BANK OF MARIN

2004 ANNUAL REPORT

TABLE OF CONTENTS

Directors and Executive Officers *1*
Bank Staff and Corporate Officers *2*
Message to Shareholders *3*
Business of the Bank *4*
Management's Discussion and Analysis *5*
Report of Independent Auditors *20*
Financial Statements *22*
Notes to Financial Statements *26*
Selected Financial Data *37*
Stock Price and Dividend Information *37*

DIRECTORS AND EXECUTIVE OFFICERS

Judith O'Connell Allen, *Community volunteer, Chairman, Bank of Marin*
* Nancy R. Boatright, *Vice President & Corp. Sec., Bank of Marin*
* Russell A. Colombo, *Exec. Vice President & Branch Administrator, Bank of Marin*
* Christina J. Cook, *Exec. Vice President & CFO, Bank of Marin*
James E. Deitz, *President, Marin Business Services*
W. Robert Griswold, Jr., *President and CEO, Bank of Marin*
Ray Hoffman, III, *Proprietor, Hoffman Development Co.*
Norma J. Howard, *Business consultant*
J. Patrick Hunt, *Partner, Hunt Investments*
H. C. Jackson, *Retired merchant*
James D. Kirsner, *Business consultant*
* Larry Klaustermeier, *Sr. Exec. Vice President & CCO, Bank of Marin*
* Patrick J. London, *Exec. Vice President & Director of Wealth Management Services, Bank of Marin*
Stuart D. Lum, *Partner, Veracast Communications*
Joseph D. Martino, *Retired banker*
James L. Placak, *Employee Benefits Consultant*
Joel Sklar, MD, *Partner, Cardiology Assoc. of Marin & San Francisco*
Brian M. Sobel, *Partner, Sobel Communications*
* Alexandra E. Souza, *Exec.Vice President & CAO, Bank of Marin*
J. Dietrich Stroeh, *Partner, CSW/Stuber-Stroeh Engineering Group*
Jan Yanehiro, *Owner, Media and Marketing Strategic Planning*

* These executive officers are not also directors.

This annual report serves as the annual disclosure statement for the purposes of part 350 of the Federal Deposit Insurance Corporation rules. It has not been reviewed or confirmed for accuracy or relevance by the FDIC.

BANK STAFF

Mary Adams
Diane Akers
Dino Alessio
Nova Alexander
Terry Aman
Joanne Amaral
Michele Anderson
Natalie Andryushina
Tamara Austin
Boualay Bala
Caroline Barossi
Ken Beagle
Susan Beaver
Robin Bentivegna
John Berens
Josiane Bougard
Arlene Brians
Vanessa Camacho
Scott Canaan
Brian Carlson
David Cerejo
Gaik Chan
Nancy Chapin
Angela Colglazier
Kay Commins
Anooshik Cronin
Sarah Dempsey
Amra Dizdarevic
Barbara Dougherty
Sean Dwyer
Mary Jayne Elmore
Donna Ernst
Florette Eugene
Brandee Everett
Susan Farac
Coy Ferini
Giuliana Ferrer
Gary Ford
Craig Fox
Vince Franceschi
Leslie Fuette
Hung Fung
Karen Garbarino
Judy Grider
Helga Gruber
Vicki Gruber
Sarah Guenther
Jessica Gutgsell
Sal Gutierrez
Victoria Gutierrez
Dina Hadzikadunic
Jessica Ham
Bryan Heagy
Viviana Henao
Dean Higgins
Debbie Higgins
Kyle Hixon
Helen Hoffmann
Josh Iversen
Tracy Jerves
Kevin Johnson
Claudia Just Olsen
Merlee Katzman
Mindy King
Lisa Kleinecke
David Kough
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Molly Manisay
Connie Marelich
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Stephanie McLeod
Kenny Meligan
Mary Melville
Victor Mencarelli
Edgar Mendoza
Pia Mize
Marisol Negrete
Eric Nelson
Linda Nolt
Michael Nord
Jon O'Halloran
Anotinette Oroz
Jaime Ortiz
Teri Pearson
Connie Pedersen
John Pedone
Irene Pelmear
Shirley Pettit
Sabrina Randall
Nancy Reich
Linda Reid
Isaias Reyes
Penny Reynolds
Marie Rieck
Mike Roney
Stephen Ross
Saroj Sachdev
Ellie Shattuck
Nikki Singh
Mari Soria
Jamie Thigpen
Allison Thornton
Kim To
Barbara Tolin
Cindy Toscanini
Ray Vallerga
Patty Varela
Joe Villaluna
Jim Whaley
Renee Weaver
Danielle Wu
Vita Yumanova

CORPORATE OFFICERS

Kate Albaugh, *Asst. Vice President*
Sue Anderson, *Vice President*
Marshall Appleton, *Asst. Vice President*
Angela Bergamini, *Asst. Vice President*
Gisela Bigden-Fisher, *Vice President*
Boo Boero, *Asst. Vice President*
Karry Bryan, *Asst. Vice President*
Michael Burke, *Vice President*
Fabia Butler, *Asst. Vice President*
Michael Callan, *Vice President*
Joan Capurro, *Vice President*
Megan Carter, *Asst. Vice President*
Sal Catinella, *Vice President*
Douglas Caulfield. *Vice President*
Judi Cole, *Vice President*
Chris Colliver, *Asst. Vice President*
Phyllis Cope, *Vice President*
Richard DeRamon, *Vice President*
Emily Di Laura, *Vice President*
Pat Feingold, *Vice President*
Holly Ford, *Vice President*
Sharon Fox, *Vice President*
Faith Giosso, *Asst. Vice President*
Kevin Gish, *Asst. Vice President*
Robert Gotelli, *Asst. Vice President*
Jeff Graham, *Asst. Vice President*
Janet Hayward, *Vice President*
Karen Hegarty, *Vice President*
Sherri Hendrickson, *Vice President*
Wayne Hoffer, *Vice President*
Fran Hoke, *Vice President*
Deborah Hoke Smith, *Vice President*
Martha Hollenbeck, *Vice President*
Joseph Iacocca, *Vice President*
Donald Jarvis, *Vice President*
Nancy Jones, *Vice President*
Steve Kambur, *Vice President*
James King, *Vice President*
Carol Kneis, *Vice President*
Mae Lacourse, *Vice President*
Carrie Lee, *Asst. Vice President*
Thomas Leong, *Asst. Vice President*
Lynn McHale, *Asst. Vice President*
Jerry Miller, *Vice President*
Bill Montgomery, *Vice President*
Frank Murray, *Sr. Vice President*
Patti O'Brien, *Asst. Vice President*
Elizabeth O'Farrell, *Sr. Vice President*
Peter Pelham, *Vice President*
Frank Perachiotti, Jr., *Vice President*
Carole Reif, *Vice President*
Elizabeth Reizman, *Sr. Vice President*
Lucy Rezendes, *Vice President*
Dan Rheiner, *Vice President*
Robert Rowen, *Asst. Vice President*
Renee Rymer, *Vice President*
David Schmidt, *Vice President*
Mary Ann Shoemaker, *Vice President*
Liza Silva, *Vice President*
Linda Steidle, *Vice President*
Renee Story, *Asst. Vice President*
Rich Ugarte, *Vice President*
Sherry Wallace, *Vice President*
Jackie Williams, *Vice President*
Bonnie Wilson, *Asst. Vice President*
Nicole Young, *Asst. Vice President*
Keith Zimmerman, *Sr. Vice President*

MESSAGE TO OUR SHAREHOLDERS:

Bank of Marin reported record earnings in 2004, so it's tempting, in one sense, to let the numbers speak for themselves. Consider, if you will, these year over year changes:

- Net income of $9,518,000, an increase of 27.4% over 2003.
- Loan totals of more than $575 million, 28% more than the previous year.
- Total deposits of $645 million, an increase of more than 10%.
- Total assets of over $737 million, a 15% increase.
- Non-interest expense growth limited to just over 10%.
- An efficiency ratio of 54.7%.
- Non-performing loans in the portfolio: none.

While we're extremely pleased with these outstanding results, we're even more proud of *how* we achieved them.

We did it without compromising any of the principles our founder, Bill Murray, envisioned when we began 15 years ago: hard work, attention to detail, legendary and personalized service for each of our customers, a dedicated and loyal professional team, a real and meaningful commitment to the many communities we serve, and an on-going pledge to our shareholders to work in your best interests.

We're very proud of what we've accomplished during these first 15 years. We've grown in size and scope, expanded our customer base, grown capital, and greatly increased and improved our product offerings. At the same time, we have intensified our community support and involvement, and provided our shareholders with solid and impressive results.

As a group, our employees are the largest single shareholder of the Bank, with our Employee Stock Ownership Plan (ESOP), holding more than six percent of the outstanding stock. They think and act like shareholders, because they *are*. They are constantly working with the shareholders' best interests in mind. And, they're extremely loyal. Our employee turnover is among the lowest in California for banks our size.

In the past year, we've made two significant additions to our senior management team. Russ Colombo joined the Bank as Branch Administrator to oversee our branch network and business development activities; and Chris Cook, a CPA, joined the Bank to assume the responsibilities of Chief Financial Officer. Both bring a wealth of experience, and the same dedication we all embrace: putting our customers at the very top of everything we do.

In the coming year, we'll be adding a second branch in Petaluma; and we're targeting yet another branch at a location we're now exploring.

Our first 15 years have been very rewarding in many ways. And, in view of all we've accomplished, we're very excited about the future. Our message to you, our shareholders, is a simple, but sincere one: thank you. Thanks for your ongoing support. Thanks for your belief in us. We look forward to continuing to partner with you to build an even better, stronger and more productive Bank of Marin.

/s/ Judith O'Connell Allen	*/s/ W. Robert Griswold, Jr.*
Judith O'Connell Allen	W. Robert Griswold, Jr.
Chairman of the Board	President & Chief Executive Officer

BUSINESS OF THE BANK

General
Bank of Marin (the 'Bank') 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 and, like most state chartered banks of its size in California, is not a member of the Federal Reserve System.

Market Area and Customer Base
The Bank's market area stretches from southern Sonoma county south to the Golden Gate Bridge and lies between the Pacific Ocean on the west and San Pablo Bay to the east. Of this larger market area the Bank has designated the communities of San Rafael, Corte Madera, Greenbrae, Larkspur, Kentfield, Ross, San Anselmo, Tiburon, Belvedere, Mill Valley, Sausalito, Terra Linda, Bel Marin Keys, Novato and Petaluma as its primary market areas. The Bank's customer base is made up of business and personal banking relationships from the communities near the nine branch office locations.

