SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

NORTH COUNTY BANCORP

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to __________ to ________

Commission file number 0-10627

NORTH COUNTY BANCORP
(Exact name of registrant as specified in its charter)

California	95-3669135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
444 S. Escondido Boulevard, Escondido, California	92025
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(760) 743-2200

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, No Par Value
(Title of class)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-X contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 23, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $31,883,000.

Shares of Common Stock held by each officer and director and each person owning more than five percent of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of the affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock of the registrant outstanding as of March 23, 1999 was 4,882,705.

<TABLE>
<CAPTION>

Documents Incorporated by Reference:	Part of Form 10-K into which incorporated
<S>	<C>
Proxy Statement for the Company's Annual Meeting of Shareholders to be held June 16, 1999	Part III

</TABLE>

PART I

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ITEM 1. DESCRIPTION OF BUSINESS.

THE COMPANY

North County Bancorp (the "Company") is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is headquartered in Escondido, California. The Company was incorporated in October, 1981 and acquired all of the outstanding shares of North County Bank (the "Bank") in July, 1982. The Company's only subsidiary and principal asset is the Bank. The Company exists primarily for the purpose of holding the stock of its subsidiary, the Bank, and of such other subsidiaries as it may acquire or establish.

The Company's principal sources of income are dividends from the Bank. The expenditures of the Company, including (but not limited to) the payment of dividends to stockholders, if and when declared by the Board of Directors, and the cost of servicing debt will generally be paid from such payments made to the Company by the Bank. At December 31, 1998, the Company had consolidated assets of $337.4 million, deposits of $303.1 million and stockholders' equity of $30.0 million.

The Company's Administrative Offices are located at 444 South Escondido Boulevard, Escondido, California and its telephone number is (760) 743-2200. References herein to the "Company" include the Company and the Bank, unless the context indicates otherwise.

THE BANK

North County Bank, a California state-chartered bank that commenced operations in June, 1974, conducts its business through nine full-service branches and one loan production office. Five of the branches are located in San Diego County in the cities of Escondido, Poway, San Marcos and San Diego, with the remaining in Riverside County in the cities of Temecula, Murrieta, Beaumont and Banning. The Bank's loan production office is in Renton, Washington. The Bank provides a wide range of banking services to small and medium-sized businesses, real estate construction and development companies, professionals and individuals located in San Diego and Riverside counties, and offers small business loans through its loan production office in the Seattle, Washington area.

The Bank holds no material patents, trademarks, licenses (other than licenses obtained from bank regulatory authorities), franchises or concessions, and did not spend any amounts on research and development activities in either of the Company's last three fiscal years. The Bank owns three subsidiaries; NCB Joint Venture-1, Inc. and GWB Development, which participated in real estate development, and NCB Mortgage, all of which are inactive corporations.

RETAIL BANKING SERVICES

DEPOSITS ACCOUNTS

The Bank offers a wide variety of deposit products for the retail banking market including checking, interest-bearing checking, savings, certificates of deposit and retirement accounts. As of December 31, 1998, the Bank had approximately 25,995 retail deposit accounts with a balance of $169.6 million as compared to 22,706 accounts with a balance of $115.4 million at December 31, 1997. The Bank attempts to attract deposits through its product mix, pricing, convenient locations, extended hours, and efforts to provide the highest level of customer service. At December 31, 1998 the Bank's retail deposits consisted of $25.3 million or 15% in noninterest-bearing demand deposits, $20.6 million or 12% in interest-bearing demand deposits, $54.2 million or 32% in savings and money market deposits, $6.3 million or 4% in individual retirement accounts and $63.2 million or 37% in time certificates of deposit. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -Deposits.")

LOANS

The Bank also offers many types of consumer loans to its customers. These include new and used automobile, home improvement, home equity, personal lines of credit, overdraft protection, credit cards and other secured and unsecured installment and consumer loans. The Bank's consumer loans totaled approximately $34.2 million and $41.0 million at December 31, 1998 and 1997, respectively. The Bank also makes construction loans for custom built, owner-occupied homes, but generally does not offer long term home mortgage loans. Additionally, the Bank offers its customers FHA Title I home improvement loans and other home equity loan products, as well as purchasing these types of loans from other lenders. The Bank generally sells these loans in the secondary

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market, generating fee income on the sale. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Loans.")

OTHER RETAIL PRODUCTS AND SERVICES

The Bank offers other products and services to its retail customers which complement its deposit and loan products. These include life insurance products, including annuities, investments, travelers' checks, safe deposit boxes, escrow, notary, and collection services. The Bank also has drive-through facilities with extended hours, provides its customers with access to ATMs and POS terminals throughout the world and offers a telephone voice response service which gives customers access to account information 24 hours a day.

BUSINESS BANKING SERVICES

DEPOSIT ACCOUNTS

The Bank offers interest-bearing and noninterest-bearing deposit accounts designed for small to medium-sized business customers. The services offered in conjunction with these accounts may include providing currency and coin, armored car pick-up, courier services, payroll services, credit card merchant services, document collection and wire transfers. The fees charged for a business account typically vary with the amount of services provided and the level of balances the customer keeps on deposit. The Bank relies on marketing and promotional activities and personal contact by its officers, directors and employees to develop these customer relationships, emphasizing the Bank's local ownership and decision making, personal service, community ties and financial strength. At December 31, 1998 the Bank had approximately 7,350 business deposit accounts totaling $126.5 million as compared to approximately 7,582 accounts totaling $129.9 million at December 31, 1997. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Deposits.")

LOANS

The Bank provides secured and unsecured loans and lines of credit for the operating and expansion needs of businesses, ranging from inventory and accounts receivable financing to equipment financing and letters of credit. These loans are generally for terms of one year or less. Significant emphasis is placed on the borrower's earnings history, capitalization, secondary sources of repayment (such as accounts receivable) or highly liquid collateral (such as certificates of deposit or publicly traded stocks or bonds). The Bank also makes loans to local real estate developers for the construction of entry level to middle income single family residences and fixed and variable rate loans on commercial real estate with terms of up to ten years. For customers whose loan demands exceed the Bank's legal lending limits, the Bank attempts to arrange for such loans on a participation basis with correspondent banks. Commercial loans (including commercial real estate loans) and construction loans totaled approximately $179.8 million and $19.9 million, respectively, at December 31, 1998, compared to $154.6 million and $10.3 million at December 31, 1997, respectively.

