAS No. 157. The following table summarizes the Bank's financial instruments that were measured at fair value on a recurring basis at December 31, 2007.

(Dollars in Thousands) Description of Financial Instruments	December 31, 2007	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	$ 86,989	$ 86,989	$ ---	$ ---
Derivative financial instruments (assets)	62	---	62	---
Total assets	$ 87,051	$ 86,989	$ 62	$ ---
Derivative financial instruments (liabilities)	$ 647	$ ---	$ 647	$ ---

Securities available for sale are valued based upon open-market quotes obtained from reputable third-party brokers. Market pricing is based upon specific CUSIP identification for each individual security. Changes in fair market value are recorded in other comprehensive income.

The fair value of derivative financial instruments is based on the present value of future expected cash flows. The variable rates and discount rates are derived from LIBOR cash and swap rates. LIBOR, rather than risk free rates, are used to adjust for the inherent credit risk associated with high quality counterparties. The fair value of derivative financial instruments is provided by a third party. Changes in fair market value are recorded in other non-interest income for fair value hedges using short-cut hedge accounting treatment and are recorded in interest income for fair value hedges not qualifying for short-cut hedge accounting treatment.

Effective January 1, 2007, the Bank adopted SFAS No. 157, "*Fair Value Measurements*," concurrent with its early adoption of SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*." SFAS No. 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements. SFAS No. 157 generally permits the measurement of selected eligible financial instruments at fair value on specified election dates.

In conjunction with the Bank's decision to sell its indirect auto portfolio, on January 1, 2007 the Bank elected the fair value measurement option for its indirect auto loan portfolio under the early adoption provisions of SFAS No. 159. The sale of the indirect auto portfolio was concluded on June 5, 2007. The following table presents a computation of the net change to retained earnings at the initial adoption of SFAS No. 159 for the Bank's indirect auto loan portfolio.

(Dollars in thousands)	January 1, 2007 Prior to Adoption	Net Gain (Loss) Upon Adoption	January 1, 2007 After Adoption
Assets			
Auto loans, net	$ 83,327	$ (2,499) (a)	$ 80,828
Pre-tax cumulative effect of adoption of the fair value option		(2,499)	
Increase in deferred tax asset		1,047	
Cumulative effect of adoption of the fair value option (charge to retained earnings)		$ (1,452)	

(a) The $2.5 million loss on loans that was recorded as part of the cummulative-effect adjustment to retained earnings upon initial adoption of SFAS No. 159 is net of $1.0 million that was removed from the allowance for loan losses.

Note 16: Regulatory Matters

Bancorp and the Bank are 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 material effect on Bancorp's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bancorp and the Bank must meet specific capital guidelines that involve quantitative measures of Bancorp's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and the Bank's prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies such as Bancorp.

Quantitative measures established by regulation to ensure capital adequacy require Bancorp and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk weighted assets and of Tier 1 capital to quarterly average assets.

Bancorp's and the Bank's capital adequacy ratios are presented in the following tables. Capital ratios are reviewed by Management on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Bank's anticipated future needs. For all periods presented, the Bank's ratios exceed the regulatory definition of "well capitalized" under the regulatory framework for prompt corrective action and Bancorp's ratios exceed the required minimum ratios for capital adequacy purposes.

Capital Ratios for the Bancorp: (In thousands)	Actual Ratio		Ratio for Capital Adequacy Purposes	
As of December 31, 2007	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets)	$ 101,066	12.06%	≥$67,015	≥8.0%
Tier 1 Capital (to risk-weighted assets)	$ 88,041	10.51%	≥$33,508	≥4.0%
Tier 1 Capital (to average assets)	$ 88,041	9.63%	≥$36,588	≥4.0%

Capital Ratios for the Bank: (In thousands)	Actual Ratio		Ratio for Capital Adequacy Purposes		Ratio to be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2007	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets)	$ 97,179	11.61%	≥$66,983	≥8.0%	≥$83,729	≥10.0%
Tier 1 Capital (to risk-weighted assets)	$ 84,155	10.05%	≥$33,491	≥4.0%	≥$50,237	≥6.0%
Tier 1 Capital (to average assets)	$ 84,155	9.20%	≥$36,587	≥4.0%	≥$45,734	≥5.0%
As of December 31, 2006						
Total Capital (to risk-weighted assets)	$ 103,576	12.56%	≥$65,969	≥8.0%	≥$82,461	≥10.0%
Tier 1 Capital (to risk-weighted assets)	$ 90,115	10.93%	≥$32,984	≥4.0%	≥$49,477	≥6.0%
Tier 1 Capital (to average assets)	$ 90,115	10.27%	≥$35,113	≥4.0%	≥$43,892	≥5.0%

Note 17: Financial Instruments with Off-Balance Sheet Risk

The Bank makes commitments to extend credit in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. 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 amount does not necessarily represent future cash requirements.

The Bank is exposed to credit loss in the contract amount of the commitment in the event of nonperformance by the borrower. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and real property.

The contract amount of loan commitments not reflected on the statement of condition was $224.5 million at December 31, 2007 at rates ranging from 5.78% to 11.25%. This amount included $118.4 million under commercial lines of credit (these commitments are contingent upon customers maintaining specific credit standards), $59.6 million under revolving home equity lines and $35.2 million under undisbursed construction loans. The Bank has set aside an allowance for losses in the amount of $449 thousand for these commitments, which is recorded in "interest payable and other liabilities." Approximately 42% of the commitments expire in 2008 with approximately 58% expiring between 2009 and 2019.

Note 18: Derivative Financial Instruments and Hedging Activities

The Bank has entered into interest-rate swaps, primarily as an asset/liability management strategy, in order to hedge the change in the fair value of both long-term fixed-rate loans and firm commitments to enter into long-term fixed-rate loans due to changes in interest rates. Such hedges allow the Bank to offer long-term fixed rate loans to customers without assuming the interest rate risk of a long-term asset by swapping the Bank's fixed-rate interest stream for a floating-rate interest stream tied to one-month LIBOR. Such modification of the interest characteristics of the loan protects the Bank against an adverse effect on earnings and the net interest margin due to fluctuating interest rates.

During the third quarter of 2007, the Bank’s forward swap was designated to offset the change in fair value of a loan originated during the period. The fair value of the related yield maintenance agreement totaling $69 thousand at the date of designation is being amortized to interest income using the effective yield method over the life of the loan.