Loans
The Bank offers a broad range of commercial and retail lending programs including commercial loans, construction financing, consumer loans including indirect auto, and home equity loans and lines of credit. The Bank also offers a proprietary Visa credit card to its customers, including a Business Visa program for business and professional customers. For reporting purposes these programs are consolidated into the general categories of commercial loans, real estate loans and personal loans. At December 31, 2004, these broad categories totaled $576,957 thousand, and accounted for approximately 21%, 63% and 16%, respectively, of the loan portfolio.

The interest rates on most commercial loans are tied to the Wall Street Journal prevailing prime rate and change as rate changes are reported. A majority of these loans have a term of one year or less.

Real estate loans include commercial real estate loans, consumer loans and lines of credit secured by real property, and construction financing. Commercial real estate loans are generally written for ten years with fixed rates for the first 5 years and then adjusting to 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 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 first 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 direct deposit of payroll, social security and pension checks. Bank of Marin's ATM system is tied into both the STAR and PLUS networks, and the Bank offers a proprietary Visa check card.

Bank of Marin attracts deposits from individuals, merchants, small to medium sized businesses and professionals who live and/or work in our market areas. More than 90% of our deposits come from Marin and southern Sonoma counties. Approximately 54% of the Bank's deposits are from businesses and 46% are from individuals. The Bank as a matter of policy does not accept brokered deposits.

Wealth Management Services
In 1998, the Bank began to offer investment advisory and personal trust services. The services include customized portfolio management of individual stocks, bonds and cash and retirement assets; professional management of all trust assets including real estate and other specialty assets; tax reporting, safekeeping and accounting of assets; estate settlement and administration of all areas of living, testamentary and charitable trusts.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the Bank's financial condition and results of operations for each of the years in the three-year period ended December 31, 2004 should be read in conjunction with the Bank's financial statements and related notes thereto, located on pages 22 to 36 of this Annual Report. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

On April 15, 2004 the Board of Directors declared a 3-for-2 stock split payable May 24, 2004. In April, 2003 and April, 2002 the Board of Directors declared 5% stock dividends. Earnings per share and book value per share amounts have been restated for prior periods to reflect the stock split and stock dividends. Additionally, the Board of Directors declared a one-time special cash dividend of $.40 per post-split share payable on June 1, 2004.

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.

The Bank'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 the Bank's earnings in future periods. A number of factors - many of which are beyond the Bank'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 the Bank's operations, pricing, products and services. These and other important factors are detailed in various Federal Deposit Insurance Corporation filings made periodically by the Bank, copies of which are available from the Bank at no charge. Forward-looking statements speak only as of the date they are made. The Bank 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 Policy

Allowance for Loan Losses

Management has considered the accounting principles upon which the Bank's financial reporting depends and has determined the allowance for loan losses to be the Bank's most critical accounting policy. The allowance for loan losses is discussed in further detail beginning on page 13 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 re-graded as they are renewed, when there is a new loan to the same borrower, when identified facts demonstrate heightened risk of nonpayment, or if they become delinquent. Re-grading 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, 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 our 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.

Future Adoption of Accounting Standard

For a discussion of the impact of the adoption of Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment, see Note 1 of the Notes to Financial Statements.

RESULTS OF OPERATIONS

Overview

The 2004 financial performance for the Bank produced record levels of deposits, loans, and net income. Total deposits reached $645,079 thousand in 2004, an increase of $60,963 thousand or 10.4% from the prior year. Total gross loans finished the year at $576,957 thousand compared to $450,881 thousand in 2003, representing an increase of $126,076 thousand or 28.0%. Net income for 2004 was $9,518 thousand or $1.94 per share (diluted) compared with $7,473 thousand or $1.59 per share (diluted) in 2003. The year over year change in net income represents an improvement of 27.4%.

The Bank's return on average assets (ROA) and return on average equity (ROE) improved over the prior year. In 2004 the Bank's ROA and ROE were, respectively, 1.38% and 15.64% compared to 1.28% and 14.46% in 2003. Management continues to balance the desire to increase the return ratios to those of its peers with the desire to increase the Bank's deposit penetration in Marin and Sonoma Counties. For the twelve-month period from June 2003 to June 2004 (the latest date for which the information is available), the Bank's market share of total Marin County deposits increased from 8.11% to 8.47%.

Net interest income was a principal source of the earnings improvement for the year, as it reached $32,237 thousand, an increase of $4,581 thousand or 16.6% over 2003. The interest income component of net interest income was up 14.5% to $37,589 thousand, and is primarily the result of the increase in the size of the Bank's loan portfolio and, to a lesser extent, an increase in the average balance of U. S. government agency securities, partially offset by lower average yields on interest-earning assets. Total interest expense of $5,352 thousand was up from 2003 by $183 thousand or 3.5% due to interest expense on a new subordinated debenture, as well as growth in the Bank's deposit portfolio, partially offset by a lower overall rate on interest-bearing liabilities.

The Bank provided $934 thousand to the allowance for loan losses in 2004, and net charge-offs were $282 thousand. This compares to a provision of $686 thousand and net charge-offs of $262 thousand in 2003. At year-end 2004 and 2003, the allowance for loan losses as a percentage of total loans was 1.06% and 1.21%, respectively.

Non-interest income is comprised of service charges on deposit accounts, Wealth Management Services (WMS) revenue, and other income. In 2004, total non-interest income was $3,643 thousand, which is an improvement of $683 thousand or 23.1% over 2003. Service charges on deposit accounts increased to $1,137 thousand versus $1,020 thousand one year ago. WMS revenue grew to $922 thousand, an increase of $107 thousand, and other income finished the year at $1,584 thousand compared to $1,125 thousand in the prior year.

Non-interest expenses increased from $17,817 thousand in 2003 to $19,620 thousand in 2004, a $1,803 thousand or 10.1% increase and was largely due to the growth in the operations of the Bank.

Assets of the Bank totaled $737,094 thousand at December 31, 2004, an increase of $94,487 thousand or 14.7% from 2003 ending balances. Contributing to the growth of assets in 2004 was an increase of $125,424 thousand, or 28.2%, in outstanding loans. The increase in loans was funded in part by a shift of the funds from other earning assets, including Federal funds sold and investment securities, as well as increases in deposits, Federal funds purchased and the issuance of a subordinated debenture.

Summary of Quarterly Results of Operations

Table 1 sets forth the results of operations for the four quarters of 2004 and 2003.

Table 1 Summarized Statement of Operations

	2004 Quarters Ended				2003 Quarters Ended			
(Dollars in thousands)	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Interest income	$10,488	$9,821	$8,855	$8,425	$8,157	$8,213	$8,340	$8,115
Interest expense	1,535	1,374	1,200	1,243	1,240	1,239	1,285	1,405
Net interest income	8,953	8,447	7,655	7,182	6,917	6,974	7,055	6,710
Provision for loan losses	425	304	105	100	139	174	205	167
Net interest income after provision for loan losses	8,528	8,143	7,550	7,082	6,778	6,800	6,850	6,543
Non-interest income	951	906	916	870	816	796	679	668
Non-interest expense	5,152	4,991	4,745	4,732	4,263	4,482	4,492	4,580
Income before provision for income taxes	4,327	4,058	3,721	3,220	3,331	3,114	3,037	2,631
Provision for income taxes	1,662	1,551	1,404	1,191	1,247	1,194	1,179	1,020
Net income	$2,665	$2,507	$2,317	$2,029	$2,084	$1,920	$1,858	$1,611
Net income per common share								
Basic	$0.58	$0.55	$0.51	$0.45	$ 0.47	$ 0.43	$ 0.43	$ 0.37
Diluted	$0.53	$0.51	$0.47	$0.42	$ 0.43	$ 0.41	$ 0.39	$ 0.35

Net Interest Income

Net interest income is the Bank's largest source of income (89.85%). Net interest income is the difference between the interest earned on loans, investments and other interest earning assets, and its 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. Comparisons of net interest income are frequently made using net interest margin and net interest rate spread. 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 2004, 2003 and 2002. 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)	2004 Average Balance	2004 Interest Income/ Expense(1)	2004 Yield/ Rate(1)	2003 Average Balance	2003 Interest Income/ Expense(1)	2003 Yield/ Rate(1)	2002 Average Balance	2002 Interest Income/ Expense(1)	2002 Yield/ Rate(1)
Assets									
Federal funds sold	$ 5,410	$ 61	1.13%	$ 23,312	$ 243	1.04%	$13,237	$ 204	1.54%
Interest-earning deposits	--	--	--	--	--	--	--	--	--
Investment securities									
U. S. Treasury securities	12,265	324	2.64	11,459	518	4.52	17,522	1,101	6.28
U. S. government agencies	67,888	2,257	3.32	32,672	1,018	3.11	21,769	1,009	4.64
Other	11,644	795	6.83	12,303	791	6.43	15,201	848	5.58
Municipal bonds	27,843	1,012	5.27	23,991	954	5.72	24,281	1,027	6.02
Loans and bankers' acceptances.(2)	514,299	33,140	6.44	434,908	29,301	6.74	366,408	27,561	7.52
Total interest-earning assets	639,349	37,589	5.95	538,645	32,825	6.17	458,418	31,750	7.02
Cash and due from banks	35,009			33,056			29,877		
Bank premises and equipment, net	4,198			4,361			4,196		
Interest receivable and other assets	12,702			5,513			2,090		
Total Assets	$691,258			$581,575			$494,581		
Liabilities and Stockholders' Equity									
Interest-bearing transaction accounts	66,084	257	0.39	$ 51,664	207	0.40	$ 43,188	309	0.72
Savings accounts	298,091	2,961	0.99	226,288	2,426	1.07	182,532	2,953	1.62
Time accounts	93,189	1,968	2.11	110,740	2,534	2.29	105,409	2,960	2.81
Federal funds purchased	2,805	49	1.74	91	2	1.71	333	6	1.86
Borrowed funds	2,705	117	4.32	--	--	--	--	--	--
Total interest-bearing liabilities	462,874	5,352	1.16	388,783	5,169	1.33	331,462	6,228	1.88
Demand accounts	164,881			138,214			115,983		
Interest payable and other liabilities	2,639			2,890			2,922		
Stockholders' equity	60,864			51,688			44,214		
Total Liabilities and Stockholders' Equity	$691,258			$581,575			$494,581		
Net Interest Income		$32,237			$27,656			$25,522	
Net Interest Margin			5.11%			5.21%			5.66%
Net Interest Spread			4.79%			4.84%			5.14%

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

In 2004, the Bank's net interest income increased by $4,581 thousand or 16.6% over 2003, and by $2,134 thousand or 8.4% in 2003 over 2002. These increases are attributable to growth in average earning assets of $100,704 thousand in 2004 and $80,227 thousand in 2003. In 2004, net interest income was positively affected by a shift in the mix of asset balances from lower-yielding Federal funds sold to higher-yielding loans and securities. The Bank's 2004 year-end loan-to-deposit ratio was 89.4% up from 77.2% at December 31, 2003. The Bank's yield on interest earning assets declined in 2004 by twenty-two basis points to 5.95%, and the yield on its loan portfolio declined from 6.74% in 2003 to 6.44% in 2004. The yield on the Bank's Federal funds sold increased to 1.13% in 2004 from 1.04% in 2003. The increase in the Federal funds sold yield is the result of interest rate increases implemented by the Federal Reserve Board by increasing the Federal funds interest rate (the interest rate banks charge each other for short-term borrowings). The yield on loans declined in 2004 and did not increase despite rate increases due to the lagged effect of interest rate changes on the loan portfolio. In 2003 there was a twenty-five basis point reduction in the Federal funds rate, and a 125 basis point increase in 2004.