The Bank is also one of the largest lenders of loans guaranteed by the U.S. Small Business Administration ("SBA") in its market area. SBA loans generally have maturities ranging from seven to 25 years, often are secured by commercial real estate and are currently guaranteed up to 80% by the SBA. The Bank sometimes sells these loans for a premium as there is an active secondary market for these loans. The Bank originated approximately $29.6 million and $35.0 million in SBA loans in 1998 and 1997, respectively. The Bank's SBA loan servicing portfolio, consisting of the guaranteed portion of SBA loans originated and sold, for which the Bank earns servicing fee income, totaled

approximately $32.0 million and $42.9 million at December 31, 1998 and 1997, respectively. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Loans.")

REAL ESTATE INVESTMENTS

The Company has engaged in direct and indirect real estate development activities on a selective basis. At December 31, 1996, the Company was involved in one development project that originated in 1989. The project held one remaining lot for sale at December 31, 1996, which was sold in January of 1997. The Company has no plans for future involvement in real estate development projects.

COMPETITION

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The banking business in southern California is highly competitive with respect to virtually all products and services and has become increasingly so in recent years. The industry continues to consolidate, and strong, unregulated competitors have entered the banking market with focused products targeted at highly profitable customer segments. Many largely unregulated competitors are able to compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products. These competitive trends are likely to continue.

With respect to commercial bank competitors, the business is largely dominated by a relatively small number of major banks with many offices operating over a wide geographical area, which banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their investment resources to regions of highest yield and demand.

Several mergers of large regional banks and large savings and loan associations with major banks, acquisitions of independent banks by major banks, and the failures of several independent banks in the Company's market area have significantly increased the presence of large regional banks and have reduced the number of independent banks competing in the Company's market area. Many of the major banks operating in the area offer certain services which the Bank does not offer directly (but some of which the Bank offers through correspondent institutions). By virtue of their greater total capitalization, such banks also have substantially higher lending limits than does the Bank(1). Although major banks have some competitive advantages over small independent banks, the Bank has actively tried to make the loss of local independent banks a competitive advantage by soliciting customers who prefer the personal service offered by the Bank. The Company's promotional activities emphasize the advantages of dealing with a local bank attuned to the particular needs of the community and relies heavily upon local promotional activities and personal contact by its officers, directors, and employees.

In addition to other banks, competitors include savings institutions, credit unions, and numerous non-banking institutions, such as finance companies, brokerage firms, mortgage companies and insurance companies. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive. Competition has also intensified due to recently enacted federal and state interstate banking laws, which permit banking organizations to expand geographically, and the California market has been particularly attractive to out-of-state institutions.

Technological innovation has also resulted in increased competition in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches, and/or in-store branches. In addition to other banks, the sources of competition for such products include savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, and mortgage banking firms.

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(1) Legal lending limits to each customer are restricted to a percentage of the Bank's total stockholders' equity, the exact percentage depending upon the nature of the loan transaction.

REGULATION AND SUPERVISION

The Company and the Bank are subject to significant regulation by Federal and state regulatory bodies. The following discussion of statutes and regulations is only a brief summary and does not purport to be complete. This discussion is qualified in its entirety by reference to such statutes and regulations. No assurance can be given that such statutes or regulations will not change in the future.

THE COMPANY

The Company is subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934 (the "Exchange Act") which requires the Company to file annual, quarterly and other current reports with

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the Securities and Exchange Commission (the "Commission"). The Company is also subject to additional regulations including, but not limited to, the proxy and tender offer rules promulgated by the Commission under Sections 13 and 14 of the Exchange Act; the reporting requirements of directors, executive officers and principal stockholders regarding transactions in the Company's Common Stock and short-swing profits rules promulgated by the Commission under Section 16 of the Exchange Act; and certain additional reporting requirements by principal stockholders of the Company promulgated by the Commission under Section 13 of the Exchange Act.

The Company is a bank holding company within the meaning of the Bank Holding Company Act and is registered as such with the Board of Governors of the Federal Reserve System (the "FRB"). A bank holding company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries. It is also subject to examination by the FRB and is required to obtain FRB approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank if, after such acquisition, it would directly or indirectly own or control more than 5% of the voting stock of that bank, unless it already owns a majority of the voting stock of that bank.

The FRB has by regulation determined certain activities in which the Company may or may not conduct business. The Company is currently prohibited from such activities as real estate brokerage and syndication; real estate development; property management; underwriting of life insurance not related to credit transactions; and, with certain exceptions, securities underwriting and equity funding.

THE BANK

The Bank joined the Federal Reserve System as a state-chartered member in July 1997. As a California state-chartered bank and member of the Federal Reserve System, the Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions (the "Department") and by the FRB. The regulations of these agencies govern most aspects of the Bank's business, including the making of periodic reports by the Bank, and the Bank's activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits and numerous other areas. Supervision, legal action and examination of the Bank by the regulatory agencies are generally intended to protect depositors and are not intended for the protection of stockholders.

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or "spread" between the yield on its interest-earning assets and the rate paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies, particularly the FRB. The FRB implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rate applicable to borrowings by banks which are members of the Federal Reserve System. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

CAPITAL ADEQUACY REQUIREMENTS

Both the Bank and the Company are subject to the regulations of the FRB governing capital adequacy. These regulations incorporate both risk-based and leverage capital requirements. Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations. Under these guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans. Total capital requirements are defined in terms of "core capital elements," or Tier 1 capital and "supplemental capital elements," or Tier 2 capital. The minimum ratio of qualifying total capital to total risk-weighted assets is 8.0%, at least one-half of which must be in the form of Tier 1 capital. As of December 31, 1998, the Company's Tier 1 risk-based capital and total risk-based capital ratios were 11.68% and 12.93%, respectively, and the Bank's Tier 1 risk-based capital and total risk-based capital ratios were 11.58% and 12.83%, respectively.