The two interest rate swaps held by the Bank are scheduled to mature in June of 2020 and June of 2022. Information on the Bank's derivatives follows:

(in thousands)	At December 31, 2007 Fair Value Swap (Shortcut Accounting Treatment)	At December 31, 2007 Fair Value Swap (Non-shortcut Accounting Treatment)	At December 31, 2007 Yield Maintenance Agreement	At December 31, 2006 Fair Value Swap (Shortcut Accounting Treatment)	At December 31, 2006 Fair Value Swap (Non-shortcut Accounting Treatment)
Notional or contractual amount	$ 7,201	$ 8,134	---	$ 7,513	$ 8,300
Credit risk amount (1)	---	---	---	220	---
Estimated net fair value	(44)	(603)	62	220	(295)

	Year Ended December 31, 2007	Year Ended December 31, 2006
Fair Value Swap (Shortcut Accounting Treatment):		
Weighted average pay rate	4.59%	4.59%
Weighted average receive rate	5.28%	5.06%
Fair Value Swap (Non-Shortcut Accounting Treatment):		
Weighted average pay rate	5.54%	5.54%
Weighted average receive rate	5.24%	5.06%
Yield maintenance agreement		
Weighted average receive rate (2)	5.15%	5.15%
(Loss) gain on designated and undesignated interest rate contracts	$ (572)	$ (198)
Increase (decrease) in value of designated loans and yield maintenance agreement qualifying as derivatives	551	198
Net loss on derivatives used to hedge loans recorded in income	$ (21)	$ -

1 Credit risk represents the amount of unrealized gain included in derivative assets which is subject to counterparty credit risk. It reflects the effect of master netting agreements and includes credit risk on virtual derivatives.

2 Tax equivalent yield equals 8.26%.

Ineffectiveness of ($21) thousand and zero was recorded in interest income during the twelve months ended December 31, 2007 and 2006, respectively. The full change in value of swaps was included in the assessment of hedge effectiveness.

Note 19: Condensed Bank of Marin Bancorp Unconsolidated Financial Statements

Presented below is financial information for Bank of Marin Bancorp, holding company only, subsequent to its formation on July 1, 2007. See Note 1.

CONDENSED UNCONSOLIDATED STATEMENT OF CONDITION
at December 31, 2007

(in thousands)		
Assets		
Cash and due from Bank of Marin	$	3,751
Investment in subsidiary		83,887
Other assets		179
Total assets	$	87,817
Liabilities and Stockholders' Equity		
Accrued expenses payable	$	43
Total liabilities		43
Stockholders' equity		87,774
Total liabilities and stockholders' equity	$	87,817

CONDENSED UNCONSOLIDATED STATEMENT OF OPERATIONS
for the six months ended December 31, 2007

(in thousands)		
Income		
Dividends from bank subsidiary	$	7,000
Total income		7,000
Expense		
Non-interest expense		371
Total expense		371
Income before income taxes and equity in undistributed net income of subsidiary		6,629
Income tax benefit		156
Income before equity in undistributed net income of subsidiary		6,785
Equity in undistributed net income of subsidiary		(338)
Net income	$	6,447

CONDENSED UNCONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended December 31, 2007

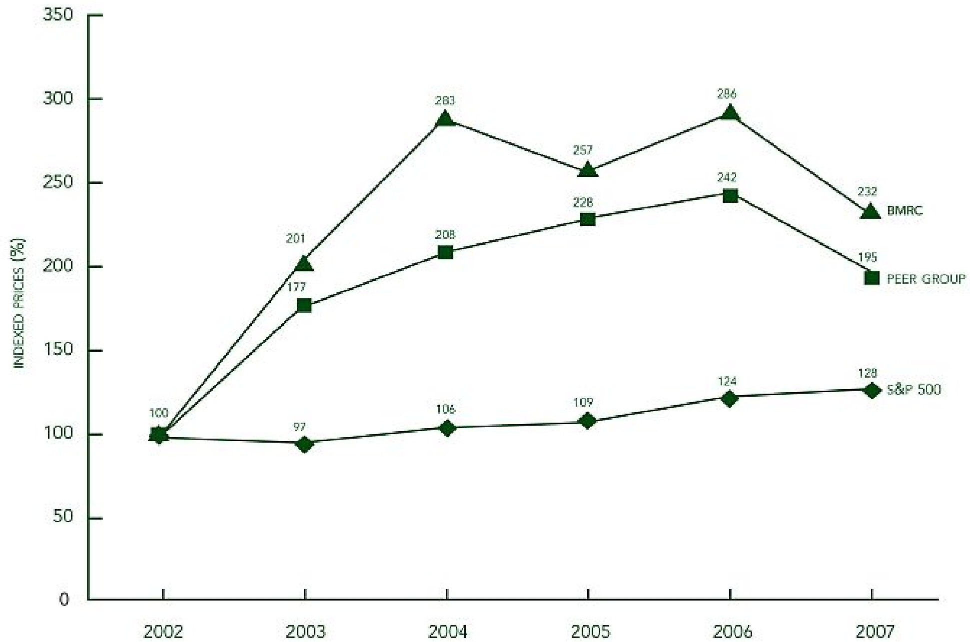
(in thousands)		
Cash Flows from Operating Activities:		
Net income	$	6,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed and distributed net income of subsidiary		(6,662)
Net change in operating assets and liabilities		
Other assets		(179)
Other liabilities		43
Net cash used in operating activities		(351)
Cash Flows from Investing Activities:		
Capital contribution to subsidiary		(61)
Net cash used in investing activities		(61)
Cash Flows from Financing Activities:		
Stock options exercised		61
Dividends paid in cash		(1,345)
Dividends received from subsidiary		7,000
Stock repurchased		(1,553)
Net cash provided by financing activities		4,163
Net increase in cash and cash equivalents		3,751
Cash and cash equivalents at beginning of period		---
Cash and cash equivalents at end of period	$	3,751

Non-Cash Transactions: Upon formation of the holding company on July 1, 2007, Bank of Marin Bancorp exchanged one share of common stock for each share of common stock of the Bank of Marin. The investment in subsidiary account was created to reflect the total capital of the Bank of $84.2 million at that date, comprised of $53.0 million of common stock, $31.9 million of retained earnings, and $762 thousand of other comprehensive loss.

End of 2007 Audited Consolidated Financial Statements

Stock Price Performance

The following graph, provided by Keefe, Bruyette, & Woods, Inc., shows a comparison of cumulative total shareholder return on ticker symbol BMRC common stock during the five fiscal years ended December 31, 2007 compared to Standard & Poors (S&P) 500 stock index and a peer group index of other financial institutions. The comparison assumes $100 was invested on December 31, 2002 in BMRC common stock and all of the dividends were reinvested. The chart indicates that BMRC common stock outperformed both the S&P 500 stock index and its peer group index. Ticker symbol BMRC represents the common stock of Bank of Marin Bancorp subsequent to its formation on July 1, 2007 and represents the common stock of Bank of Marin for periods prior to the formation of the bank holding company. The sole subsidiary of Bank of Marin Bancorp is Bank of Marin.



