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Interviews & News!

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A Commitment To Service In Marin County Which Has Experienced High Growth In Wealth Accumulation Has Enabled Bank Of Marin To Have Consistent And Steady Growth Over The Years



Financial
Community Banks
(BMRC-NASDAQ)

Bank of Marin Bancorp

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Russell A. Colombo
Chief Executive Officer

BIO:

Russell A. Colombo is a lifelong resident of Marin County. He received a Bachelor of Science degree in Agricultural Economics & Business Management from University of California, Davis and an MBA in Banking & Finance from Golden

Gate University. He joined Bank of Marin in March 2004 as Executive Vice President and Branch Administrator and was appointed Executive Vice President and Chief Operating Officer in July 2005. As of July 1, 2006 he assumed the position of President and Chief Executive Officer. He has thirty-two years of banking experience including positions as Senior Vice President and Group Manager of the San Francisco office of Comerica Bank and as Senior Vice President and Regional Manager during his nineteen year career with Union Bank of California. He serves on the Boards of Hanna Boys Center, North Bay Leadership Council, Marin Workforce Housing Trust, and is a member of College of Marin's President's Circle.

Company Profile:

Bank of Marin, the sole subsidiary of Bank of Marin Bancorp, has eight branch offices in Marin County, California with locations in Mill Valley, Corte Madera, downtown San Rafael, Andersen Drive and Northgate in San Rafael, Ignacio, downtown Novato, Sausalito and three offices in Petaluma, California. The Bank also has a commercial loan production office in San Francisco. The Bank's administrative offices are located in Novato, California and its Wealth Management Services are located in Corte Madera, Novato and Petaluma.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Colombo, you have been CEO going on two years now; what was your vision when you became CEO and where are you today?

Mr. Colombo: "The vision for the organization is to be a premiere community bank in the North Bay, San Francisco Bay Area. We have ideals that we live by in terms of providing a high return to our shareholders and serving the community. We are extremely involved in the community of Marin and Southern Sonoma County. As an organization we want to continue to grow but the most important thing is earnings per share, equity growth, and growth is part of that it drives that quite often but we wouldn't give up the first or the second."

CEOCFO: What is the economic situation like in you area today?

Mr. Colombo: "The whole country is reeling a bit, but the North Bay, Marin County in particular is a very high income area, per capita income and household income as a county is fifth or sixth in the country; it far exceeds both the United States and California. We live in a community that is very high income and there is not a lot of population growth, probably 2%. While we don't have population growth we continue to have wealth accumulation here. We don't make any subprime loans, we never have and what drives a lot of that is big residential development and Marin County doesn't have any of that going on and has not for many years. We have avoided some of the problems here in Marin that some of the areas have had happen to them such as Sacramento, the Central Valley, Fresno, Modesto or even Southern California in some locations."

CEOCFO: How do you break down between commercial and consumer, and would you like to see that change?

Mr. Colombo: "We have a small amount

of consumer. I will break down the loan portfolio for you; 17% of our business is CNI business, we have commercial real estate of owner/occupied which is about 18% of our portfolio and we have investor commercial real estate that is 36% of the portfolio. In personal and home equity loans, each have 5%. We have some residential real estate but it is not the traditional mortgages that you would think of. We have done a lot of financing of tenant-in-common loans primarily in San Francisco. The way we do that is provide financing for four to six-unit apartment buildings that a developer will buy, renovate and then sell fractional interest in the four unit complex. In other words, there are four apartments, they sell for 25% shares of the building to individuals and they each have the right to occupy their particular unit. It is like a condominium but I guess in New York you have co-ops, it is kind of like that. We do some of that and we provide the construction financing for the renovation and we provide the proximal interest loans. That is what makes it about 6% of our portfolio. In a construction it is 13% and that which is about \$95 million dollars. Frankly in the last year we actually have decreased and we have been very careful with construction and again we try to be a balanced organization and consistent slow growth; we think it is important to be balanced, we think it is important to diversify but we also know what we do well, we are not all things to all people. Primarily our biggest market share is the small business part of our portfolio.”

CEOCFO: Please tell us what makes your service legendary?

Mr. Colombo: “How we define our service as legendary service is that it has gone above and beyond what is normal service levels at a bank. What makes a community bank different than a big bank is that the big banks would traditionally have a lower cost capital and they have of the ability to do lending for commodity type businesses a lot better than we do. We have to distinguish ourselves by putting a great emphasis on service levels. What we do well and what

I define as legendary services is going above and beyond primarily business customers. We provide that high-touch where they wouldn’t necessarily get the turn-around from another organization. In our branches, it is about doing things that are out of the ordinary. For example, we have a branch in an area called Strawberry, which is part of Mill Valley which is in southern Marin; we had a customer who happened to be a writer and speaker a guy by the name of Jason Jennings who has a couple of books, one is Think Big , Act Small. He is a customer of our bank and drove up to our bank on his way to the airport. He went up to the ATM to get some cash, the ATM was not in service, it was eight o’clock in the morning, he looks in the bank and the assistant manager there said what is wrong, he said I

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don’t have any cash, they said come in the vault is locked and these two people open their wallets and give him the cash and say pay us when you get back. That to me is above and beyond and not your typical service. That is kind of a funny example but those two people didn’t even think twice, of course that was what they were going to do. That is what we instill, not necessarily to open their wallets to all of our customers, but they knew the guy well, he was a good customer and they had to take care of him, and that is legendary service.”

CEOCFO: Please tell us about your private banking and wealth management; are those growing areas for you?