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The federal banking agencies have revised the risk-based capital standards to take adequate account of concentrations of credit (i.e., relatively large proportions of loans involving one borrower, industry, location, collateral or loan type) and the risks of "non-traditional" activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards, and authorize the regulators to review an institution's management of such risks in assessing an institution's capital adequacy.

The federal banking agencies have also revised the risk-based capital regulations to include exposure to interest rate risk as a factor that the regulators will consider in evaluating a bank's capital adequacy. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. While interest risk is inherent in a bank's role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the bank.

The FRB also requires the maintenance of a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and Bank Holding Companies that have received the highest regulatory ratings must maintain a Tier 1 leverage capital ratio of at least 3.0%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3.0% minimum, for a minimum of 4.0% to 5.0%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans, and federal regulators may, however, set higher capital requirements when a bank's particular circumstances warrant. As of December 31, 1998 the Company's and the Bank's Tier 1 leverage capital ratios were 8.80% and 8.76%, respectively, exceeding regulatory minimums. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources").

PROMPT CORRECTIVE ACTION PROVISIONS

Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The federal banking agencies have by regulation defined the following five capital categories: "well capitalized" (Total Risk-Based Capital Ratio of 10%; Tier 1 Risk-Based Capital Ratio of 6%; and Leverage Ratio of 5%); "adequately capitalized" (Total Risk-Based Capital Ratio of 8%; Tier 1 Risk-Based Capital Ratio of 4%; and Leverage Ratio of 4%); "undercapitalized" (Total Risk-Based Capital Ratio of less than 8%; Tier 1 Risk-Based Capital less than 4%; or Leverage Ratio of less than 4%) (or 3% if the institution receives the highest rating from its primary regulator); "significantly undercapitalized" (Total Risk-Based Capital Ratio of less than 6%; Tier 1 Risk-Based Capital Ratio of less than 3%; or Leverage Ratio of less than 3%); and "critically undercapitalized" (tangible equity to total assets less than 2%). A bank may be treated as though it were in the next lower capital category if after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as"critically undercapitalized" unless its actual capital ratio warrants such treatment.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions if to do so would make the bank "undercapitalized". Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting

specified requirements (including a guarantee by the parent holding company, if any). "Significantly undercapitalized" banks are subject to broad regulatory authority, including among other things, capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities, and prohibitions on paying certain bonuses without regulatory approval. Even more severe restrictions apply to critically undercapitalized banks. Most importantly, except under limited circumstances, not later than 90 days after an insured bank becomes critically undercapitalized, the appropriate federal banking agency is required to appoint a conservator or receiver for the bank.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may

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include the issuance of cease and desist orders, termination of insurance of deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against "institution-affiliated" parties.

SAFETY AND SOUNDNESS STANDARDS

The federal banking agencies have adopted final guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted.

PREMIUMS FOR DEPOSIT INSURANCE

FDIC insured depository institutions are required to pay insurance premiums depending on their risk classification. Institutions such as the Bank which are insured by the Bank Insurance Fund ("BIF"), are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three supervisory categories based on federal regulatory evaluations. The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The current BIF assessment rates are summarized as follows:

Assessment Rates Effective January 1, 1998[2]

	Group A	Group B	Group C
Well Capitalized............	0	3	17
Adequately Capitalized.......	3	10	24
Undercapitalized............	10	24	27

In addition, pursuant to recent legislation, BIF member banks (such as the Bank) began in 1997 to pay an amount which has fluctuated between approximately 1.16 and 1.30 (and is currently 1.22) basis points, or cents per $100 of insured deposits, towards the retirement of the Financing Corporation bonds (the "FICO Bonds") issued in the 1980's to assist in the recovery of the savings and loan industry. Members of the Savings Association Insurance Fund ("SAIF"), in addition to their normal deposit insurance premium, currently pay approximately 6.1 basis points. The rate paid to retire the FICO Bonds will become equal for members of the BIF and the SAIF on either January 1, 2000, or the date on which the BIF and SAIF insurance funds are merged, whichever occurs first.

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(2) Subject to statutory minimum assessment of $1,000 per semi-annual period (which also applies to all other assessment risk classifications). Assessment figures are expressed in terms of costs per $100 in deposits.

COMMUNITY REINVESTMENT ACT

The Bank is subject to certain requirements and reporting obligations involving Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank's compliance with its CRA obligations, the regulators now utilize a performance-based evaluation system which bases CRA ratings on the bank's actual lending service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with their assessment of CRA performance, the federal regulators assign a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank was last examined for CRA compliance in 1998 and received a "satisfactory" CRA Assessment Rating.

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OTHER CONSUMER PROTECTION LAWS AND REGULATIONS

The bank regulatory agencies are increasingly focusing attention on compliance with consumer protection laws and regulations. Banks have been advised by federal regulators to carefully monitor compliance with various consumer protection laws and their implementing regulations. The federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in home mortgage lending describing three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment, and evidence of disparate impact. In addition to CRA and fair lending requirements, the Bank is subject to numerous other federal consumer protection statutes and regulations. Due to heightened regulatory concern related to compliance with consumer protection laws and regulations generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in the local communities it serves.

INTERSTATE BANKING AND BRANCHING

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") regulates the interstate activities of banks and bank holding companies and establishes a framework for nationwide interstate banking and branching. Since June 1, 1997, a bank in one state has generally been permitted to merge with a bank in another state without the need for explicit state law authorization. However, states were given the ability to prohibit interstate mergers with banks in their own state by "opting-out" (enacting state legislation applying equality to all out-of-state banks prohibiting such mergers) prior to June 1, 1997. Limited interstate bank mergers were permitted prior to June 1, 1997 provided the applicable states' laws met certain requirements.