	2002	2003	2004	2005	2006	2007
BMRC	100	201	283	257	286	232
PEER GROUP	100	177	208	228	242	195
S&P 500 INDEX	100	97	106	109	124	128

BMRC Peer Group includes: AMRB, FNRN, SBNK, EXSR, EPIK, BSRR, RBCB.
Source: FactSet

EXHIBIT 14.01

Code of Ethical Conduct

Table of Contents

Introduction

This Code of Ethical Conduct applies to all employees, officers and directors (“employee”) of Bank of Marin (the "Bank").

This Code of Ethical Conduct describes some of your responsibilities as an employee. It recognizes that personal conduct directly and indirectly reflects upon the reputation and successful business operation of the Bank.

The following policies and guidelines are set forth to assist you in determining what is appropriate personal and professional conduct. The Code of Ethical Conduct does not encompass all of our expectations; you should also familiarize yourself with the Employee Handbook and other policies and procedures that are applicable to you. In general, the use of good judgment, coupled with high ethical standards, is your best guide. If you have any questions regarding this Code or the appropriateness of any action or arrangement, you should seek the advice of your department manager.

The policies, rules, standards and guidelines contained in this Code of Ethical Conduct do not establish enforceable employee rights, contractual or otherwise, and do not establish an employment relationship enforceable by employees. They are not promises to employees and they are subject to change at any time without notice. Employees continue to be employed at will; the at will employment relationship shall continue unless changed in writing by the President of the Bank.

Personal Conduct

1. Trustworthiness/Personal Behavior and Appearance. You should always be mindful of the Bank's position and reputation in the community. Since the success of any banking operation depends on the public's trust, it is extremely important that you conduct your personal affairs in such a way as to avoid discredit or embarrassment to either yourself or the Bank. Your personal behavior and appearance should, likewise, be governed by both common sense and good taste. Employees are expected to provide complete and truthful information in dealing with Bank management.

2. Discrimination and Harassment. Discriminatory or harassing behavior may not only be illegal, but also precludes good customer, vendor and employee relations, all of which are essential to the success of the Bank. Therefore, the Bank's policy prohibits discriminatory conduct or harassment with respect to Bank customers, vendors, employees or the general public, based on race, color, creed, religion, gender, marital status, age, national origin or ancestry, physical or mental disability, medical condition including genetic characteristics, sexual orientation, veteran status, or any other consideration made unlawful by federal, state or local laws while conducting business for or representing the Bank in any manner.

Harassment includes but is not limited to: making unsolicited or unwelcome written, verbal, physical and/or visual contact with sexual overtones; making reprisals or threats of reprisals or implied threats of reprisal following a negative response to a personal invitation you issued to another employee; engaging in implicit or explicit coercive sexual behavior to control, influence or affect the career, salary and/or work environment of another employee; or offering favors or employment benefits in exchange for sexual favors.

3. Drugs and Alcohol. You may not use, possess or sell alcohol or drugs on Bank property, nor work under the influence of such substances.

4. Weapons. You may not bring a weapon of any kind onto Bank property, including any property where a Bank function is taking place. You may not use or threaten to use a weapon or physical violence against any employee, vendor or customer of the Bank.

Conflict of Interest

You must avoid situations and transactions which creates, or appear to create, a conflict of interest. A conflict of interest occurs when you engage in a personal activity or have a personal interest that conflicts with your duty to the Bank or adversely affects your judgment in the performance of work responsibilities, or when you use your position with the Bank or use the Bank's confidential information to benefit yourself rather than the Bank. The Bank strictly prohibits its employees from taking any action or entering into any relationship that creates, or even appears to create, a conflict of interest without the prior approval of a supervisor. The Bank's President, Chief Executive Officer, Chief Financial Officer, or Accounting Manager, must receive approval of the Board of Directors or a committee of the Board of Directors prior to taking any action or entering into any relationship that creates, or even appears to create, a conflict of interest. For purposes of determining whether a conflict exists, the actions of an employee's immediate family members are treated as those of the employee and are therefore subject to the same considerations.

Conflicts can arise due to either personal or business relationships with customers, suppliers, business associates or competitors of the Bank. For example, you should:

1. Not be a signer on any account over which you exercise control as a Bank employee.

2. Not be a signer on any customer's account, act as a co-tenant of a safe deposit box, or otherwise represent another customer in dealings with the Bank, excluding accounts or boxes where the other customer is related to you by blood or marriage.

3. Not enter into any business relationship (e.g., partnerships, joint ventures, syndicates) with present or prospective customers or suppliers.

4. Unless prior approval of the Chief Credit Officer is obtained, not extend credit to: (a) any customers, if the proceeds are to be given or loaned to you or used to pay a debt owed by you, or to benefit you, a family member or a close relative; (b) any customers, if the loan, in whole or in part, will enable them to purchase real or personal property from you, a family member or a close relative; (c) any company in which you have an interest as a director, officer, controlling person or partner, or in which a family member or close relative has such an interest; or (d) customers or vendors of the Bank by way of loaning your own funds or personal credit by a guarantee or similar means.

5. Not make a loan to any public bank examiner who examines or has the authority to examine the Bank.

It is important to recognize that the appearance of a conflict may be just as damaging to the Bank's reputation as a real conflict.

When faced with a situation involving a potential or actual conflict of interest you should immediately notify your department manager and the Human Resources Director in writing.

Self-Dealing/Handling Personal Transactions/Loans

You must not represent the Bank in any transaction with a person or organization in which you or any of your family, relatives or close personal friends have a direct or indirect interest or from which any of you may derive a benefit.

You may not open accounts or receive incentive pay for transactions involving family members or relatives.

You may not handle a loan application or participate in any credit decision (including overdrafts) for yourself, or for any of your family members, relatives, close personal friends, or entities controlled by family members, relatives or close personal friends; instead you must refer the borrower to another loan officer in an equal or higher position to make, check on the progress of and/or handle the loan.

Employees are not allowed to process their own banking transactions, nor those of their family members or relatives, even if the employee has the other party's authorization; such transactions must be referred to another employee or your manager to process.
Transactions that involve fee waivers, non-sufficient funds, overdraft fee reversals, overdrafts or similar matters for your accounts, or for those of family members, relatives or close personal friends, must be referred to your supervisor for processing and approval (even if you would otherwise be authorized to process the transaction or make such a decision). You may not make decisions, approve transactions, or influence others to approve transactions on such accounts.

If you are asked to process a transaction for another employee, be careful to ensure the transaction is appropriate and within your authority.

You must not accept business opportunities from persons doing business or seeking to do business with the Bank if such opportunities are made available to you because of your position with the Bank.