The yield on the Bank's portfolio of Agency Securities increased from 3.11% in 2003 to 3.32% in 2004. The increase in the volume and yield on Agency Securities primarily relates to purchases of securities at higher market rates in a rising rate environment. The Bank's Agency Securities generally have an average life of less than three years and will mature or be called more quickly than other securities in the Bank's portfolio. Therefore, their yield is significantly impacted by market rates of interest. Other Securities is largely comprised of corporate bonds and the yield on these instruments improved from 6.43% to 6.83% due to shorter duration rates rising during 2004. The yield on the Bank's portfolio of Treasury Securities declined from 4.52% in 2003 to 2.64% in 2004 and the yield on Municipal Securities declined from 5.72% in 2003 to 5.27% in 2004 due to maturities of higher yielding securities.

The rate paid on interest bearing liabilities declined from 1.33% in 2003 to 1.16% in 2004. This is primarily the result of the lagged effect of the aforementioned changes in market interest rates originating from actions taken by the Federal Reserve in 2003 and 2004. In 2004, the Bank achieved a net interest margin (NIM) of 5.11%, down from the NIM of 5.21% experienced in 2003. The decline in the margin is also affected by the lagged effect of changes to market rates, partially offset by the impact of a higher loan-to-deposit ratio.

In 2003 the Bank's net interest margin decreased by forty-five basis points when compared to 2002. The combination of a lower loan-to-deposit ratio in 2003 and the decline in market rates of interest contributed to this change.

Table 3**,** Analysis of Changes in Net Interest Income, separates the change in the Bank's 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 2004 and 2003. The increase in net interest income during both years is primarily the result of growth in average earning assets and the decline in the rate paid on interest bearing liabilities.

Table 3 Analysis of Changes in Net Interest Income

	Year ended December 31, 2004 compared to 2003			**Year ended December 31, 2003 compared to 2002**		
(Dollars in thousands)	**Volume**	**Yield/ Rate***	**Total**	**Volume**	**Yield/ Rate***	**Total**
Assets						
Federal funds sold	$ (187)	$ 5	$ (182)	$ 156	$ (117)	$ 39
Interest-earning deposits	--	--	--	--	--	--
Investment securities						
U. S. Treasury securities	36	(230)	(194)	(381)	(202)	(583)
U. S. government agencies	1,096	143	1,239	506	(497)	9
Other	(42)	46	4	(162)	105	(57)
Municipal bonds	222	(164)	58	(17)	(56)	(73)
Loans and bankers' acceptances	5,348	(1,509)	3,839	5,153	(3,413)	1,740
Total interest-earning assets	6,473	(1,709)	4,764	5,255	(4,180)	1,075
Liabilities						
Interest-bearing transaction accounts	58	(8)	50	61	(163)	(102)
Savings accounts	770	(235)	535	708	(1,235)	(527)
Time accounts	(402)	(164)	(566)	150	(576)	(426)
Federal funds purchased	46	1	47	(4)	--	(4)
Borrowed funds	117	--	117	--	--	--
Total interest-bearing liabilities	589	(406)	183	915	(1,974)	(1,059)
Net Interest Income	$5,884	$(1,303)	$4,581	$4,340	$(2,206)	$2,134

* 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. The Bank's provision for loan losses in 2004 was $934 thousand versus $686 thousand for 2003 and $577 thousand in 2002. Net charge-offs for 2004 totaled $282 thousand compared with $262 thousand in 2003 and $122 thousand in 2002. Table 4**,** Non-performing Loans at December 31, shows that there were no non-performing assets at December 31 for the last five years.

Table 4 Non-performing Loans at December 31

	2004	2003	2002	2001	2000
Non accrual loans	$ --	$ --	$ --	$ --	$ --
Accruing loans past due 90 days or more	--	--	--	--	--
Other real estate owned	--	--	--	--	--
Total non-performing assets	$ 0	$ 0	$ 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 nonaccrual status, any accrued but uncollected interest is reversed from current income, and additional income is recorded only as payments are received.

Non-interest Income

Non-interest income includes service charges on deposit accounts, WMS income and other income. Non-interest income grew to $3,643 thousand in 2004, up from $2,960 thousand in 2003 and $2,318 thousand in 2002.

Service charges on deposits in 2004 and in 2003 increased by $117 thousand and $180 thousand, respectively. These increases are generally due to growth in the number of accounts in the Bank. The Bank's WMS has shown similar results. WMS revenue in 2004 was $922 thousand, an increase of $107 thousand over the prior year. This increase is primarily the result of growth in assets under management. WMS revenue in 2003 showed a $145 thousand increase over 2002. The increases in "other" income in 2004 and 2003 are attributed to growth in other services associated with an expanding customer base, the Bank's $10 million investment in Bank Owned Life Insurance (BOLI), which occurred in 2003, as well as higher commissions and fees due to increased debit and credit card usage.

Non-interest Expense

Table 5, Significant Components of Non-interest Expense, summarizes the amounts and changes in dollars and percentages. In 2004 non-interest expense increased 10.1% while average loans and deposits increased 18.3% and 18.1%, respectively. In 2003 non-interest expense increased 4.0%, while average loans and deposits increased 18.7% and 17.8%, respectively.

Table 5 Significant Components of Non-Interest Expense

	Year ended December 31,			2004 compared to 2003		2003 compared to 2002	
(Dollars in Thousands)	**2004**	**2003**	**2002**	**Amount Increase (Decrease)**	**Percent Increase (Decrease)**	**Amount Increase (Decrease)**	**Percent Increase (Decrease)**
Salaries and related benefits	$11,954	$10,767	$10,446	$1,187	11.0%	$321	3.1%
Occupancy and equipment	1,864	1,676	1,601	188	11.2	75	4.7
Depreciation and amortization	949	992	882	(43)	(4.3)	110	12.5
Data processing fees	1,210	1,039	953	171	16.5	86	9.0
Other expense	3,643	3,343	3,243	300	9.0	100	3.1
Total	$19,620	$17,817	$17,125	$1,803	10.1%	$692	4.0%

In 2004 salaries and benefits costs increased by $1,187 thousand or 11.0%, primarily due to regular salary adjustments, increased accruals for bonuses and ESOP contributions, as well as higher medical benefit and workers' compensation costs. The number of full-time equivalent (FTE) employees increased to 167, up from 161 at year-end 2003. In 2004 there were expenses of $1,056 thousand for the Bank's Employee Stock

Ownership and Savings Plan (ESOP), and $1,233 thousand for staff and officer incentive bonus plans. The increase in ESOP expense for 2004 was $139 thousand or 15.2%. The incentive bonus plans increased by $348 thousand or 28.2% from 2003.

In comparing 2003 with 2002, salaries and benefits costs increased by $321 thousand or 3.1%, primarily due to annual merit pay increases. The number of full-time equivalent (FTE) employees increased by two from December 31, 2002 to 161 at December 31, 2003. In 2003 there were expenses of $917 thousand for the Bank's ESOP and $885 thousand for staff and officer incentive bonus plans. The increase in ESOP expense for 2003 was $38,000 or 4.3%. The increase in salary and ESOP costs were offset by a decrease in incentive bonus plan expense, which decreased by $293 thousand or 24.9% from 2002.

The 2004 increase of $188 thousand in occupancy and equipment costs is largely due to annual rent increases in the branch and administration facilities. The 2004 expenses also reflect the effect of the addition of the Bank's Sausalito branch in November 2003. In 2003, the Bank incurred an increase of $75 thousand, which was largely due to annual increases in branch operating leases.

The 2004 decrease of $43 thousand in depreciation and amortization expense is primarily attributable to certain fixed assets becoming fully depreciated during the year. In 2003 the Bank had an increase of $110 thousand in depreciation and amortization expenses , which was primarily related to purchases and leasehold improvements.

In 2004 data processing costs were $1,210 thousand, an increase over 2003 of $171 thousand or 16.5%. This increase is largely attributable to the greater number of accounts resulting from the growth of the Bank, the contractually stipulated price increases that are part of the Bank's long-term agreement with its data processing provider, and the increased use of internet banking and bill pay by the Bank's customers. In 2003, data processing expense increased by $86 thousand, and is attributable to the increase in the growth in the operations of the Bank.

Other non-interest expenses of $3,643 thousand represent a $300 thousand or 9.0% increase over 2003. Generally, this increase is due to the growth in activity of the Bank. In 2003, other non-interest expenses increased by $100 thousand or 3.1%. These increases were due to the growth in activity of the Bank.

The Bank's efficiency ratio (the ratio of non-interest expense divided by the sum of non-interest income and net interest income) improved over the prior year and was at 54.7% for 2004. In 2003, the Bank's efficiency ratio was 58.1%.

Provision for Income Taxes

The Bank reported a provision for income taxes of $5,808 thousand, $4,640 thousand and $3,897 thousand for the years 2004, 2003 and 2002, respectively. These provisions reflect accruals for taxes at the applicable rates for Federal and California State income taxes based upon reported pre-tax income, and adjusted for the beneficial effect of the Bank's investment in qualified municipal securities and life insurance products. The Bank has not been subject to an alternative minimum tax (AMT). See Note 10 of the Notes to Financial Statements for additional discussion of Provision for Income Taxes.

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 6 shows the makeup of the securities portfolio at December 31, 2004 and 2003.