Since 1995, adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, any state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be consummated by a bank holding company if the acquiror would control more then 10% of the deposits held by insured depository institutions nationwide or 30% percent or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may establish and operate DE NOVO branches in any state in which the bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

Among other things, the Interstate Banking Act amended the Community Reinvestment Act to require that in the event a bank has interstate branches, the appropriate federal banking regulatory agency must prepare for such institution a written evaluation of (i) the bank's record of performance; and (ii) the bank's performance in each applicable state. Interstate branches are now prohibited from being used as deposit production offices, and foreign banks will be permitted to establish branches in any state other than its home state to the same extent that a bank chartered by the foreign bank's home state may establish such branches.

The Caldera, Weggeland, and Killea California Interstate Banking and Branching Act of 1995 (the "Caldera Weggeland Act") was designed among other things to implement important provisions of the Interstate Banking Act

discussed above and to repeal California's previous interstate banking laws, which were largely preempted by the Interstate Banking Act. (Prior California law prohibited, among other things, an out-of-state bank holding company from establishing a DE NOVO California bank except for the purpose of taking over the deposits of a closed bank. This restriction has been eliminated.)

As indicated above, the Interstate Banking Act generally permits a bank in one state to merge with a bank in another state without the need for explicit state law authorization. However, the Caldera Weggeland Act expressly prohibits a foreign (other state) bank which does not already have a California branch office from (i) purchasing a branch office of a California bank (as opposed to the entire bank) and thereby establishing a California branch office or (ii) establishing a California branch office on a DE NOVO basis.

The Interstate Banking Act also requires, among other things, approval of the state bank supervisor of the target bank's home state for interstate acquisitions of banks by bank holding companies. The Caldera Weggeland Act authorizes the California Commissioner of Financial Institutions (the "Commissioner") to approve such an interstate acquisition if the Commissioner finds that the transaction is consistent with certain criteria specified by law.

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The changes effected by Interstate Banking Act and Caldera Weggeland Act are expected to increase competition in the environment in which the Bank operates to the extent that out-of-state financial institutions directly or indirectly enter the Bank's market areas. It appears that the Interstate Banking Act has contributed to the accelerated consolidation of the banking industry in that a number of the largest bank holding companies are expanding into different parts of the country that were previously restricted. While many large out-of-state banks have already entered the California market as a result of this legislation, it is not possible to predict the precise impact of this legislation on the Bank or the Company and the competitive environment in which it operates.

OTHER PENDING AND PROPOSED LEGISLATION

Other legislative and regulatory initiatives which could affect the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the United States Congress, the California legislature and other governmental bodies in the future. For example, consumer legislation has been proposed in Congress which would require banks to offer basic, low-cost financial services to meet minimum customer needs. Other legislation has been proposed which would reform the Glass-Steagall Act and the Bank Holding Company Act, which restrict banks' and bank holding companies' ability to engage in certain activities, including the underwriting of and dealing in various securities. The latter proposal would significantly change the makeup of the financial services industry, expand the ability of banks and bank holding companies to offer a broader range of financial products, and provide the opportunity for additional competitors to be able to enter the financial services market in ways that are not currently permissible. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Bank or the Company would be affected thereby.

ACCOUNTING CHANGES

The Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for financial statements for periods beginning after December 15, 1997. SFAS No. 131 establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products and services, geographic areas, and major customers. Operating segments are components of an enterprise about which financial information is available and is evaluated regularly in deciding how to allocate resources and assess performance. The adoption of SFAS 131 had no material impact on the presentation of the Company's financial condition or results of operations.

The FASB issued SFAS No. 132 "Employer's Disclosure about Pensions and Other Postretirement Benefits," effective for fiscal years beginning after December 15, 1997. SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Adoption of this statement had no impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for all quarters of fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management does not expect this change in accounting principle to have a material impact on the Company's financial condition or results of operations.

EMPLOYEES

As of December 31, 1998, the Company had 136 full-time employees and 111 part-time employees. The Company's Management believes that its employee relations are satisfactory.

SELECTED STATISTICAL INFORMATION

Selected statistical information relating to the Company has been included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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ITEM 2. DESCRIPTION OF PROPERTY.

The Company's administrative office and main branch location, are located at 444 South Escondido Boulevard in Escondido, California., where the Company leases approximately 26,100 square feet of a two-story professional office building. The terms of the lease provide for two five year extension options upon its expiration on March 31, 2006.

Other properties either owned or leased by the Company include eight other branches, a data processing center, and a business loan office located in San Diego and Riverside counties, a loan production office in the Seattle, Washington area and land (a future branch site) in Riverside county. In the opinion of Management, the Company maintains adequate comprehensive general liability and casualty loss insurance covering its properties and activities conducted in or about its properties.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and the Bank are defendants in legal proceedings arising in the ordinary course of business. Some of these proceedings which relate to lending, collections, and other activities may seek substantial sums as damages. It may take a number of years to finally resolve some of the pending legal proceedings due to their complexity and other reasons. At December 31, 1998, the Bank was party to certain legal actions, the potential exposure from which is not possible to determine with any certainty at this time. However, the Company has reviewed these matters with legal counsel and, in management's opinion, the ultimate resolution of these actions will not have a material effect on the Company's financial position.

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

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

(a) MARKET INFORMATION

North County Bancorp's Common Stock trades on the Nasdaq National Market System under the symbol "NCBH." Although trading in the Company's Common Stock has increased since the stock began trading on Nasdaq in July of 1996, such trades cannot be characterized as constituting an active trading market. Based on information provided by Nasdaq, Management believes that approximately 640,000 and 804,000 shares were traded in each of 1998 and 1997, respectively. As reported by the National Daily Quotation Service, bid prices for the Common Stock ranged from a low of $10.50 to a high of $15.625 during 1998 and from a low of $7.125 to a high of $13.75 during 1997. These quotes reflect inter-dealer prices without retail mark-ups, mark-downs or commissions and may not necessarily have represented actual transactions. There may have been transactions at other prices during that time. The following table provides information with respect to the range of high and low bid prices for the Company's stock for each quarterly period in 1998 and 1997:

	1998		1997	
	High	Low	High	Low
First Quarter	$15.625	$13.250	$ 9.875	$ 7.125
Second Quarter	14.875	13.375	9.250	7.500
Third Quarter	13.375	10.500	10.375	8.000
Fourth Quarter	12.500	11.375	13.750	10.375

(b) HOLDERS

On February 1, 1999 there were approximately 1,200 stockholders of record of the Common Stock.