You must never use your position with the Bank to influence public officials or others for your personal benefit. Likewise, your Bank employment should not be used as leverage to gain favors from customers or suppliers.

Gifts/The Bank Bribery Act

Neither you nor members of your immediate family shall solicit or accept for yourselves or third parties (other than the Bank) any gift, offer of travel, unusual hospitality or other thing of value (other than your salary, commissions or bonus from the Bank) from any person or entity which either appears to be or is in connection with any business, service, confidential information or transaction of the Bank, either before or after a transaction is discussed or consummated. Criminal penalties may be imposed for violating this prohibition.

The foregoing is not intended to preclude the receipt of unsolicited non-cash gifts of nominal value or customer hospitality from persons or entities doing business with the Bank, when it is clear from the circumstances that no attempt is being made to influence you. A gift of nominal value is defined as being $100 or less during any twelve month period.

Possible exceptions to the general prohibition regarding the acceptance of things of value may include:

1. Acceptance of gifts, gratuities, amenities or favors based on family relationships (e.g., from a parent, child or spouse of a Bank employee) where the circumstances make it clear that it is those relationships, rather than the business of the Bank, which are the motivating factors.

2. Acceptance of meals, refreshments, travel arrangements, accommodations, or entertainment, all of reasonable value and in the regular course of a meeting or other occasion, the purpose of which is to hold bona fide business discussions, provided the expenses would be paid for by the Bank as a reasonable business expense, if not paid for by another party.

3. Acceptance of loans from other banks or financial institutions on customary terms to finance proper and usual activities, such as home mortgage loans, except where prohibited by law.

4. Acceptance of civic, charitable, educational or religious organization awards for recognition of service in an amount of $100 or less during any twelve month period.

5. Acceptance of advertising or promotional material of nominal value, such as pens, pencils, note pads, key chains, calendars and similar items.

6. Acceptance of discounts or rebates on merchandise or services that are offered by a third party to the general public.

If you are offered or anticipate receiving a gift or other thing of value, which is not permitted under the above guidelines, you must report it immediately in writing to your department manager and the Human Resources Director.

If you are uncertain as to the propriety of a gift, you must seek the written approval of your department manager before accepting it. Your request should be in writing and should state all relevant facts. You must send a copy of the request and the approval to the Human Resources Director.

Bequests or Legacies

You and your immediate family must not accept bequests or legacies from customers of the Bank (other than a family member, relative or close personal friend, or a person who has never dealt with you as a representative of the Bank) under a will or trust without the advance written consent of your department manager. If you find that you are named as a beneficiary in a will or trust not involving a family member, relative or close personal relationship, or you first learn of the fact after the death of a grantor who was a customer, you should immediately notify your department manager.

Fiduciary (Trust) Appointments

You may not accept any appointment as an executor, administrator, guardian, trustee or any similar fiduciary capacity without the prior written approval of your department manager. Notice of such appointment shall be sent to the Human Resources Department. This does not, however, apply to appointments made by family members, relatives or close personal friends, provided the duties required will not interfere with the proper performance of your duties to the Bank.

Personal Financial Responsibility

Bank employees are expected to demonstrate an ability to manage personal finances properly, particularly the intelligent use of credit. Imprudent personal financial management can affect job performance and reflects poorly on your ability to perform responsibilities of a financial nature.

Acting as an accommodation co-signer or guarantor for others can be a risky practice and often results in the accommodation co-signer or guarantor having to pay the obligation. As such, you should not assume co-signer or guarantor responsibilities unless you are in a position to pay the entire obligation upon demand.

Employee Borrowings

You may not borrow money from customers, vendors or suppliers (including personal friends) of the Bank, unless the lender is a recognized lending institution. The term "borrow" does not include a loan from a family member or purchase from a customer or supplier resulting in an extension of credit in the normal course of business.

Federal law imposes certain restrictions on loans by the Bank to its executive officers, directors, principal shareholders and their related interests. Questions regarding such loans should be directed to the Chief Credit Officer.

Personal Investments

Bank employees, by the very nature of their positions, must be particularly circumspect regarding investments which may appear improper to customers, supervisory authorities or the public. You should consult with the Human Resources Director if you have or are considering any investments of questionable propriety.

You should avoid entering into transactions where it may appear that you are benefiting improperly from your relationship with the Bank or violating your fiduciary responsibilities. This applies to investments by members of your immediate family, as well.

While a complete list of such matters cannot be given, you must refrain from directly or indirectly owning or purchasing any of the following:

1. Real or personal property in which the Bank has or intends to obtain an ownership interest (e.g., through purchase, foreclosure or repossession, or in a fiduciary capacity). This does not include any sale of the Bank's valet automobiles or surplus personal property offered through a third party to the general public, as long as the sale is in accordance with the Bank's established policies. Note: Although employees may purchase such property if it is offered through a third party to the general public, it is against Bank policy for executive officers (as defined by Regulation "O") to do so.

2. Stocks, bonds or other securities (a) pledged to the Bank as collateral, (b) sold by the Bank in a fiduciary capacity, or (c) issued by any entity indebted to the Bank, except for securities, which are publicly traded.

3. Stock of any business or financial institution in anticipation of its merger with or acquisition by the Bank. Investment in stock of any financial institution, even though made in good faith and without prior inside knowledge, should be given careful consideration because of the possible adverse publicity to the Bank in the event of a subsequent merger with, or acquisition by the Bank.

4. Trust deeds, mortgages or chattel mortgages that are a lien against property in which the Bank has a security interest.

5. An interest in any company which is a customer, vendor or supplier of the Bank. This limitation does not apply to the ownership or purchase of less than 5 percent of the outstanding stock of any company whose securities are listed on a national securities exchange or quoted on the NASDAQ automated quotation system.

6. An interest in a company for which you are the account officer or in which you have access to information which is not generally available to the public.

7. If you deal with securities firms in purchasing or selling securities for the Bank or its customers, you may not accept preferential treatment from those firms in your personal dealings with them. Any appearance of a conflict of interest must scrupulously be avoided.

Securities Trading and Investment Guidelines

The reputation of the Bank is dependent upon its employees maintaining the highest standards of ethical conduct. The Bank restricts transactions involving its securities, as well as securities of others where conflicts of interest could arise. The restrictions on trading stated below are not exclusive. If you are subject to more stringent restrictions you must comply with them.

A. Prohibited Use of Inside Information

All decisions to purchase or sell securities must entirely be based upon information which is available to the public. Anyone in possession of "material nonpublic information," also known as "inside information," must not trade in or recommend the purchase or sale of the securities involved until the information has been made available to the public. "Inside information" includes any information, written or oral, which is not generally available to the public and due to its nature might affect the value of the corporation's securities. Information, which has been disclosed to the public for at least three business days is generally not considered to be "inside information."