Table 6 Securities Investments

Type and Maturity Grouping (Dollars in thousands)	December 31, 2004 Principal Amount	Book Value*	Market Value	Average Yield	December 31, 2003 Principal Amount	Book Value*	Market Value	Average Yield
Held to maturity								
U.S. Treasury								
Total	$ --	$ --	$ --	--%	$ --	$ --	$ --	--%
U.S. government agencies								
Total	--	--	--	--	--	--	--	--
State and municipal								
Due within 1 year	6,645	6,688	6,662	3.30	7,320	7,367	7,359	2.94
Due after 1 but within 5 years	8,790	8,869	9,193	4.32	13,795	14,028	14,797	4.13
Due after 5 but within 10 years	6,485	6,912	7,003	3.41	6,705	7,205	7,244	3.39
Due after 10 years	3,595	3,780	3,602	3.41	1,890	1,899	1,960	4.69
Total	25,515	26,249	26,460	3.69	29,710	30,499	31,360	3.71
Corporate Bonds								
Due within 1 year	7,000	7,022	7,096	6.63	--	--	--	--
Due after 1 but within 5 years	4,500	4,572	4,700	5.26	11,500	11,691	12,380	6.05
Due after 5 but within 10 years	--	--	--	--	--	--	--	--
Due after 10 years	--	--	--	--	--	--	--	--
Total	11,500	11,594	11,796	6.09	11,500	11,691	12,380	6.05
Total held to maturity	37,015	37,843	38,256	3.71	41,210	42,190	43,740	4.36
Available for sale								
U.S. Treasury								
Due within 1 year	6,000	6,068	6,050	2.54	5,500	5,514	5,572	3.09
Due after 1 but within 5 years	4,000	4,283	4,230	2.28	7,500	7,802	7,879	2.43
Due after 5 but within 10 years	--	--	--	--	--	--	--	--
Due after 10 years	--	--	--	--	--	--	--	--
Total	10,000	10,351	10,280	2.44	13,000	13,316	13,451	2.71
U. S. government agencies								
Due within 1 year	17,360	17,433	17,512	4.22	26,794	27,258	27,572	4.69
Due after 1 but within 5 years	44,968	45,491	45,090	3.75	28,407	28,798	28,919	3.04
Due after 5 but within 10 years	1,274	1,279	1,258	4.93	10,000	10,012	9,852	4.15
Due after 10 years	--	--	--	--	716	713	742	6.13
Total	63,602	64,203	63,860	3.90	65,917	66,781	67,085	3.92
Total available for sale	73,602	74,554	74,140	4.44	78,917	80,097	80,536	3.72
Total	$110,617	$112,397	$112,396	3.95%	$120,127	$122,287	$124,276	3.94%

Interest income and yields on tax-exempt securities are not presented on a tax-equivalent basis.

* 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. Treasuries, other U.S. government agencies, state and municipal securities, and corporate bonds, decreased $10,743 thousand or 8.75% in 2004. U.S. Treasuries, representing 9% of the portfolio decreased by $3,171 thousand. U.S. government agency securities made up 58% of the portfolio and decreased by $3,225 thousand. State and municipal securities decreased by $4,250 thousand and represent 23% of the portfolio, and corporate bonds totaling $11,594 thousand or 10% of the portfolio, decreased by $97 thousand in 2004. The weighted average maturity of the portfolio at December 31, 2004 was approximately thirty-eight months.

At December 31, 2002, the book value of investments in obligations of U. S. Treasury and other U. S. government agencies and corporations was $27,976 thousand, the book value of investments in obligations of state and municipal subdivisions was $22,598 thousand and the book value of investments in corporate bonds was $12,614.

Loans

Loans, net, increased by $125,424 thousand, which reflects increases in all loan categories. The Bank seeks to maintain a loan portfolio that is well balanced in terms of borrowers, collateral and maturities. Of the Bank's outstanding loans at December 31, 2004, 71% are secured by real estate. The Bank's commercial real estate loan portfolio is composed primarily of term loans for which the primary source of repayment is cash flow from net operating income. Table 7 shows an analysis of loans by type.

Table 7 Loans Outstanding by Type at December 31

(Dollars in thousands)	2004	2003	2002	2001	2000
Commercial loans	$120,006	$ 105,847	$ 85,192	$ 68,517	$ 54,030
Real estate					
Commercial	250,326	196,703	187,384	161,136	146,695
Construction	81,549	44,471	41,736	27,305	17,284
Residential	30,692	28,052	29,824	28,363	24,114
Installment	94,384	75,808	66,019	40,928	22,825
Total loans	576,957	450,881	410,155	326,249	264,948
Allowance for loan losses	6,110	5,458	5,035	4,580	4,213
Net loans	$570,847	$445,423	$405,120	$321,669	$260,735

Table 8 shows that both the fixed and variable rate portion of the portfolio in 2004 remained relatively unchanged when compared to 2003. In 2004, the Bank's fixed rate loans were 40.5% of the portfolio, and the variable portion was 59.5%. 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) and the remainder adjusts with changes in the Bank's reference rate. Many of the fixed rate 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 five years.

Table 8 Loan Portfolio Maturity Distribution and Interest Rate Sensitivity

	December 31, 2004				December 31, 2003			
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Percent	Fixed Rate	Variable Rate	Total	Percent
Due within 1 year	$ 27,284	$139,083	$166,367	28.8%	$28,498	$96,309	$124,807	27.7%
Due after 1 but within 5 years	103,734	62,992	166,726	28.9	89,142	45,672	134,814	29.9
Due after 5 years	102,754	141,110	243,864	42.3	67,620	123,640	191,260	42.4
Total	$233,772	$343,185	$576,957	100.0%	$185,260	$265,621	$450,881	100.0%
Percentage	40.5%	59.5%	100.0%		41.1%	58.9%	100.0%	

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 to total loans at December 31, 2004 was 1.06% versus 1.21% at the end of 2003. At December 31, 2002, the allowance for loan losses to total loans was 1.23%. Based on the current conditions of the loan portfolio, management believes that the $6,110 thousand allowance for loan losses at December 31, 2004 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 9 shows the activity in the allowance for loan losses for each of the years in the five-year period ended December 31, 2004. At December 31, 2004 and 2003 the Bank had no loans that were past due 90 days or otherwise nonperforming.

Table 9 Allowance for Loan Losses at December 31

(Dollars in thousands)	2004	2003	2002	2001	2000
Beginning balance	$5,458	$5,035	$4,580	$4,003	$3,179
Provision charged to expense	934	685	577	619	986
Loans charged off					
Commercial	(6)	(146)	(33)	(37)	(182)
Construction	--	--	--	--	--
Real estate	--	--	--	--	--
Installment	(421)	(230)	(161)	(15)	(33)
Total	(427)	(376)	(194)	(52)	(215)
Loan loss recoveries					
Commercial	1	14	2	1	36
Construction	--	--	--	--	--
Real estate	--	--	--	--	--
Installment	144	100	70	9	17
Total	145	114	72	10	53
Net loans charged off	(282)	(262)	(122)	(42)	(162)
Ending balance	$6,110	$5,458	$5,035	$4,580	$4,003
Total loans outstanding at end of year, before deducting allowance for loan losses	$576,957	$450,881	$410,155	$326,249	$264,948
Average total loans outstanding during year	$514,299	$434,908	$366,408	$291,717	$232,761
Ratio of allowance for loan losses to total loans at end of year	1.06%	1.21%	1.23%	1.40%	1.51%

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 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. 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.

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, economic trends, etc.

There are limitations to any credit risk grading process. The volume of loans makes it impractical to re-grade 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.

At December 31, 2004 the allowance for loan losses was $6,110 thousand consisting of a specific allowance of $971 thousand, an allowance factor of $4,539 thousand, and an economic allowance of $600 thousand. At December 31, 2003 the allowance for loan losses was $5,458 thousand consisting of a specific allowance of $1,110 thousand, an allowance factor of $3,643 thousand, and an economic allowance of $705 thousand.

Table 10 shows the allocation of the allowance by loan type as well as showing the percentage of total loans in each of the same loan types.

Table 10 Allocation of Allowance for Loan Losses

	December 31, 2004		December 31, 2003		December 31, 2002		December 31, 2001		December 31, 2000	
(Dollars in thousands)	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loan as percent of total loans	Allowance balance allocation	Loans as percent of total loans	Allowance balance allocation	Loans as percent of total loans
Commercial	$2,320	20.8%	$2,288	23.4%	$1,584	20.9%	$1,322	21.0%	$1,405	20.4%
Construction	1,315	14.1	734	9.8	872	10.2	662	8.4	643	6.5
Real estate	1,260	48.7	1,319	44.2	1,577	45.9	1,860	51.2	1,263	64.5
Installment	1,215	16.4	1,117	22.6	1,002	23.0	736	19.4	692	8.6
Total allowance for loan losses	$6,110		$5,458		$5,035		$4,580		$4,003	
Total percent		100.0%		100.0%		100.0%		100.0%		100.0%

Deposits

Deposits increased by $60,963 thousand from December 31, 2004 as compared to 2003. 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 11 and 12 show the relative composition of the Bank's average deposits for the years 2004, 2003 and 2002, and the maturity groupings for the Bank's time deposits of $100,000 or more.

Table 11 Distribution of Average Deposits

	Year ended December 31, 2004		2003		2002	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Demand	$164,881	26.5%	$138,214	26.2%	$115,983	25.9%
Interest checking	66,084	10.6	51,664	9.8	43,188	9.7
Savings	98,778	15.9	84,161	16.0	70,502	15.7
Money market	199,313	32.0	142,128	27.0	112,030	25.1
Time deposits						
Less than $100,000	37,392	6.0	39,756	7.5	40,762	9.1
$100,000 or more	55,797	9.0	70,984	13.5	64,647	14.5
Total time deposits	93,189	15.0	110,740	21.0	105,409	23.6
Total Deposits	$622,245	100.0%	$526,907	100.0%	$447,112	100.0%

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

Table 12 Maturities of Time Deposits of $100,000 or more at December 31

	December 31, 2004	2003	2002
(Dollars in thousands)	2004	2003	2002
Three months or less	$30,538	$39,276	$31,542
Over three months through six months	6,193	6,470	8,840
Over six months through twelve months	10,849	8,535	11,330
Over twelve months	21,140	17,239	27,371
Total	$68,720	$71,520	$79,083

Commitments

The following is a summary of the Bank's contractual commitments as of December 31, 2004.

Table 13 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	$1,303	$1,854	$1,631	$2,291	$7,079
Subordinated debt	--	--	--	5,000	5,000

The contract amount of loan commitments not reflected on the statement of condition was $184,598 thousand at December 31, 2004 and $153,695 thousand at December 31, 2003.