(c) DIVIDENDS

As a bank holding company without significant assets other than its equity interest in the Bank, the Company's ability to pay dividends primarily depends upon the dividends it receives from the Bank. The Bank currently has outstanding

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75,000 shares of noncumulative preferred stock with a $2.00 per share annual dividend and 166,677 shares of noncumulative preferred stock with a $0.72 per share annual dividend. The Bank resumed the payment of dividends in 1997 on the Bank's preferred stock. Such dividends had not been paid since 1994, pursuant to formal and informal agreements with the Bank's regulators and a Board resolution adopted in May of 1996, the last of which was terminated in March 1997. As with the Company, any change in the Bank's dividend practices will depend upon the Bank's earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by the Bank's Board of Directors at that time. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources").

The Bank's ability to pay dividends to the Company is also subject to certain legal limitations. Under California law, the Bank may declare a cash dividend out of the Bank's net profits up to the lesser of the Bank's retained earnings or the Bank's net income for the last three (3) fiscal years (less any distributions made to stockholders during such period), or, with the prior written approval of the Commissioner, in an amount not exceeding the greatest of (i) the retained earnings of the Bank, (ii) the net income of the Bank for its last fiscal year, or (iii) the net income of the Bank for its current fiscal year.

In addition, under federal law, the Bank is prohibited from paying any dividends if after making such payment the Bank would fail to meet any of its minimum capital requirements. (See "Item 1 -- Business -- Regulation and Supervision -- Capital Adequacy Requirements"). The federal regulators also have the authority to prohibit the Bank from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

The Company's ability to pay dividends is also limited by state corporation law. The California General Corporation Law prohibits the Company from paying dividends on the Common Stock unless: (1) its retained earnings,

immediately prior to the dividend payment, equals or exceeds the amount of the dividend or (2) immediately after giving effect to the dividend the sum of the Company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of the current liabilities.

The Company's practice has been to retain earnings to provide funds for the operation and expansion of its business. Accordingly, the Company has not paid any cash dividends on its Common Stock since 1984. Management has no current plans to pay cash dividends in the foreseeable future. However, the Board's practice is to review annually the advisability of paying cash dividends based upon the Company's earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by the Board of Directors at that time. In making any such assessment, the Board of Directors of the Company would have to consider among other things the capital requirements of the Bank and other factors concerning the Bank, including the dividend guidelines and maintenance of an adequate allowance for loan losses.

ITEM 6. SELECTED FINANCIAL DATA.
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The table below sets forth certain selected consolidated financial data for the Company and is qualified in its entirety by the detailed information and financial data presented in the Company's Consolidated Financial Statements and related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

<TABLE>
<CAPTION>

	As of or for the Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>

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SUMMARY STATEMENT OF INCOME DATA					
Interest income	$25,704	$22,295	$19,840	$19,286	$ 17,647
Interest expense	6,339	5,941	5,112	5,164	4,525
Net interest income	19,365	16,354	14,728	14,122	13,122
Provision for loan and lease losses	1,474	1,122	1,300	3,306	3,135
Noninterest income	7,066	6,788	6,975	6,612	6,873
Noninterest expense	16,825	16,198	15,567	15,334	16,521
Income before provision for income taxes	8,132	5,822	4,836	2,094	339
Provision for income taxes	3,363	2,313	2,092	562	254
Net income	$ 4,769	$ 3,509	$ 2,744	$ 1,532	$ 85
SUMMARY BALANCE SHEET DATA (PERIOD END)					
Loans net of unearned income	$237,702	$210,991	$180,410	$161,950	$166,609
Allowance for loan and lease losses	3,592	3,268	3,129	2,916	2,739
Investment securities	43,821	29,679	34,461	26,172	27,168
Earning assets	298,523	244,670	217,071	198,622	198,049
Total assets	337,413	280,734	257,306	237,034	246,840
Interest-bearing deposits	202,594	161,703	145,407	143,108	146,450
Total deposits	303,059	251,555	229,344	213,839	226,101
Long term obligations	387	415	3,513	3,640	3,669
Total stockholders' equity	30,000	25,193	20,172	17,227	13,756
PER SHARE DATA (1)					
Basic EPS	$0.98	$0.78	$0.63	$0.39	$0.02
Diluted EPS	0.94	0.72	0.58	0.37	-- (2)
Book value	6.16	5.17	4.57	3.96	3.65
Average common shares	4,868,906	4,513,556	4,366,729	3,973,170	3,767,362
Average common shares assuming dilution	5,073,371	5,004,430	4,884,121	4,428,824	--
Common shares outstanding	4,868,906	4,868,906	4,417,041	4,350,975	3,767,362
SELECTED FINANCIAL RATIOS (3)					
Return on average stockholders' equity	17.25%	15.72%	14.73%	9.97%	0.60%
Return on average assets	1.54	1.28	1.11	0.66	0.03
Net interest spread (4)	6.04	5.90	6.18	6.47	5.96
Net interest margin (5)	7.13	6.94	7.09	7.30	6.63
Tier 1 leverage capital ratio	8.80	8.76	7.70	7.17	5.47
Nonperforming loans to total gross loans	0.33	1.43	1.96	3.27	3.08
Nonperforming assets to total gross loans and other real estate owned (6)	0.49	1.89	3.44	4.68	5.13
Net charge-offs to average loans	0.52	0.50	0.63	1.89	1.54
Average stockholders' equity to average assets	8.95	8.14	7.54	6.61	5.79
Loans to deposits	78.4	83.9	78.7	75.7	73.7

</TABLE>

(1) Restated to reflect stock dividends.
(2) The calculation of Diluted EPS upon conversion of the Company's subordinated debentures proved to be anti-dilutive at December 31, 1994.
(3) For purposes of calculating the financial ratios, average balances are the consolidated average balances of the Company and the Bank. Bank average balances are based upon daily average balances, and Company average balances are based upon month end balances.
(4) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(5) Represents net interest income as a percentage of average interest-earning assets.
(6) Nonperforming assets consist of nonaccrual loans, loans past due 90 days or more and other real estate owned.