You may not divulge "inside information" regarding the Bank or any other entity which has come into your possession as part of or through any business relationship or transaction between the Bank and such entity. Not only are you prohibited from buying or selling securities based upon "inside information," the law also imposes "tipper" liability upon anyone who discloses (for other than a legitimate corporate purpose) confidential information to an outsider who either uses that information to cause changes to an investment portfolio or passes the information along to someone else who effects such a change.

Examples of prohibited activity include, but are not limited to the following:

1. Disclosure of "inside information" to anyone for their own personal use.

2. Buying, selling or doing any transactions through your own accounts, relative-related accounts or accounts over which you exercise control, investment discretion or other similar power on the basis of "inside information."

3. Generating transactions or making investment decisions for the benefit of the Bank or any of its customers on the basis of "inside information."

4. Communicating "inside information" to anyone outside or within the Bank except for a legitimate corporate purpose.

5. Soliciting or accepting disclosure of "inside information" from fellow employees or soliciting or accepting access to files which contain "inside information" except where there is a legitimate corporate purpose.

If you receive a request for "material nonpublic information" from any outside source or Bank employee which is not relevant to the performance of that employee's duties, immediately report the request to the Bank Security Officer or, in the case of an employee request, the Human Resources Director.

Any use or disclosure of "inside information" by you may subject you, the Bank, and any person to whom the "inside information" is communicated, to severe liabilities, both criminal and civil, under both state and federal law. It also could result in the immediate termination of your employment by the Bank.

B. Transactions Involving Securities Issued by a Customer

You may not effect any transaction in securities issued by a customer if you are in possession of any "material nonpublic information" concerning the customer.

No loan account officer or Chief Credit Officer may effect any trades or investments involving the securities of their customers or any customer about which confidential information is readily available.

If you have direct or indirect responsibility or access to a customer's file during the ordinary course of business, and, as a result, have potential access to confidential information, you should not make an investment in securities issued by such customer.

Examples of customer information which may be considered material include, but are not limited to, the following:

1. Impending acquisition or divestiture;

2. Undeclared insolvency or liquidity problems;

3. Inability to repay a debt when due, defaults under agreements, or actions by creditors, customers or suppliers relating to a company's credit standing;

4. Debt restructurings or extraordinary borrowings;

5. New invention or discovery;

6. Major contract award;

7. Failure to obtain a major contract;

8. Pending litigation or governmental proceeding;

9. Major purchase or sale;

10. Pending tender offer or merger;

11. Increase or decrease in dividend payments;

12. Advance earnings report;

13. Financial projections and financial statements; and

14. Securities offerings.

C. Transactions Involving Securities Issued by a Supplier

You are prohibited from trading in securities of any supplier with whom the Bank is negotiating if you are directly involved in or have "inside information" concerning such negotiations.

D. Transactions Involving Securities of Parties to a Potential or Actual Takeover

You are prohibited from trading in securities of any target or acquirer involved in a potential or actual takeover if you are directly involved in or have nonpublic information concerning the takeover.

E. Transactions Involving Securities Issued by the Bank

You may not invest or trade in the Bank's securities while in possession of "material nonpublic information" concerning the Bank (or an affiliate).

Examples of information which might be deemed material include:

1. Advance earnings report or proposed changes in predicted earnings;

2. Large or unusual write-offs, write-downs, profits or losses;

3. Substantial non-performing loans;

4. Substantial embezzlements or other situations, the notoriety of which could affect the market price of the Bank's securities when made public;

5. A proposal to issue or redeem securities, including new equity or debt offerings;

6. Planned stock splits or dividends;

7. Developments regarding senior management;

8. Widespread management reorganization;

9. Increase or decrease in dividend payments;

10. Securities offerings;

11. Major new products; and

12. Pending litigation or government proceedings.

This list is not all inclusive. If you have any questions concerning the propriety of trading at a particular time due to possession of sensitive, nonpublic information, the materiality of which is not clear, contact the Corporate Secrectary or the Human Resources Director.

The safest time to effect trades or investments in the Bank's securities is generally during the third to twelfth business day period following the public dissemination of any material corporate disclosure (e.g., press releases, quarterly reports, the forms10-K or 10-Q, the Annual Report, or an 8-K), provided you are not in possession of any additional material information not contained in such materials or otherwise available to the public.

In addition to not trading on the basis of "inside information," speculative trading, including short sales (a purchase and sale within 6 months) and trading in puts, calls and other options, with respect to the Bank's securities, is prohibited.

Confidential Information

During the course of your work, you may hear or have access to confidential information about the Bank or about present and prospective customers, suppliers, shareholders and other staff members. Such information must be held in the strictest of confidence and it is to be used solely for corporate purposes and never for personal gain. Under no circumstances should such information be transmitted to persons outside the Bank, including your family or associates, or to other employees of the Bank unless they have a need to know such information to discharge their duties. In general, the only exceptions to this policy would be routine credit inquiries, information released in the normal course of business (e.g., for the negotiation of checks), disclosures required by law or regulation, legal process and information authorized for release by customers.

If you are authorized to reveal confidential information to another, you must specifically designate such information as confidential. For example, if you provide material nonpublic information to accountants or other consultants who have been retained to assist in an acquisition, you must make it clear such information is confidential in order to avoid "tipper" liability under the securities laws. Before revealing confidential information to outsiders, you should ascertain whether outside law firms, rating services, investment banks, accountants and other outside consultants to whom confidential information may be given have confidential or "inside information" compliance procedures in place to guard against any misuse of such information by members of such firms.

You must keep all files, records, or inquiries regarding customers and employees and other records that contain confidential information in a secure place. Do not leave documents of a confidential nature lying on your desk or work area when you are not using them.

If particularly sensitive information is involved, additional precautions should be taken. If possible, avoid using file names which might disclose confidential information. Confidential files and word processing disks or tapes should be kept in a locked cabinet or other secure place.

When transporting confidential documents, keep them in sealed envelopes or folders marked as "confidential." Any envelopes or folders marked as "confidential" or "personal" should only be opened by the addressee.

If you find it necessary to carry sensitive information off premises, due care should be taken to protect its security. Care also should be taken not to discuss any matter of a confidential nature on cellular or digital phones, on car phones, on elevators or other public conveyances, in restrooms, restaurants or other public places where the conversation might be overheard. You must be sensitive to whether information is confidential when using E-mail, voicemail or facsimile machines, or the Internet.

You must keep all identification and access codes, security equipment, security programs and security procedures confidential.

You must not disclose confidential information, whether it is in a written form or in your memory, even after you leave your employment or position with the Bank.

You must comply with all other Bank policies and procedures relating to confidentiality, including those that have been adopted for your line of business or department.