Capital Adequacy

As discussed in Note 14 of the Notes to Financial Statements, the Bank's capital ratios are above regulatory guidelines to be considered "well capitalized." In 2004, the Bank's risk based capital ratio improved from 10.92% to 11.37%. This is primarily due to capital growth from earnings and the addition of $5,000 thousand in subordinated debt.

Liquidity

The goal of liquidity management is to provide adequate funds to meet both loan demand and unexpected deposit withdrawals. This goal is accomplished by maintaining an appropriate level of liquid assets, consistent with core deposit growth, and informal lines of credit to purchase funds from correspondent banks.

At year-end 2004, the Bank had approximately $64,539 thousand in cash and securities maturing within one year. The remainder of the securities portfolio of $77,357 provides additional liquidity. At year-end 2003, the Bank had approximately $105,100 thousand in cash, Federal funds sold and securities maturing within one year. The remainder of the securities portfolio of $70,552 thousand provided additional liquidity. During 2004, loan demand was strong resulting in a modest decline in the Bank's liquidity. Management expects to be able to meet the liquidity needs of the Bank during 2005 primarily through balancing loan growth with corresponding increases in deposits. See discussion below for additional sources of liquidity for the Bank.

The Bank did occasionally utilize borrowings from FHLB and Federal fund lines during 2004. The Bank purchased $17,800 thousand in Federal funds at December 31, 2004, as compared to $0 purchased at December 31, 2003.

During the year the combination of 10.4% deposit growth and 28.0% gross loan growth resulted in a year-end loan-to-deposit ratio of 89.4% compared to 77.2% at December 31, 2003.

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 at competitive rates, combined with its 8.9% average equity capital base, provides a very stable funding base. The Bank also has unsecured lines of credit totaling $35,000 thousand with correspondent banks to purchase Federal funds. The Bank is a member of the Federal Home Loan Bank of San Francisco (FHLB), and has a line of credit for advances of $24,448 thousand ($6,648 thousand of which was available at December 31, 2004) at an interest rate that is determined daily. Borrowings under the line are limited to eligible collateral.

The Bank had undisbursed loan commitments of $184,598 thousand, including $91,237 thousand under lines of credit (these commitments are contingent upon customers maintaining specific credit standards), $48,428 thousand under revolving home equity lines, and $31,174 thousand under undisbursed construction loans. These commitments, to the extent used, are expected to be funded through repayment of existing loans and normal deposit growth.

Market Risk Management

Market risk is the risk of loss from adverse changes in market prices and rates. The Bank's market risk arises primarily from interest rate risk inherent in its loan and deposit functions. The objective for managing the assets and liabilities of the Bank is to maximize earnings while maintaining a high-quality portfolio of loans and investments and assuming only limited interest rate risk. The Loan and Investment Committee of the Board of Directors has overall responsibility for interest rate risk management policies. The Committee establishes and monitors guidelines to control the sensitivity of net interest income (NII) and regulatory Tier 1 capital (Capital) to changes in interest rates.

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 NII and Capital to interest rate changes arises when yields on loans and investments change in a different time frame or amount from that of rates on deposits and other interest-bearing liabilities. 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.

Simulation of NII and Capital under various scenarios of increasing or decreasing interest rates is the primary tool used to measure interest rate risk. Using licensed software developed for this purpose, management is able to estimate the potential impact of changing rates. A simplified statement of condition is prepared on a quarterly basis as a starting point, using as inputs, actual loans, investments and deposits.

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 remains at the new levels.

Table 14 summarizes the effect on NII and Capital due to changing interest rates as measured against the flat rate scenario.

Table 14 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 flat NII) at December 31,		Estimated change in capital (as percent of flat capital) at December 31,	
	2004	2003	2004	2003
up 300	4.6%	5.4%	2.6%	3.3%
up 200	3.1%	3.6%	1.7%	2.2%
up 100	1.5%	1.8%	0.9%	1.1%
unchanged	--	--	--	--
down 100	(2.3%)	(2.5%)	(1.3%)	(1.4%)
down 200	(4.5%)	N/A	(2.5%)	N/A
down 300	N/A	N/A	N/A	N/A

N/A - Not applicable as Federal funds rates cannot drop below zero.

The results in the table indicate that the Bank was modestly asset sensitive since NII increased under the increasing interest rate scenarios. The results are also well within the policy guidelines established by the Committee. Further, the results do not assume nor incorporate any action(s) which management might take to minimize any negative consequences of interest rate changes. Therefore, they are not intended to portray likely results but rather estimates of the impact of interest rate risk.

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 15 shows the Bank's repricing gaps as of December 31, 2004. 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 15 Interest Rate Sensitivity

	Maturing or Repricing					
(Dollars in thousands)	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over one year	Total
At December 31, 2004						
Interest Earning Assets						
Funds sold	$ --	$ --	$ --	$ --	$ --	$ --
Investment securities	3,001	4,662	14,978	14,630	74,712	111,983
Loans	201,069	4,372	3,824	14,541	347,041	570,847
Total	204,070	9,034	18,802	29,171	421,753	682,830
Interest Bearing Liabilities						
Transaction and savings deposits	374,326	--	--	--	--	374,326
Federal funds purchased	17,800	--	--	--	--	17,800
Time deposits less than $100,000	3,845	6,762	6,469	5,298	9,275	31,649
Time deposits $100,000 or more	12,130	18,407	6,194	10,850	21,139	68,720
Total	408,101	25,169	12,663	16,148	30,414	492,495
Demand Deposits	--	--	--	--	170,385	170,385
Sensitivity for period	(204,031)	(16,135)	6,139	13,023	220,954	$ 19,950
Sensitivity - cumulative	$(204,031)	$(220,166)	$(214,027)	$(201,004)	$ 19,950	

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 fifteen years commencing upon retirement and reduced benefits upon early retirement, disability, or termination of employment. At December 31, 2004, the Bank's aggregate payment obligations under this plan totaled $722 thousand.

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 15 of the Notes to Financial Statements.

Borrowings

Federal funds Purchased
As of December 31, 2004, short-term borrowings totaled $17,800 thousand as compared to $0 as of December 31, 2003. Short-term borrowings consist primarily of Federal funds purchased and borrowings from Federal Home Loan Bank of San Francisco (FHLB). Based on the FHLB stock requirements at December 31, 2004, the lines provided for maximum borrowings of approximately $24,448 thousand. At December 31, 2004 the Bank had an unused capacity with the FHLB of $6,648 thousand. The Bank also has available unused unsecured formal lines of credit totaling $35,000 thousand for Federal funds transactions at December 31, 2004 with correspondent banks.

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.

Related Party Transactions

See Notes 3, 7, and 11 of the Notes to Financial Statements for discussion of the Bank's related party transactions.

Code of Ethics

Bank of Marin has adopted a Code of Ethics that applies to all employees, directors and officers, including the Bank's principal executive officer, principal financial officer and principal accounting officer. A copy of the Code of Ethics is available, without charge, upon written request to Corporate Secretary, Bank of Marin, P.O. Box 2039, Novato, CA 94948.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Bank of Marin

We have audited the accompanying statement of condition of Bank of Marin (the Bank) as of December 31, 2004 and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Marin as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited the adjustments described in Note 1, Earnings Per Share and Note 13, Stockholders' Equity that were applied to restate the 2003 and 2002 financial statements resulting from the stock split in 2004. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ Moss Adams LLP

Santa Rosa, California
February 18, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Bank of Marin
Corte Madera, California

We have audited the accompanying statement of condition of Bank of Marin (the Bank) as of December 31, 2003, and the related statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2003 (prior to the restatement for a stock split, not presented herein). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

San Francisco, California
January 21, 2004

STATEMENT OF CONDITION
(Dollar amounts in thousands)

	December 31, 2004	December 31, 2003
Assets		
Cash and due from banks	$ 29,499	$ 36,026
Federal funds sold	---	16,900
Cash and cash equivalents	29,499	52,926
Investment securities		
Held to maturity, at amortized cost	37,843	42,190
Available for sale (at fair market value, cost $74,554 in 2004 and $80,097 in 2003)	74,140	80,536
Total investment securities	111,983	122,726
Loans, net of allowance for loan losses of $6,110 in 2004 and $5,458 in 2003	570,847	445,423
Bank premises and equipment, net	3,911	4,508
Interest receivable and other assets	20,854	17,024
Total assets	$ 737,094	$ 642,607
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	$ 170,385	$ 160,121
Interest bearing		
Transaction accounts	68,259	63,801
Savings	306,067	255,814
Time	100,368	104,380
Total deposits	645,079	584,116
Federal funds purchased	17,800	---
Subordinated debenture	5,000	---
Interest payable and other liabilities	3,607	2,914
Total liabilities	671,486	587,030
Stockholders' Equity		
Common stock, no par value		
Authorized - 15,000,000 shares		
Issued and outstanding - 4,609,685 shares in 2004 and 2,954,054 shares in 2003	40,208	37,367
Retained earnings	25,640	17,955
Accumulated other comprehensive income (loss), net	(240)	255
Total stockholders' equity	65,608	55,577
Total liabilities and stockholders' equity	$ 737,094	$ 642,607

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

STATEMENT OF OPERATIONS
(In thousands, except per share data)

	Years ended December 31, 2004	2003	2002
Interest income			
Interest and fees on loans	$33,140	$29,301	$27,562
Interest on investment securities			
U. S. Treasury securities	324	518	1,101
Securities of U. S. Government agencies	2,257	1,018	1,009
Obligations of state and political subdivisions - tax exempt	1,012	954	1,027
Corporate debt securities and other	795	791	848
Interest on Federal funds sold	61	243	204
Total interest income	37,589	32,825	31,751
Interest expense			
Interest on interest bearing transaction deposits	257	207	309
Interest on savings deposits	2,961	2,426	2,953
Interest on time deposits	1,968	2,534	2,960
Interest on borrowed funds	166	2	6
Total interest expense	5,352	5,169	6,228
Net interest income	32,237	27,656	25,523
Provision for loan losses	934	686	577
Net interest income after provision for loan losses	31,303	26,970	24,946
Non-interest income			
Service charges on deposit accounts	1,137	1,020	840
Wealth Management Services	922	815	670
Other income	1,584	1,125	808
Total non-interest income	3,643	2,960	2,318
Non-interest expense			
Salaries and related benefits	11,954	10,767	10,446
Occupancy and equipment	1,864	1,676	1,601
Depreciation and amortization	949	992	882
Data processing	1,210	1,039	953
Other expense	3,643	3,343	3,243
Total non-interest expense	19,620	17,817	17,125
Income before provision for income taxes	15,326	12,113	10,139
Provision for income taxes	5,808	4,640	3,897
Net income	$ 9,518	$ 7,473	$ 6,242
Net income per common share*			
Basic	$2.09	$1.70	$1.44
Diluted	$1.94	$1.59	$1.37

* Restated for the 3-for-2 stock split declared in April 2004 and for the 5% stock dividend declared in April 2003.