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

The following analysis of the Company's results of operations and financial condition as of and for the three years ended December 31, 1998 should be read in conjunction with the consolidated financial statements and the notes related thereto, and with reference to the discussion of the operations and other financial information presented elsewhere in this report. For purposes of calculating the financial ratios, average balances are comprised of both average Company and Bank balances. Bank average balances are based upon daily average balances, and Company average balances are based upon month end balances.

Statements contained in this Report on Form 10K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, intentions, beliefs or strategies regarding the future. All forward-looking statements included in this document are based on information available to the Company on

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the date thereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company's actual results could differ materially from those in such forward-looking statements. Factors that could cause actual results to differ materially from those in such forward-looking statements include general economic conditions, particularly in the Company's market areas, changes in prevailing interest rates, competitive products and pricing, inflation, credit and other risks of lending and investment activities, fiscal and monetary policies of the U.S. and other governments, regulations affecting financial institutions, and other risks and uncertainties affecting the Company's operations and personnel.

RESULTS OF OPERATIONS

SUMMARY

A comparison of the annual results for the two years ended December 31, 1998 (see "Item 6. Selected Financial Data") reflects net income growth of approximately 36% and 28% in 1998 and 1997, respectively, amounting to $4.8 million in 1998 compared to $3.5 million in 1997 and $2.7 million in 1996. Net interest income, the primary contributor to the increase in earnings, rose 18% in 1998 to $19.4 million and 11% in 1997 to $16.4 million. Basic earnings per share increased 26% to $0.98 in 1998 and 24% to $0.78 in 1997. Diluted earnings per share increased 31% to $0.94 in 1998 and 24% to $0.72 in 1997. The 1998 results produced returns on average assets and average equity of 1.54% and 17.25%, respectively, compared to 1.28% and 15.72%, respectively, in 1997.

NET INTEREST INCOME

Net interest income, the principal source of income for the Company, is interest and fees earned on loans and investments less the interest paid on deposits and borrowings. Primary factors affecting the level of net interest income include increases or decreases in the average balances (volume) of interest-earning assets and interest-bearing liabilities, increases or decreases in the average rates earned and paid on these assets and liabilities, the Company's ability to manage its earning asset portfolio and the availability of particular sources of funds. An analysis of the Company's taxable-equivalent net interest income and average balance sheet levels for the last three years is presented in Table One. The changes in net interest income from year to year are analyzed in Table Two. Interest income and yields in the following discussion are on a tax-equivalent basis.

Net interest income increased 18% or $3.0 million in 1998 to $19.4 million from $16.5 million in 1997. This increase was the result of loan growth and deposit pricing management efforts. Average loans and loan yields in 1998 increased to $222.2 million at 10.31% from $195.5 million at 10.25% in 1997, representing a 14% growth in volume and resulting in an increase of 14% or $2.9 million in loan income. Management believes that interest rates on each category of loans in the Bank's loan portfolio are competitively priced for banks in its market area. The yield on average loans is also influenced by the mix of loans in the loan portfolio. Real estate construction loans, commercial real estate loans and commercial loans are typically offered at higher interest rates and fees than residential real estate loans, lease financing or automobile and other consumer loans. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Loans"). Interest on Federal funds sold increased by 90% or $394,000 due to growth of $7.8 million or 96% in average funds sold resulting from significant deposit growth in 1998. Net interest income in 1997 increased 11% primarily due to an increase in average interest-earning assets partly offset by a decrease in the net interest margin. Maturities of fixed rate higher yielding loans combined with a decrease in total consumer loans outstanding and a declining interest rate environment decreased the yield on the loan portfolio to 10.25% in 1997

from 10.37% in 1996. The average tax equivalent yield on interest-earning assets was 9.45% in 1997 compared to 9.53% in 1996.

Total interest expense increased approximately 7% or $398,000 in 1998 due to an increase of $585,000 in interest paid on deposits partly offset by decreases of $30,000 and $157,000, respectively, in interest paid on overnight funds and on long term borrowings. Average interest-bearing deposits grew approximately 12% or $20.1 million to $184.2 million from $164.1 million in 1997. The increase in interest expense due to growth was partially offset by a slight decrease in interest expense due to the average rate paid on interest-bearing deposits declining to 3.39% in 1998 from 3.44% the prior year. Time deposits averaged $62.4 million at an average rate paid of 5.02% in 1998 compared to $51.6 million at 5.11% in 1997. The decrease in rates paid on deposits in 1998 compared to 1997 is attributable to a number of factors including government easing of short term interest rates, a short term (seven months) certificate of deposit promotion at an above market rate (6.0%) during

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the first part of 1997, and the Company generally lowering interest rates as deposit growth outpaced loan growth in 1998. The net interest margin (net interest income as a percentage of average earning assets) increased to 7.13% in 1998 from 6.94% in 1997. This margin, however, had narrowed during the last quarter of 1998 to 6.84%, a trend that management believes is likely to continue in 1999 based on current rate trends. The certificate of deposit promotion was the primary reason that average time deposits increased by 47% or $16.4 million in 1997 from $35.2 million in 1996, and contributed to the $961,000 increase in interest expense related to time deposits that year. The Company's net interest margin decreased to 6.94% in 1997 from 7.09% in 1996. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Deposits.")