Protecting Bank Information

All Bank information must be protected against unauthorized access, modification, destruction, disclosure or release to unauthorized parties. Employees must follow applicable policies and procedures and safeguard information in whatever form it exists (e.g., electronic or hard copy). Deliberate or willful violations of existing policies for protecting Bank information or negligent failure to protect Bank information properly may result in disciplinary action, including termination.

Books and Records, Accounting Controls and Disclosures

The Bank requires that all its books and records be maintained accurately and with honesty. This requires that no fund, asset, liability, revenue or expense be concealed or incompletely recorded for any purpose. All entries must be supported by documentation adequate to permit the books and records to be verified by audit. Proper accounting requires not only careful compliance by the Bank's accountants, but also the cooperation of all employees who are involved in keeping financial records of any type.

Use of the Bank's Name

Good judgment should be exercised at all times to avoid the use of the Bank's name or its logo in any manner which may imply the Bank's endorsement of any outside activity or product. Requests for Bank endorsement and/or use of the Bank name/logo require approval from the Marketing Department.

Suspicious Activity Reports

It is unlawful to disclose to a customer or other person who is the subject of a suspicious activity report the contents or existence of a Suspicious Activity Report. You may, however, discuss a SAR with other Bank employees who have a need to know, Bank's counsel and law enforcement officials, as appropriate.

Bank Examination Reports

Periodically, various regulatory agencies examine the Bank. The reports generated as a result of the examination usually remain the property of the issuing agency and are considered strictly confidential. Employees are prohibited from disclosing any information contained in or related to such examination reports. These prohibitions may extend to subpoenas. If a subpoena requests such information, consult with the Bank's Chief Financial Officer.

Disclosure of Corporate News and Information

Financial information about the Bank is not to be released to anyone unless it is included in a published report or otherwise made generally available to the public. Any questions concerning the disclosure of confidential information should be referred to the Chief Financial Officer.

All media inquiries regarding the Bank should be referred to the Chief Executive Officer or the Chief Financial Officer. The following subjects are never to be discussed with the media or in any other public forum:

1. Confidential business matters which could be of interest to competitors.

2. Information about a customer and the customer's dealings with the Bank.

Information Regarding Past and Present Employees or Directors

The policy of the Bank is to safeguard the confidential aspects of its relationship with its employees and directors; to satisfy all requirements of applicable labor laws; and to maintain uniformity in replies to inquiries concerning past and present employees. In order to assure that this policy is consistently maintained, any request for information regarding past or present employees or directors must be referred to the Human Resources Department. This includes inquiries relating to employment, salary verification and performance evaluation.

The above procedures apply to all requests, whether written or oral, regarding Bank employment. They do not apply, however, to routine credit inquiries from legitimate businesses regarding deposit or loan information or to those instances in which the Bank appears to be a victim of a crime or for other legitimate business reasons. Credit inquiries may be answered in the normal course of business by the banking office where the employee's accounts or loans are carried.

Fidelity Coverage

Every employee must be covered by the Bank's fidelity bond. The Bank will not continue to employ anyone who ceases to be eligible for coverage.

Obeying Laws and Regulations

The Bank and its employees may be subject to penalties if they violate any laws or regulations. It is therefore important that you be familiar with the laws and regulations governing the line of business in which you work and that you be careful to ensure that you fully comply with them. Compliance with laws and regulations is every employee's responsibility. Employees who commit illegal acts could be subject to disciplinary action which may include termination.

You must report all instances of known or suspected illegal activities or other suspicious activities on the part of any employee, agent, customer or potential customer of the Bank. If you are uncertain as to the propriety of an individual's actions, call the Security and/or Compliance Officers to obtain clarification. You must promptly notify the Security and/or Compliance Officers if you believe an employee, agency, customer or potential customer has committed or tried to commit an illegal act or if you discover any circumstances which suggest that a crime has been committed. Failure to report suspected illegal activities properly may subject you to disciplinary action, including, if appropriate, termination. The Bank is required by law to report violations or suspected violations of criminal laws to federal and/or state law enforcement agencies. As noted above, it is a crime to disclose the contents or existence of a suspicious activity report to anyone other than Bank employees or the Bank’s legal counsel to the extent that such persons are involved in preparing or submitting the report.

Dishonest and fraudulent acts by Bank employees are crimes under federal and state law, and may be punishable by fines and/or imprisonment. Examples of activities prohibited by law include:

1. Accepting anything of value (except an employee's salary or other compensation paid or sanctioned by the Bank) in connection with Bank business (See "Gifts/the Bank Bribery Act" page 6);

2. Willfully making any false or untrue entry or willful omission in any book or record of the Bank;

3. Stealing, embezzling or misapplying corporate funds or assets;

4. Willfully making any statement or rumor which is derogatory and untrue regarding the financial condition of any bank doing business in California.

5. Intentionally failing to make Currency Transaction Reports or other reports required under the Bank Secrecy Act (collectively referred to as "CTRs"), or assisting in the structuring of a transaction to avoid the filing of a CTR, as required by law;

6. Using threats, physical force or other unauthorized means to collect money;

7. Issuing unauthorized obligations (such as certificates of deposit, notes or mortgages);

8. Certifying a check drawn on an account with insufficient funds;

9. Unless specifically permitted by law, making a loan or giving a gift to a regulator who has the authority to examine any Bank affiliate;

10. Using a computer to gain unauthorized access to the records of a customer.

11. Concealing or misapplying any of the Bank's assets; and

12. Loaning funds to, or depositing funds with third parties with the understanding, express or implied, that the party receiving such funds will make a loan or pay any consideration to you.

Dealing with Auditors, Examiners and Legal Counsel

All employees, officers and directors are required to respond honestly and with candor when dealing with the Bank's independent and internal auditors, regulators and attorneys.

Money Laundering Activities/the Bank Secrecy Act/OFAC

Both federal and state law prohibit the laundering of money or aiding and abetting the laundering or attempted laundering of money or avoidance of any Bank Secrecy Act reporting requirement.

Money is laundered to hide the criminal activity associated with it, including the crimes by which it is generated, e.g., drug trafficking, tax avoidance, counterfeiting, etc. Employees need to "know their customer," and be alert to the dangers to the Bank should it, even unwittingly, become involved in receiving or laundering proceeds of crimes.

Financial institutions and their affiliates are required to report any known or suspected laundering of money or the structuring of transactions to avoid Bank Secrecy Act reporting requirements. Employees must contact the Security and/or Compliance Officers immediately in the event any known or suspected criminal activity or transaction, or other suspicious or unusual activity, comes to their attention.

Federal law also prohibits the processing of any transactions involving a person, business, or government agency who is named on the Office of Foreign Assets Control's Specially Designated Nationals list ("SDN") or who is otherwise the subject of economic sanctions by the U.S. government. Employees are to immediately report any transaction, loan application, letter of credit application, or other bank account, service or document which may involve or make reference to an SDN to the Security and/or Compliance Officers.