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

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

	Common Stock		Retained	Accumulated Other Comprehensive Income (Loss), Net of taxes	Unearned ESOP Shares	
	Shares	Amount	Earnings			Total
Balance at Dec. 31, 2001	2,590,749	$28,003	$11,838	$810	$(50)	$40,601
Comprehensive income:						
Net income	---	---	6,242	---	---	6,242
Other comprehensive income						
Net change in unrealized gain (loss) on available for sale securities (net of tax benefit of $188)	---	---	---	(259)	---	(259)
Comprehensive income	---	---	6,242	(259)	---	5,983
Stock options exercised	27,160	317	---	---	---	317
Stock issued on 5% stock dividend declared Apr. 11	129,956	3,405	(3,418)	---	---	(13)
Stock issued in payment of director fees	9,528	244	---	---	---	244
Change in unearned ESOP shares	---	---	---	---	(15)	(15)
Balance at Dec. 31, 2002	2,757,393	$31,969	$14,662	$551	$(65)	$47,117
Comprehensive income:						
Net income	---	---	7,473	---	---	7,473
Other comprehensive income						
Net change in unrealized gain (loss) on available for sale securities (net of tax benefit of $215)	---	---	---	(296)	---	(296)
Comprehensive income	---	---	7,473	(296)	---	7,177
Stock options exercised	48,958	955	---	---	---	955
Stock issued on 5% stock dividend declared Apr. 10	138,461	4,162	(4,180)	---	---	(18)
Stock issued in payment of director fees	9,242	281	---	---	---	281
Change in unearned ESOP shares	---	---	---	---	65	65
Balance at Dec. 31, 2003	2,954,054	$37,367	$17,955	$255	$---	$55,577
Comprehensive income:						
Net income	---	---	9,518	---	---	9,518
Other comprehensive income						
Net change in unrealized gain (loss) on available for sale securities (net of tax benefit of $358)	---	---	---	(495)	---	(495)
Comprehensive income	---	---	9,518	(495)	---	9,023
Stock options exercised	126,901	2,527	---	---	---	2,527
3-for-2 stock split declared April 15	1,519,714	---	(9)	---	---	(9)
Cash dividend paid June 1	---	---	(1,824)	---	---	(1,824)
Stock issued in payment of director fees	9,016	314	---	---	---	314
Balance at Dec. 31, 2004	4,609,685	$40,208	$25,640	$(240)	$---	$65,608

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

STATEMENT OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net income	$ 9,518	$ 7,473	$ 6,242
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	934	686	577
Compensation payable in common stock	344	281	243
Amortization and accretion of investment security premiums, net	1,570	1,107	750
Depreciation and amortization	949	992	882
Net change in operating assets and liabilities:			
Interest receivable	(362)	19	(131)
Interest payable	(25)	(81)	(19)
Other assets	(3,468)	(495)	(337)
Other liabilities	1,046	(2,605)	2,610
Total adjustments	988	(96)	4,575
Net cash provided by operating activities	10,506	7,377	10,817
Cash Flows from Investing Activities:			
Purchase of securities held-to-maturity	(5,363)	(14,277)	---
Purchase of securities available-for-sale	(38,545)	(87,479)	(17,128)
Proceeds from paydowns/maturity of:			
Securities held-to-maturity	9,350	6,972	2,694
Securities available-for-sale	42,878	34,578	31,672
Purchase of bank owned life insurance policies	---	(10,000)	---
Loans originated and principal collected, net	(126,358)	(40,989)	(83,906)
Additions to premises and equipment	(352)	(949)	(1,320)
Net cash used in investing activities	(118,390)	(112,144)	(67,988)
Cash Flows from Financing Activities:			
Net increase in deposits	60,963	98,087	74,212
Issuance of common stock	2,527	955	317
Federal funds purchased	17,800	---	---
Cash dividend paid	(1,824)	---	---
Subordinated debt issued	5,000	---	---
Other	(9)	(18)	(13)
Net cash provided by financing activities	84,457	99,024	74,516
Net (decrease) increase in cash and cash equivalents	(23,427)	(5,743)	17,345
Cash and cash equivalents at beginning of year	52,926	58,669	41,324
Cash and cash equivalents at end of year	$29,499	$52,926	$58,669
Supplemental disclosure of cash flow information:			
Cash paid for interest	$5,319	$5,250	$6,248
Cash paid for income taxes	$5,599	$4,822	$3,762

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2004
(In thousands, except share and per-share data)

Note 1: Summary of Significant Accounting Policies

Nature of Operations: The Bank of Marin (the Bank) is a California state chartered bank. The Bank operates eight branches in Marin County and one in southern Sonoma County, California. The Bank's primary source of revenue is interest from providing loans to customers, who are predominately professionals, small and middle-market businesses, and middle and high-income individuals who work and/or reside in Marin and southern Sonoma counties. The accounting and reporting policies of the 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; and 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 nonaccrual 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 nonaccrual status, any accrued but uncollected interest is reversed from current-period interest income, and additional income is recorded only as payments are received. 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. The Bank 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 in periodic evaluations of the adequacy of the allowance balance. The allowance for loan losses is based on estimates, and ultimate losses may vary from current estimates.

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, 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.

The Bank considers a loan as 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. The Bank's Directors' Loan Committee 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 judgement of the Loan Committee and management, changes are warranted.

Bank 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 5 to 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.

ESOP and Related Debt Employee Stock Ownership Plan (ESOP) - The Bank 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." The Bank recognizes compensation cost equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the Bank's ESOP shares committed to be released differ from the cost of those shares, the differential is charged or credited to equity. The ESOP is 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. The Bank 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.

Cash and Cash Equivalents are classified assuming that cash and cash equivalents includes cash and due from banks and federal funds sold, which have an original maturity of 90 days or less at the time of purchase.

The Bank is required to maintain reserves with the Federal Reserve Bank of San Francisco equal to a percentage of its reservable deposits. Reserve balances that were required by the Federal Reserve Bank were $10,466 thousand and $7,819 thousand for December 31, 2004 and 2003, respectively, and are reported in cash and due from banks on the balance sheet.

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 all periods have been retroactively adjusted for the 3-for-2 stock split in 2004 and the 5% stock dividend in 2003.

	2004	2003	2002
Weighted average basic shares outstanding	4,546,834	4,392,962	4,324,202
Add: Potential common shares related to stock options	351,176	315,591	227,439
Weighted average diluted shares outstanding	4,898,010	4,708,553	4,551,641

The number of antidilutive shares not included in the calculation of diluted earnings per shares were 14,250, 17,366 and 36,114 at December 31, 2004, 2003 and 2002, respectively.

Stock-Based Compensation In December 2002 the Bank adopted the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure, which amends SFAS No. 123 - Accounting for Stock-Based Compensation. This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure requirements to require prominent disclosure about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Bank accounts for stock-based awards for its plans under APB Opinion No. 25 - Accounting for Stock Issued to Employees - under which no stock-based compensation cost has been recognized in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for these plans been determined in accordance with SFAS No. 123, the Bank's net income and earnings per share would have been reduced to the pro forma amounts shown in the following table. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

(Dollars in thousands, except per share amounts)	2004	2003	2002
Net income as reported	$9,518	$7,473	$6,242
Stock-based compensation expense, net of taxes	(905)	(959)	(910)
Pro forma net income	$8,613	$6,514	$5,332
Earnings per share			
As reported (basic)	$2.09	$1.70	$1.44
As reported (diluted)	1.94	1.59	1.37
Pro forma (basic)	1.89	1.48	1.23
Pro forma (diluted)	1.76	1.38	1.17
Weighted-average fair value of options granted during the year	$12.43	$12.85	$11.87
Assumptions used in weighted-average fair value			
Risk-free interest rate	4.05%	4.00%	4.00%
Expected dividend yield	0.12%	0.00%	0.00%
Expected life in years	8	8	8
Expected price volatility	29.96%	28.83%	30.88%

In December 2004, the Financial Accounting Standards Board adopted SFAS No. 123-R, which requires recognition for stock-based compensation expense in the Bank's financial statements beginning in the third quarter of 2005. The Bank expects to adopt the requirements prospectively in July 2005 and estimates the impact to be a reduction to net income of approximately $105 thousand to $140 thousand per quarter.

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

Segment Information The Bank's two operating segments include the traditional community banking activities provided through its nine branches and its Wealth Management Services. The activities of these two segments are monitored and reported by Bank 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 $922 thousand in 2004, $815 thousand in 2003, and $670 thousand in 2002, 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.

Note 2: Investment Securities

The amortized cost and fair market value of investment securities at December 31, 2004 and 2003 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
2004 Held to maturity				
Oblig. of state & political subdivisions	$26,249	$472	$(261)	$26,460
Corporate debt securities and other	11,594	213	(11)	11,796
	37,843	685	(272)	38,256
2004 Available for sale				
U. S. Treasury Securities	10,351	6	(77)	10,280
Securities of U.S. Government Agencies	64,203	130	(473)	63,860
	74,554	136	(550)	74,140
Total	$112,397	$821	$(822)	$112,396
2003 Held to maturity				
Oblig. of state & political subdivisions	$30,499	$ 983	$ (122)	$31,360
Corporate debt securities and other	11,691	689	---	12,380
	42,190	1,672	(122)	43,740
2003 Available for sale				
U. S. Treasury Securities	13,316	135	(1)	13,450
Securities of U.S. Government Agencies	66,781	510	(205)	67,086
	80,097	645	(206)	80,536
Total	$122,287	$2,317	$(328)	$124,276

The amortized cost and estimated market value of investment securities at December 31, 2004 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, 2004			
	Held to maturity		Available for sale	
(In thousands)	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Within one year	$13,710	$13,759	$ 21,330	$21,356
After one but within five years	13,441	13,893	44,556	44,169
After five years through ten years	6,912	7,003	6,496	6,410
After ten years	3,780	3,601	2,172	2,205
Total	$37,843	$38,256	$74,554	$74,140

For the years ended December 31, 2004, 2003, and 2002 the Bank did not sell any of its investment securities, and accordingly, did not recognize any gains or losses. At December 31, 2004, investment securities carried at $17,253 thousand were pledged with the Federal Reserve Bank: $3,994 thousand to secure the Bank's Treasury, Tax and Loan account and trust deposits, $4,048 thousand to provide collateral for potential future borrowings to meet unusual short-term liquidity needs, and $9,211 thousand to secure the Bank's public fund deposits.