TABLE ONE - ANALYSIS OF TAXABLE-EQUIVALENT NET INTEREST INCOME
(DOLLARS IN THOUSANDS)

This table presents an analysis of net interest income and average balance sheet levels for the last three years. Tax-exempt income is presented on a tax-equivalent basis assuming a 34% federal tax rate.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,					
	1998			1997		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE/ YIELD	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE/ YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
Interest-earning assets:						
Loans (1)	$ 222,193	$ 22,906	10.31%	$ 195,536	$ 20,050	10.25
Taxable investment securities	29,624	1,753	5.92	30,289	1,713	5.65
Tax-exempt investment securities	2,840	183	6.46	2,861	182	6.37
Interest-bearing deposits	2,110	112	5.33	277	16	5.79
Federal funds sold	15,936	833	5.23	8,124	439	5.41
Total earning assets	272,703	25,787	9.46	237,087	22,400	9.45
Noninterest-earning assets:						
Cash and due from banks	23,293			23,079		
Premises and equipment, net	9,385			8,328		
Other assets (2)	6,945			9,055		
Total noninterest-earning assets ...	39,623			40,462		
Less allowance for loan and lease losses	3,517			3,264		
Total assets	$ 308,809			$ 274,285		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 41,391	546	1.32	$ 36,809	525	1.43
Savings	80,415	2,563	3.19	75,650	2,489	3.29
Time	62,359	3,128	5.02	51,621	2,638	5.11
Other short term borrowings	943	44	4.71	1,410	74	5.24
Capital lease	407	58	14.17	422	61	14.57
Long term debt	--	--	--	1,624	154	9.47
Total interest-bearing liabilities	185,515	6,339	3.42	167,536	5,941	3.55
Noninterest-bearing liabilities:						
Demand deposits	92,885			81,958		
Other liabilities	2,763			2,474		
Total liabilities	281,163			251,968		

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Stockholders' equity	27,646			22,317		
Total liabilities and stockholders' equity	$ 308,809			$ 274,285		
Net interest income (tax equivalent basis)		19,448			16,459	
Reversal of tax equivalent adjustment..		(83)			(105)	
Net interest income		$ 19,365			$ 16,354	
Net interest spread(3)			6.04%			5.90%
Net interest margin(4)			7.13%			6.94%

<CAPTION>

	1996		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE RATE/ YIELD
<S>	<C>	<C>	<C>
ASSETS			
Interest-earning assets:			
Loans (1)	$ 171,906	$ 17,831	10.37%
Taxable investment securities	27,570	1,592	5.78
Tax-exempt investment securities	2,261	138	6.09
Interest-bearing deposits	--	--	--
Federal funds sold	7,573	385	5.08
Total earning assets	209,310	19,946	9.53
Noninterest-earning assets:			
Cash and due from banks	22,560		
Premises and equipment, net	9,184		
Other assets (2)	9,028		
Total noninterest-earning assets ...	40,772		
Less allowance for loan and lease losses	3,233		
Total assets	$ 246,849		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits:			
Interest-bearing demand	$ 36,791	528	1.44
Savings	75,583	2,488	3.29
Time	35,166	1,677	4.77
Other short term borrowings	1,622	74	4.43
Capital lease	444	65	14.59
Long term debt	3,229	280	8.67
Total interest-bearing liabilities	152,835	5,112	3.34
Noninterest-bearing liabilities:			
Demand deposits		73,298	
Other liabilities		2,102	
Total liabilities		228,235	
Stockholders' equity		18,614	
Total liabilities and stockholders' equity		$ 246,849	
Net interest income (tax equivalent basis)			14,834
Reversal of tax equivalent adjustment..			(106)

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Net interest income	$ 14,728
Net interest spread(3)	6.18%
Net interest margin(4)	7.09%

</TABLE>

----

(1) For purposes of these computations, nonaccrual loans are included in the daily average loan amounts outstanding.

(2) Includes average balances of real estate owned other than Company and Bank premises during 1998, 1997, and 1996 of $837,000, $1.0 million, and $2.8 million, respectively.

(3) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(4) Represents net interest income as a percentage of average interest-earning assets.

TABLE TWO - CHANGES IN TAXABLE-EQUIVALENT NET INTEREST INCOME
(DOLLARS IN THOUSANDS)

This table sets forth the year-to-year changes in net interest income on a fully taxable-equivalent basis for the years shown. The changes for each major category of interest income and interest expense are divided between the portion of change attributable to the variance in average balances (volume) or average rates for that category. The amount of change that cannot be separated is allocated to each variance proportionately.

<TABLE>
<CAPTION>

	1998 vs. 1997			1997 vs. 1996		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Earning assets -- Interest income:						
Loans	$2,748	$ 108	$2,856	$2,425	$(206)	$2,219
Investment securities:						
Taxable	(38)	78	40	155	(34)	121
Non-taxable	(1)	2	1	38	6	44
Federal funds sold	409	(15)	394	29	25	54
Interest-bearing deposits	97	(1)	96	16	--	16
Total	3,215	172	3,387	2,663	(209)	2,454
Deposits and borrowed funds -- Interest expense:						
Interest-bearing demand deposits	62	(41)	21	--	(3)	(3)
Savings deposits	152	(78)	74	2	(3)	(1)
Time deposits	540	(50)	490	833	128	961
Other short term borrowings	(23)	(7)	(30)	(10)	12	2
Long term debt	(154)	--	(154)	(150)	24	(126)
Capital lease	(2)	(1)	(3)	(4)	--	(4)
Total	575	(177)	398	671	158	829
Change in net interest income	$2,640	$ 349	$2,989	$1,992	$(367)	$1,625

</TABLE>

PROVISION FOR LOAN AND LEASE LOSSES

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The Company provides for loan and lease losses by a charge to operations based upon Management's evaluation of the loan portfolio, past loan loss experience, general economic conditions, and other pertinent factors. The provision for loan and lease losses increased $352,000 or 31% to $1.5 million in 1998 and decreased $178,000 or 14% to $1.1 million in 1997 as compared to 1996. The 1998 increase was attributable to an increase of approximately 13% or $26.7 million in outstanding loans at year-end and an increase in net loans charged off to $1.2 million or 0.52% of average loans from $1.0 million or 0.50%, respectively, in 1997. The 1997 decrease was due to a decline in net loans charged off from $1.1 million or 0.63% of average loans outstanding in 1996, as well as a decreased provision for loan and lease losses that in Management's opinion reflected the improvement in the Southern California economy and in the real estate market. During 1998, 1997 and 1996, the Company provided $640,000, $1.2 million and $400,000, respectively, to the provision for loan and lease losses to supplement its Title I HUD reserves. As of December 31, 1998, 1997 and 1996, the allowance for loan and lease losses represented 1.51%, 1.55% and 1.73%, respectively, of total loans. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Allowance for Loan and Lease Losses.")