Anti-Competitive Activities

Federal law prohibits any combination, conspiracy or agreement among competitors to restrict or prevent competition. A violation of the law can occur through a formal or informal agreement between the Bank and a competitor to (1) fix prices; (2) allocate markets; or (3) refuse to deal with particular suppliers or customers.

If you are in contact with the Bank's competitors, you must avoid any agreements with them (or even circumstances that might give the appearance of such agreements) relating to how the Bank conducts or will conduct its business. You should be especially careful at social or professional gatherings and at trade association meetings. Discussions or exchanges of information relating to competitive matters (e.g., cost, pricing or strategy) must carefully be avoided.

In addition, federal law specifies that banks in general may not extend credit, lease or sell property of any kind, or furnish any service, on the condition that the customer: (1) obtain additional credit, property or service from the Bank; (2) provide some additional credit, property or service to the Bank; or (3) refrain from obtaining some other credit, property or service from a competitor of the Bank. Employees may, however, cross-sell the Bank's products, and ask for our customer's business.

Questions concerning anti-competitive issues should be directed to the Human Resources Director or the Chief Fiancial Officer.

Directors or Officers in Outside for Profit Companies

You may not serve as an officer, director, advisory director or on any committee of an outside for profit business organization without the prior written approval of the Chief Executive Officer. Employees serving in such capacities at the request of the Bank are covered to a limited extent by the Bank's Director and Officer Liability Insurance policy. Any employee considering such service should confirm adequate liability insurance is maintained by the business organization for the employee's protection and/or that the organization has taken appropriate action to indemnify its officers and directors to the extent permitted by law.

The foregoing does not apply to any fiduciary account where the Bank finds it necessary or helpful for you to be appointed as an officer or director of an outside organization (e.g., where the Bank holds or controls a substantial interest in the company because of its responsibilities). Such appointments may, under certain circumstances, require the approval of the Board of Directors.

Directors or Officers in Nonprofit Companies and Civic and Charitable Organizations

The Bank recognizes the benefits of active participation by employees in nonprofit organizations, such as the Red Cross, United Way and community organizations. Appointments as a trustee, director or officer of a nonprofit religious, charitable or health and welfare organization are recognized as worthwhile community involvement. However, if you are considering an appointment as trustee, director or officer of a health and welfare organization (including but not limited to convalescent homes, hospitals or health maintenance organizations), you must obtain the prior written consent of the Chief Executive Officer. If you have been specifically asked by the Bank to serve as a trustee, director or officer of a nonprofit organization, prior to serving you must notify the Bank's Chief Executive Officer in writing that you intend to serve as requested. Employees serving in such capacities at the request of the Bank are covered to a limited extent by the Bank’s Director and Officer Liability Insurance policy.

Outside Employment

You are expected to devote full-time attention and energy to your career with the Bank. The Bank's policy requires that you obtain the prior written consent of your department manager and the Human Resources Director prior to accepting any outside employment which would require a significant amount of your time.
You must avoid outside employment which involves or may appear to involve a conflict of interest. Examples include:

1. Employment by a company or personally engaging in any activity that it competitive with the Bank.

2. Employment which involves the use of the Bank's equipment, supplies or facilities.

3. Employment which involves the preparation, audit or certification of statements, tax returns or other documents upon which the Bank may place reliance for lending or other purposes. If you prepare income tax returns for individuals or entities other than yourself, you must obtain confirmation from your potential client that the client does not intend to use your work product as part of any transaction with the Bank.

4. Employment which involves the rendering of investment, legal or other advice, or exercising judgment which is based upon information, reports or analyses that are accessible primary from or through your employment with the Bank.

5. Employment under circumstances which may suggest the sponsorship or support of the Bank on behalf of the outside employer or an outside organization.

6. Employment as an insurance or securities broker, agent or representative.

7. Employment as a real estate salesperson, broker, agent or contractor (except with the prior written approval of the Human Resources Director. Prior written approval is required since there are a number of potential conflict of interest situations, as well as possible violations of banking laws, which must scrupulously be avoided in this area).

Solicitation And Distribution Activities

In order to minimize work interruptions and to maintain a businesslike environment, the Bank restricts solicitation and distribution activities on its property. Unless officially sanctioned by the Bank and approved by Senior Management of the Bank, you may not permit: (1) the display of any advertisement or promotion, or the sale of any goods or services by others on Bank property; and (2) nonemployees to solicit contributions or place literature on Bank property.

You may not solicit contributions from other employees on your or their work time in work areas without prior approval of the department manager (e.g., Girl Scout Cookies, school fund raising projects, Mary Kay products, Amway products, etc.). Distribution of literature in work areas is also prohibited unless it is in the normal course of Bank business (e.g., IRS forms, Bank forms and Federal Reserve pamphlets).

Advice To Customers

A. Legal Advice

You may occasionally be asked by customers to make statements which relate to the legality of particular transactions. Neither the Bank nor its employees are authorized to practice law for or provide legal advice to customers. As such, you must exercise care in your discussions with customers. Nothing must be said which might be interpreted as the giving of legal advice.

B. Tax or Investment Advice

You must avoid giving customers advice on tax matters, the preparation of tax returns, or investment decisions, except as may be appropriate in the performance of a fiduciary responsibility, or as otherwise required in the ordinary course of your duties.

C. Recommending Other Firms To Customers

During the course of your contact with customers and the general public, you may occasionally be asked to recommend others who provide professional services. Typically, such requests involve attorneys, accountants, securities dealers, insurance agents, brokers and real estate agents. Customers who receive recommendations must be given several qualified sources, without indicating any preference or warranty by the Bank, excluding only referral arrangements made by the Bank.

Speeches and Articles for Publication

You may not speak on behalf of the Bank or discuss the Bank's policies or procedures in articles, speeches or presentations without the prior written consent of the Chief Executive Officer. Although you are encouraged to prepare articles and make presentations in your individual capacity, you must avoid any appearance that you represent the Bank with respect to such articles or presentations.

You may not use official Bank stationery for personal correspondence or other nonwork related purposes.

Neither you nor members of your immediate family may solicit honoraria for public speaking or writing services performed on behalf of the Bank or by reason of the fact that you are an employee of the Bank. You may not accept honoraria worth more than a nominal amount ($100) without the prior approval of the Human Resources Director. However, you may accept reimbursement of related expenses.

Political Activities

The Bank believes that it is important for every citizen to take an active interest in political and governmental affairs. You are encouraged to keep yourself well informed concerning political issues and candidates and, to the degree practicable, take an active role in fostering better government. You should make it clear at all times, however, that your participation in political activities is done as a private citizen and not as a representative of the Bank.