Investment securities with unrealized losses are summarized and classified according to the duration of the loss period as follows:

December 31, 2004

(In thousands)	< 12 continuous months Fair value	Unrealized loss	> 12 continuous months Fair value	Unrealized loss
Held-to-maturity				
Obligations of state & political subdivisions	$5,634	$(261)	$---	$ ---
Corporate debt securities and other	2,081	(11)	---	---
	7,715	(272)	---	---
Available for sale				
U. S. Treasury Securities	9,272	(77)	---	---
Securities of U. S. Government Agencies	42,222	(473)	---	---
	51,494	(550)	---	---
Total temporarily impaired securities	$59,209	$(822)	$---	$---

December 31, 2003

(In thousands)	< 12 continuous months Fair value	Unrealized loss	> 12 continuous months Fair value	Unrealized loss
Held-to-maturity				
Obligations of state & political subdivisions	$ 3,857	$ (122)	---	--
Available for sale				
U. S. Treasury Securities	1,999	(1)	---	---
Securities of U. S. Government Agencies	20,053	(205)	---	---
	22,052	(206))	---	---
Total temporarily impaired securities	$25,909	$(328)	---	---

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-seven securities at December 31, 2004 and nine securities at December 31, 2003 with fair values of $59,209 thousand and $25,909 thousand, respectively, and unrealized losses of $822 thousand and $328 thousand, respectively. Management has determined that 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. The duration of this impairment was for a period of less than twelve months.

Note 3: Loans

The majority of the Bank's loan activity is with customers located in California, primarily in the counties of Marin and southern Sonoma. Although the Bank has a diversified loan portfolio, a large portion of the loans are for commercial property, and many of the Bank's loans are secured by real estate in Marin and Sonoma County. Approximately 71% of the loans are secured by real estate.

Outstanding loans by type, net of deferred loan fees of $2,040 thousand and $1,395 thousand at December 31, 2004 and 2003, respectively, are as follows:

(In thousands)	2004	2003
Commercial loans	$120,006	$105,847
Real estate		
Commercial	250,326	196,703
Construction	81,549	44,471
Residential	30,692	28,052
Installment	94,384	75,808
Total loans	576,957	450,881
Less - Allowance for loan losses	(6,110)	(5,458)
Net Loans	$570,847	$445,423

At December 31, 2004 and 2003 the Bank had no loans that were past due greater than 90 days.

At December 31, 2004, commercial real estate loans of $56,655 thousand were pledged as collateral for an FHLB line of credit.

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 and do not involve more than the normal risk of collectibility or present other unfavorable features.

An analysis of net loans to related parties for the year ended December 31, 2004, is as follows:

(In thousands)	2004
Balance at beginning of year	$1,730
New loans to related parties	1,044
Repayments	277
Balance at end of year	$2,497

The undisbursed commitment to related parties as of December 31, 2004 was $1,992 thousand.

Note 4: Allowance for Loan Losses

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

(In thousands)	2004	2003	2002
Beginning balance	$5,458	$ 5,035	$ 4,580
Provision for loan loss charged to expense	934	685	577
Loans charged off	(427)	(376)	(194)
Loan loss recoveries	145	114	72
Ending balance	$ 6,110	$ 5,458	$ 5,035
Total loans outstanding at end of year, before deducting allowance for loan losses	$ 576,957	$ 450,881	$ 410,155
Average total loans outstanding during the year	$ 514,299	$ 434,908	$ 366,408
Ratio of allowance for loan losses to total loans at end of year	1.06%	1.21%	1.23%

Loans classified as nonaccrual amounted to $0 at December 31, 2004 and 2003.

At December 31, 2004, 2003 and 2002 the Bank had no impaired loans. The average recorded investment in impaired loans was $0 for the years ended December 31, 2004, 2003 and 2002.

Note 5: Bank Premises and Equipment

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

(In thousands)	2004	2003
Leasehold improvements	$5,276	$ 5,214
Furniture and equipment	6,038	5,748
	11,314	10,962
Accumulated depreciation and amortization	(7,403)	(6,454)
Bank premises and equipment, net	$3,911	$4,508

The amount of depreciation and amortization was $949 thousand, $992 thousand and $882 thousand for the three years in the period ended December 31, 2004, 2003 and 2002, respectively.

Note 6: Bank Owned Life Insurance

The Bank has purchased life insurance policies on the lives of certain officers in the Bank and intends to use the policies ($10,715 thousand cash surrender value at December 31, 2004 and $10,203 thousand cash surrender value at December 31, 2003) 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 carrying 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 $512 thousand in 2004 and

$203 thousand in 2003 was recognized on the life insurance policies and is reported in "other non-interest income."

Note 7: Deposits

Time deposits in denominations of $100,000 or greater were $68,720 thousand and $71,520 thousand at December 31, 2004 and 2003, respectively. Interest on these deposits was $1,968 thousand, $2,534 thousand and $2,960 thousand in 2004, 2003 and 2002, respectively. Scheduled maturities of these deposits at December 31, 2004 follows:

(In thousands)	2005	2006	2007	2008	2009	Thereafter	Total
Scheduled maturities of time deposits	$47,579	$7,937	$3,616	$2,370	$7,218	$---	$68,720

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

Federal funds Purchased Short-term debt at December 31, 2004 and 2003 consisted of overnight Federal funds purchased in the amount of $17,800 thousand and $0 thousand, respectively. Short-term borrowing available to the Bank of $24,448 thousand consists of a line of credit and advances with the Federal Home Loan Bank ("FHLB") secured under terms of a blanket collateral agreement by a pledge of FHLB stock and certain other qualifying collateral such as investments and loans. At December 31, 2004 the Bank had an unused capacity with the FHLB of $6,648 thousand. The Bank also has unused unsecured formal lines of credit totaling $35,000 thousand with correspondent banks. At December 31, 2004, interest rates on lines of credit with correspondent banks ranged from 2.00% to 3.18%.

Subordinated Debt On June 17, 2004 the Bank issued a 15-year, $5 million subordinated debenture through the pooled trust preferred program of FTN Financial Capital market and Keefe, Bruyette and Woods, which matures on June 17, 2017. The Bank has the right to redeem the debenture, in whole or in part, at the redemption price at principal amounts in multiples of $1,000 thousand on any interest payment date on or after June 17, 2009. The interest rate on the debentures changes quarterly and is paid quarterly at the three-month LIBOR plus 2.48%. The rate at December 31, 2004 was 4.98%. The debenture is subordinated to the claims of depositors and other creditors of the Bank.

Borrowings at December 31, 2004 and 2003 are summarized as follows:

	2004			2003		
(In thousands)	Carrying Value	Average Balance	Average Rate	Carrying Value	Average Balance	Average Rate
Federal funds purchased	$17,800	$2,805	1.74%	$ ---	$91	1.71%
Subordinated debenture	5,000	2,705	4.32	---	---	---

The maximum amount outstanding at any month end for Federal funds purchased was $18,800 thousand and $5,300 thousand, during 2004 and 2003, respectively.

Note 9: Benefit Plans

In 2003 the Bank established an Officer Deferred Compensation Plan, which 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 7% for 2004 and 6% for the period from September 1, 2003 to December 31, 2003. The Bank's deferred compensation obligation of $722 thousand and $113 thousand at December 31, 2004 and 2003, 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 $2 thousand and $23 thousand for the years ended December 31, 2004 and 2003, respectively.

The Bank's 401(k) Plan commenced in May 1990 and is available to all employees. Under the Plan employees can defer up to 50% of their base pay, 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 $4,000 annually. Employer contributions totaled $306 thousand, $267 thousand and $227 thousand for the years ended December 31, 2004, 2003 and 2002, respectively.

In 1995 the Plan was amended to include an employee stock ownership component and was renamed the Bank of Marin Employee Stock Ownership and Savings 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 stock. For the years ended December 31, 2004, 2003 and 2002 the Bank contributed $754 thousand, $653 thousand and $652 thousand, respectively. In December 2003 the Plan's trustees arranged for a $1,000 thousand 26-month revolving line of credit at prime plus 1/4% from an unaffiliated community bank. At December 31, 2004 the balance on the line was $0.

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 10: Income Taxes

The current and deferred components of the income tax provision for each of the three years ended December 31, 2004 are as follows:

In thousands	2004	2003	2002
Current tax provision			
Federal	$3,553	$3,175	$ 2,866
State	1,444	1,235	1,137
Total current	4,997	4,410	4,003
Deferred tax(benefit)/liability			
Federal	619	145	(96)
State	192	85	(10)
Total deferred	811	230	(106)
Total income tax provision	$5,808	$4,640	$3,897

Income taxes recorded directly to comprehensive income are not included above. These income tax benefits relating to changes in the unrealized gains and losses on available for sale investment securities amounted to $358 thousand, $215 thousand and $188 thousand in 2004, 2003 and 2002, respectively.

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

(In thousands)	2004	2003
Deferred tax assets:		
Allowance for loan losses	$2,895	$2,310
Depreciation	304	---
State franchise tax	123	481
Deferred compensation	423	148
Net unrealized loss on securities available for sale	174	---
	3,919	2,939
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	---	(180)
Depreciation	---	(184)
Loan origination costs	(179)	---
	(179)	(364)
Net deferred tax asset	$3,740	$2,575

Based upon the level of historical taxable income and projections for further taxable income over the periods during which the deferred tax assets are 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 2004, 2003 and 2002 differs from the current Federal statutory income tax rate as follows:

	2004	2003	2002
Federal statutory income tax rate	35.0%	34.0%	34.0%
Increase (decrease) due to:			
California franchise tax, net of federal tax benefit	6.9	7.2	7.3
Tax exempt interest on municipal securities	(2.3)	(2.8)	(3.3)
Other	(1.7)	(0.1)	0.4
	37.9%	38.3%	38.4%

Note 11: Commitments and Contingencies

The Bank rents certain premises and equipment under long-term non-cancellable operating leases expiring at various dates through the year 2019. At December 31, 2004 the approximate minimum future commitments payable under non-cancellable contracts for leased premises are as follows:

(In thousands)	2005	2006	2007	2008	2009	Thereafter	Total
Operating leases	$1,303	$980	$874	$874	$757	$2,291	$7,079

Rent expense included in "occupancy" totaled $1,344 thousand, $1,178 thousand and $1,134 thousand in 2004, 2003 and 2002, respectively.