Mr. Colombo: “We have been in business in wealth management for about ten years and it is growing slowly. We manage \$275 million in assets under man-

agement there. It is a slow sell, but we are starting to gain momentum after a long time because it is a very personal thing, letting an organization manage your wealth, it takes a long time. We have built up to 275, we continue to grow, and each year we see ten to fifteen percent growth, which over time will be good. Would we prefer to be bigger? We would, but it is making money now and its growth is starting to accelerate which is really good.”

CEOCFO: Are there services you are not currently offering that you would like to add?

Mr. Colombo: “We have been focused on business services and over this year and the end of last year we have added a number of new business related services, we have added remote deposit capture, positive pay, something called SEEDERS which is a way for someone to make a deposit in the bank over \$100 thousand and still have full FDIC insurance. We are in the process of adding a product which is a on-balance sheet sweep. We have added a mid-tier business checking account. We had a small business account and an analysis account so we added one to sit in-between to better serve that market. All our product development lately has been focused

on the business community. We have in Marin County about 24% of the business core deposits, which is demand in money-market accounts for businesses in Marin County; we have a 24% market share, which is the largest market share of any bank. We exceed the second, which is West America, and Wells are both are about 15%. For a community bank that has 24% of the business market and approximately ten percent of the total deposits in accounting it is pretty significant piece of the deposit market.”

CEOCFO: Business is good these days!

Mr. Colombo: “It is good. My philosophy is that when the economics are tough and banks and businesses are struggling, it is a great time to build market share. We made a strategic move in 2007. We had a business, an indirect auto paper

department that bought auto paper from dealers in the North Bay; we bought a portfolio of about \$84 million. It was a great business when we had excess deposits and rather than sell funds we could put it into this auto paper. But it wasn't a relationship business. We made a decision about this time last year and we ended up executing the sale in June. We sold the portfolio of \$84 million dollars, we were able to take the cash from that and redirect that to what we call relationship loan, loans to companies that we do business with that have an opportunity to have other business. These are higher yielding relationship loans. Interestingly enough our net interest margin when we first sold the product was at 4.98% and went down to 4.94% percent by the end of the third quarter. As we continue to push this money back out to our customers by the end of the year our net interest margin had grown to 5.27%. Therefore, we grew 33 basis point in net interest margin over two quarters because we focused our effort to relationship instead of purchasing paper. That is an example. The timing was beautiful because financial institutions started having liquidity issues and we had a \$100 million in the bank. We could go out and develop not only new business but expand relationships with existing customers. The timing was great and results were very good."

CEO CFO: Will there be new branches coming up?

Mr. Colombo: "Yes we are opening a new branch in Mill Valley which is in Southern Marin the end of May. We have the property and we are just building it out now. That will be our ninth in Marin County. It is likely that we have one other location where we might open a branch in Marin but that kind of finishes it for us in Marin. Future expansion will likely be similar to what we did in San Francisco;

we put a loan production office in the city which is focused on commercial industrial business. We found the right person to run it, we have three people now there and they are developing commercial loans and relationships in the city which expands our geographical footprint and in the future as we look at other markets contiguous to ours it is likely we would do the same thing, put an office in a location near ours but not in our geography, to develop a loan portfolio and ultimately convert that to a full branch."

CEO CFO: Would you tell us about your community involvement?

Mr. Colombo: "We are not a huge organization but our net for the year is \$12.3 million dollars. This year our budget for charitable giving is \$300,000 so at a pre-tax basis that is well over one percent of our pre-tax earnings that we donate to charity. We have a community relations department and their job is to give away money. It is really across the board in our community, it is in health type non-profits, the arts. We give to over 250 non-profits in Marin County. Not only is it the money that we give, it is part of our mission statement for every employee to get involved within the community whether it is non-profit, the chamber of commerce, or whatever, everyone needs and wants to be involved in something so we give a lot of money but also a lot of human capital to the non-profit community and frankly it has served us well because we have become part of the community of Marin County and Bank of Marin are in many respects intertwined. It is or very good purposes that we do this/ Our employees feel connected to the communities and the organization."

CEO CFO: Why should potential investors pick Bank of Marin out of the crowd?

Mr. Colombo: "We have been consistent and steady with our growth over the years. You look at our performance, we are not the high flyer, we don't have these big spikes but we have managed our business consistently and strategically to grow but to manage that growth appropriately. We consistently have been growing our earnings per share and return equity. As an investor you look at it and say well Marin County maybe isn't a high-growth area population wise but it there continues to be a lot of growth in wealth accumulation. When you have a downturn in the economy like we do today you don't feel it near as much as you would in Sacramento or whatever. As an investor you are looking at this and saying this bank has done the right thing, our credit quality, we have a \$144,000 in non-performing assets. We had last year net recoveries on loans. When you start thinking of that, and you pick up the papers and read about other banks, that looks pretty good. We have been consistent, and have applied consistent and conservative underwriting standards. We don't give up credit, we make sure that we have a solid relationship and we build our relationships. I think the banks that have a good future are the ones that continue to develop their relationships with their customers, and another reason we are a good investment opportunity is community banks, the value of community banks lies in the core deposits. It gives you the ability to compete, you have a low cost of funds. Our cost of funds fourth quarter in total on deposits was 1.98%, which allows you to make loans, net interest margin over five percent and bring a lot of money in the bottom line. We are structured and developed a bank to have a very strong core deposit ration which really drives the profitability, and allows us to make profitable loans."



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