For legal and other reasons, your political activities must not be conducted during work hours and must not involve the use of the Bank equipment, supplies or facilities. You may not make any political contributions (in the form of cash, goods or services) directly or indirectly (e.g., through reimbursement) on behalf of the Bank.

If you run for political office or are considering a prominent role in a campaign or ballot measure, you are encouraged to consider the Bank's position.

If the amount of time required by your political activities is significant and may have an adverse effect on your overall performance, prior notice and approval by the Human Resources Director is required. If you become involved in political activities, you should also seek competent legal advice concerning the laws governing campaign financing and practices.

Under no circumstances may you make any payment to any government official or other person or organization which might in any way be construed to be improper, illegal, a bribe, a kickback, etc. If any transaction with a government official or other person or organization seems even remotely questionable, it must be referred to the Chief Financial Officer for a determination as to its propriety.

Although it is the Bank's policy not to endorse individual candidates in an election, you are free to express your own opinions, as long as it is clear that they are your own personal opinions. You may not write supportive letters for candidates or issues on Bank stationery or act in any way which suggests the Bank's support of or opposition to a candidate or issue. When the Bank deems it appropriate to take a public position on issues, it will designate specific individuals to speak on its behalf.

The roles of treasurer and assistant treasurer in political campaigns can present unusual problems because of the complex nature of the laws governing campaign contributions. A potential conflict of interest can also arise because of an employee's access to insider information and customer lists. Accordingly, you should normally decline to accept such positions if there is any potential for a conflict of interest (or any appearance of a conflict). You must never use customer lists or exploit your business relationship with customers for the benefit of any campaign.

Reporting Procedures

All employees have a duty to report any violations of this Code, as well as violations of any laws, rules, or regulations. Employees also have a duty to report any transaction or relationship that could reasonably be expected to give rise to a conflict of interest.

If you are aware of a potential conflict of interest or believe that the Code has been violated by an employee you must promptly report the violation to his or her direct supervisor, the Human Resources Director or such other personnel listed in this Code. If a report is made to a person other than the Human Resources Director, such person must in turn report the violation to the Human Resources Director. All violations by an officer or director of the Bank must be reported directly to the Human Resources Director. Employees may also choose to report any violations regarding record keeping or financial reporting to the Audit Committee of the Board of Directors.

Reports may be made in person, by telephone, or in writing by sending a description of the violation and the names of the parties involved to the appropriate personnel mentioned in the preceding paragraph or to the personnel listed in this Code. Reports to the Human Resources Director may be sent to the following address: 378 Bel Marin Keys Blvd., Novato 94949. Reports to the Audit Committee may be sent to the following address: 50 Madera Blvd., Corte Madera 94925.

When reporting a violation, you may choose to remain anonymous. However, if you make an anonymous report, you should create and preserve your own record of this report in order to be able to demonstrate your compliance with the requirement of reporting violations. Generally speaking, every effort will be made to maintain the confidentiality of reports of potential violations. However, there may be a point where the identity of the reporting employee may become known or may have to be revealed in the course of the investigation or to take corrective action.

The Bank does not permit retaliation of any kind against employees for good faith reports of ethical violations. Any employee who attempts to or encourages others to retaliate against an individual who has reported a violation will be subject to disciplinary action.

Disciplinary Action

The Bank has implemented the following disciplinary policies to ensure that prompt and consistent actions are taken in response to Code violations:

A. Range of Penalties

All violations of this Code will be treated seriously and will result in the prompt imposition of penalties which may include (1) an oral or written warning, (2) a reprimand, (3) suspension, (4) termination and/or (5) restitution. Violations will also be reported to the appropriate regulatory agencies or other authorities.

B. Disciplinary Process

The penalty for a particular violation of this Code will be decided on a case-by-case basis and will depend on the nature and severity of the violation as well as the employee's history of non-compliance and cooperation in the disciplinary process. Significant penalties will be imposed for violations resulting from intentional or reckless behavior. Penalties may also be imposed when an employee fails to report a violation due to the employee's indifference, deliberate ignorance or reckless conduct. Where there is credible evidence of a violation, the Human Resources Director will determine the appropriate sanction with the assistance of appropriate members of Executive Management.

C. Consistent Enforcement

All employees, officers and directors will be treated equally with respect to the imposition of disciplinary measures. Pursuant to this policy, all levels of employees will be subject to the same disciplinary action for the commission of a similar offense.

ACKNOWLEDGMENT OF RECEIPT

Fill in the required information below and return this form to the Human Resources Department to acknowledge receipt of your copy of the Code of Ethical Conduct.

ACKNOWLEDGMENT BY EMPLOYEE/DIRECTOR

This will confirm that I have received a copy of Bank of Marin's Code of Ethical Conduct. I have read the Code, understand it, and agree to follow its guidelines. I understand that compliance with the Code of Ethical Conduct is a very important matter and that a violation will be the basis for disciplinary action, including, if appropriate, termination of employment. I certify that, to the best of my knowledge, I am in compliance with the provisions of the Code of Ethical Conduct, except as set forth below.

Exceptions: ______________________________

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______________________________ Date ______________________________
Signature

____
Name (please print)

EXHIBIT 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. No. 333-144807, No. 333-144808, No. 333-144809, and No. 333-144810 on Form S-8 of our reports dated March 12, 2008, relating to the financial statements and the effectiveness of internal controls over financial reporting, appearing in this Annual Report on Form 10-K of Bank of Marin Bancorp for the year ended December 31, 2007.

/s/ Moss Adams LLP
Stockton, California
March 12, 2008

EXHIBIT 31.01

Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

I, Russell A. Colombo, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Marin Bancorp (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -15(f) and 15d-15(f)) for the Registrant and have:

    (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:

    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: March 10,2008

/s/ Russell A. Colombo
Russell A. Colombo
Chief Executive Officer

EXHIBIT 31.02

Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

I, Christina J. Cook, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Bank of Marin Bancorp (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: March 10,2008

/s/ Christina J. Cook
Christina J. Cook
Chief Financial Officer

EXHIBIT 32.01

Certification pursuant to 18 U.S.C. Section 1350

In connection with the annual report on Form 10-K of Bank of Marin Bancorp (the Registrant) for the year ended December 31, 2007, as filed with the Securities and Exchange Commission, the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 10,2008	*/s/ Russell A. Colombo* Russell A. Colombo Chief Executive Officer
Dated: March 10,2008	*/s/ Christina J. Cook* Christina J. Cook Chief Financial Officer

This certification accompanies each report pursuant to section 906 of the Sarbanes Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes Oxley Act of 2002, be deemed filed by the Registrant for purposes of section 18 of the Securities and Exchange Act of 1934, as amended.