The Bank leases one branch facility from a current member of the Bank's Board of Directors at current market prices. Rental payment to the Director totaled $120 thousand, $116 thousand and $113 thousand for the years ended December 31, 2004, 2003 and 2002, respectively.

The Bank is party to legal actions which arise from time to time as part of the normal course of its business. The Bank 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 the Bank.

Note 12: Fair Value of Financial Instruments

The carrying amounts and fair values of the Bank's financial instruments at December 31, 2004 and 2003 follows:

	2004		2003	
(In thousands)	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial assets				
Cash and cash equivalents	$29,499	$ 29,499	$ 52,926	$ 52,926
Investment securities	111,983	112,396	122,726	124,276
Loans, net	570,847	574,016	445,423	452,490
Accrued interest receivable	3,312	3,312	2,960	2,960
Financial liabilities				
Deposits	645,079	645,109	584,116	584,970
Federal funds purchased	17,800	17,800	---	---
Subordinated debenture	5,000	5,000	---	---
Accrued interest payable	307	307	322	322

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.

Borrowings - The balance represents its fair value due to the short-term nature of these borrowings and the long-term borrowing has a variable interest rate.

Commitments - The fair value of commitments is not material.

Note 13: Stockholders' Equity

On April 15, 2004, the Board of Directors declared a 3-for-2 stock split contingent upon approval of an increase in the number of authorized common shares by the shareholders and the California Department of Financial Institutions ("CDFI"). Shareholders approved the increase to 15 million common shares at their May 4, 2004 Annual Meeting and subsequently the CDFI approved that amendment to the Articles of Incorporation. The stock split was payable on May 24, 2004 to shareholders of record on May 19, 2004. Additionally, the Board declared a one-time special cash dividend of $.40 per post-split share payable on June 1, 2004 to shareholders of record on May 27, 2004, which was also subject to the approvals just noted.

On April 10, 2003 and April 11, 2002, 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 and stock split.

The Bank has stock option plans for full-time, salaried officers and employees who have substantial responsibility for the successful operation of the Bank. Terms of the plans provide for the issuance of up to 674,606 shares of common stock for these officers and employees. Options are issued at the fair market value of the stock at the date of grant. Options expire ten years from the grant date, and vest over a four year period. Terms of the plans also provide for the issuance of up to 115,473 shares for non-employee directors. These options expire seven years from the grant date, and vest over a four year period. A summary of the status of the Bank's stock option plans at December 31, 2004, 2003 and 2002 and changes for the years then ended is presented in the following table. The 2003 and 2002 information has been restated to reflect the 3-for-2 stock split that occurred in 2004.

	2004		2003		2002	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beg. of year	835,880	$13.24	849,941	$12.37	777,152	$11.38
Granted	100,279	$29.85	78,395	$20.06	124,596	$16.53
Exercised	(168,015)	$11.16	(74,844)	$10.11	(43,857)	$6.48
Cancelled/forfeited	(15,955)	$19.98	(17,612)	$14.57	(7,950)	$14.14
Outstanding at end of year	752,189	$15.78	835,880	$13.24	849,941	$12.37
Exercisable at end of year	562,883	$13.63	593,538	$12.28	521,220	$11.51

A summary of the options outstanding and exercisable by price range as of December 31, 2004 is presented in the following table.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Exercisable	Weighted Avg. Exercise Price
$0.00 - $5.00	8,355	0.9	$4.61	8,355	$4.61
$5.01 - $10.00	24,520	1.8	$6.24	24,520	$6.24
$10.01 - $15.00	454,071	4.4	$12.70	425,033	$12.66
$15.01 - $20.00	143,099	7.1	$17.28	74,194	$17.11
$20.01 - $25.00	27,266	7.2	$22.06	11,446	$22.03
$25.01 - $30.00	57,678	9.2	$28.29	11,535	$28.29
$30.01 - $35.00	31,200	9.4	$31.51	6,600	$31.51
$35.01 - $40.00	6,000	9.9	$36.84	1,200	$36.84
	752,189	5.5	$15.78	562,883	$13.63

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, the balance of retained earnings equalling approximately $21,409 thousand was available for payment of dividends as of December 31, 2004.

Note 14: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and California banking agencies. The Federal Deposit Insurance Corporation (FDIC) has adopted risk-based capital regulations, which assign risk weightings to bank assets and "off-balance sheet" items (such as loan commitments). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by the FDIC that, if undertaken, could have a material effect on the Bank's financial statements. The regulations require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2004 and 2003, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2004 and 2003 are presented in the table.

(In thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2004						
Total Capital (to risk-weighted assets)	$77,328	11.37%	≥$54,388	≥8.0%	≥$67,986	≥10.0%
Tier 1 Capital (to risk-weighted assets)	$65,849	9.69%	≥$27,194	≥4.0%	≥$40,791	≥ 6.0%
Tier 1 Capital (to average assets)	$65,849	8.98%	≥$29,332	≥4.0%	≥$36,665	≥ 5.0%
As of December 31, 2003						
Total Capital (to risk-weighted assets)	$61,164	10.92%	≥$44,795	≥8.0%	≥$55,994	≥10.0%
Tier 1 Capital (to risk-weighted assets)	$55,322	9.88%	≥$22,398	≥4.0%	≥$33,596	≥ 6.0%
Tier 1 Capital (to average assets)	$55,322	8.80%	≥$23,263	≥4.0%	≥$29,079	≥ 5.0%

Note 15: Financial Instruments with Off-Balance Sheet Risk

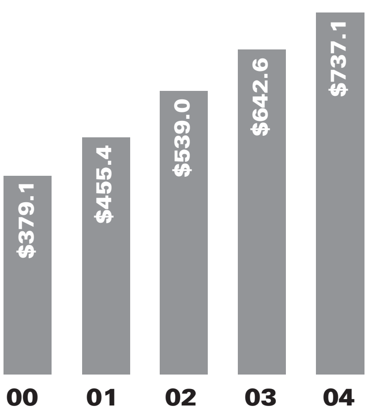
The Bank makes commitments to extend credit in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. Commitments to extend credit are agreements to lend to 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 event of nonperformance by the borrower, in the contract amount of the commitment. 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 $184,598 thousand at December 31, 2004 at rates ranging from 3.04% to 18%. The Bank has set aside an allowance in the amount of $369 thousand for these commitments, which is recorded in "interest payable and other liabilities." Approximately 62% of the commitments expire in 2005 with approximately 38% expiring between 2006 and 2015.

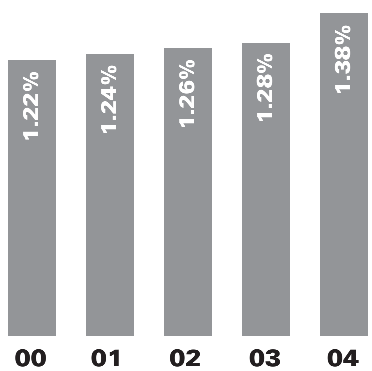
SELECTED FINANCIAL DATA (in thousands except per share)

At December 31	2000	2001	2002	2003	2004	03/04 % change
Total assets	$ 379,096	$ 455,417	$ 539,025	$ 642,607	$ 737,094	14.7%
Total loans	264,948	326,249	410,155	450,881	576,957	28.0%
Total deposits	341,711	411,818	486,029	584,116	645,079	10.4%
Total stockholders' equity	34,352	40,601	47,117	55,577	65,608	18.0%
Equity-to-assets ratio	9.1%	8.9%	8.7%	8.6%	8.9%	

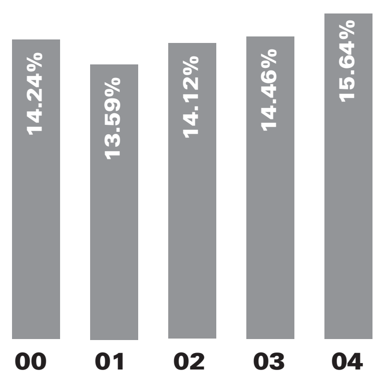
For year ended December 31	2000	2001	2002	2003	2004	03/04 % change
Net interest income	$ 19,271	$ 21,456	$ 25,522	$ 27,656	$ 32,237	16.6%
Provision for possible loan losses	986	619	577	686	934	36.2%
Non-interest income	1,638	1,873	2,318	2,960	3,643	23.1%
Non-interest expense	12,675	14,428	17,125	17,817	19,620	10.1%
Net income	4,523	5,148	6,242	7,473	9,518	27.4%
Net income per share (diluted)*	1.05	1.17	1.37	1.59	1.94	22.0%
Dividend payout ratio	0%	0%	0%	0%	19.1%	



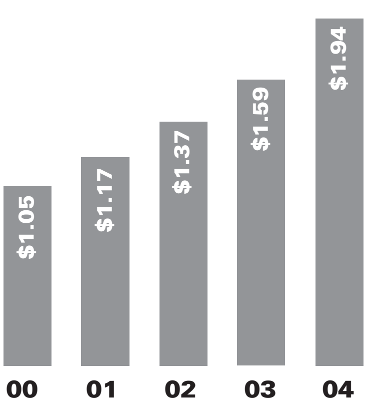
Total Assets (in millions)



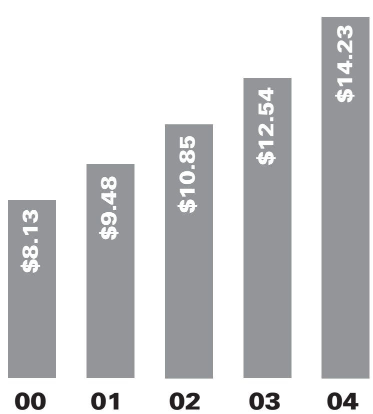
Return on Assets



Return on Equity



Net Income Per Share (diluted)*



Book Value Per Share*

*Restated for stock dividends declared April 2000, 2001, 2002, 2003 and a 3-for-2 stock split declared April 2004.

DIVIDEND INFORMATION, STOCK PRICE AND MARKETPLACE DESIGNATION

On April 15, 2004 the Board of Directors declared a 3-for-2 stock split payable May 24, 2004 to shareholders of record on May 19, 2004. Additionally, the Board declared a one-time special cash dividend of $0.40 per post-split share payable on June 1, 2004 to shareholders of record on May 27, 2004.

During 2004 there were 1,999 trades at prices ranging from a high of $40.70 to a low of $26.57. In 2003 there were 919 trades at prices ranging from a high of $33.49 to a low of $17.79.

Bank of Marin common stock trades on the NASDAQ SmallCap Market under the symbol BMRC. There were 792 holders of record of the Bank's common stock as of February 1, 2005.