NONINTEREST INCOME

As presented in Table Three, noninterest income increased 4% or $278,000 to $7.1 million in 1998, consisting of increases of 19% or $244,000 in gain on loan sales and 28% or $221,000 in other income, partly offset by a decrease of 26% or $192,000 in loan servicing fees. In 1998, an increase in SBA loan prepayments as a consequence of declining interest rates prompted management's decision to sell $3.0 million in SBA loans and recognize gains on loan sales of $277,000. In addition, $4.5 million in SBA "504" loans, a relatively new line of business for the Company, were sold for gains of $216,000. Gains on the sale of Title 1 and other equity loans declined by $152,000 and $97,000, respectively, due to the lower volume of sales and premiums paid for these loans. Noninterest income decreased 3% or $187,000 to $6.8 million in 1997 from $7.0 million in 1996, due primarily to a decrease of 9% or $124,000 in gains on loan sales. The Company sold no SBA loans in 1997 compared to sales of $8.3 million in 1996 due to Management's decision to retain these loans in its portfolio to enhance loan yields and to offset the slow demand for other types of loans in the Company's market area. This

resulted in a decrease in the gains on the sale of SBA loans of $687,000 which was partly offset by an increase in gains related to the sale of Title I and other equity loans of $563,000. During 1997, the Company sold Title I and other equity loans of $52.7 million as compared to $18.8 million in 1996. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Loans").

TABLE THREE - NONINTEREST INCOME
(DOLLARS IN THOUSANDS)

This table presents significant categories of noninterest income for each of the last three years and the percentage change between the years.

<TABLE>
<CAPTION>

	1998	% CHANGE 98/97	1997	% CHANGE 97/96	1996
<S>	<C>	<C>	<C>	<C>	<C>
Service charges on deposits	$3,941	0.1	$3,936	2.9	$3,827
Gain on sale of loans	1,545	18.6	1,301	(8.7)	1,425
Loan servicing fees	561	(25.5)	753	0.8	747
Other income	1,019	27.7	798	(18.2)	976
Total noninterest income	$7,066	4.1	$6,788	(2.7)	$6,975

</TABLE>

NONINTEREST EXPENSE

Noninterest expense increased 4% or $627,000 in 1998 to $16.8 million compared to a 4% increase of $631,000 in 1997 to $16.2 million from $15.6 million in 1996. A breakdown of significant noninterest expense categories for the three years ended December 31, 1998 is presented in Table Four. Salaries and employee benefits increased 8% or $740,000 in 1998 and 12% or $1.0 million in 1997. On December 31, full time equivalent employees totaled 218 in 1998, 210 in 1997 and 196 in 1996. Occupancy expense increased 8% or $245,000 and 4% or

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$137,000 in 1998 and 1997, respectively, during which time the Company opened its ninth full service office and expanded its SBA business into the Seattle, Washington area. Expenses related to the acquisition, maintenance and sale of other real estate owned partially offset the increases in the other expense categories with a decrease of $375,000 to a net gain of $473,000 in 1998, of which amount $289,000 was related to the sale of one property, compared to a net gain of $98,000 in 1997 and a net loss of $614,000 in 1996. Collection expenses incurred to recover or mitigate loan and operating losses decreased by $157,000 in 1998 and $88,000 in 1997. The Company currently plans additional expansion in 1999, including the opening of a full service branch in Vista, California, the construction of a new facility for its Murrieta branch, and is planning the possible opening of additional SBA loan production offices.

TABLE FOUR - NONINTEREST EXPENSE
(DOLLARS IN THOUSANDS)

The following table presents significant categories of noninterest expense for each of the last three years and the percentage change between the years.

	1998	% CHANGE 98/97	1997	% CHANGE 96/97	1996
Salaries and employee benefits	$ 9,888	8.1	$ 9,148	12.4	$ 8,136
Occupancy expense	3,477	7.6	3,232	4.4	3,095
Telephone and postage	895	29.9	689	6.8	645
Advertising and public relations	692	(2.7)	711	35.7	524
Professional services	574	11.7	514	63.2	315
Printing, stationery and supplies	335	(3.2)	346	25.8	275
Collection expense	76	(67.4)	233	(27.4)	321
Other real estate owned	(473)	(382.7)	(98)	(116.0)	614
Other expenses	1,361	(4.4)	1,423	(13.3)	1,642
Total noninterest expense	$16,825	3.9	$16,198	4.1	$15,567

IMPACT OF YEAR 2000 ON COMPUTER SYSTEMS

Noninterest expense includes the cost of projects to ensure accurate date recognition and data processing with respect to the century date change (commonly referred to as "Y2K"). The Y2K issue confronting the Company, its suppliers, customers, customer's suppliers and competitors centers on the inability of computer systems to recognize the year 2000. Most computer systems in use today were designed and developed when computer memory was limited and expensive on early mainframes. As a consequence many programs used only two digits for the year in the date field to conserve memory. As a result, many computer applications could fail completely or create erroneous results by the year 2000 unless corrective measures are taken. To the extent that the problem is not successfully addressed, consequences, the extent of which are unknown, could impact the Company's business, operations, customers and vendors. The Company has identified critical systems and processes and is in the process of testing and formulating contingency plans for replacing or repairing any non-compliant systems. The Company expects to substantially complete the Y2K hardware and software testing, validation and remediation of its critical systems by the end of the first quarter of 1999. The Company is also assessing the potential impact of this problem on its customers. The related costs, which are expensed as incurred, are primarily included in professional services, equipment repairs (a component of occupancy expense) and salary expense. Y2K expenses incurred through the end of 1998 amounted to approximately $175,000 and the total cost of the project is estimated to be approximately $360,000. The Company does not believe that the costs of addressing this problem will have a material effect on the results of its operations.

INCOME TAXES

The Company's income tax expense for 1998, 1997 and 1996 was $3.4 million, $2.3 million and $2.1 million, respectively, reflecting an effective tax rate of 41.4%, 39.7% and 43.3%, respectively. Note Eleven to the consolidated financial statements includes a reconciliation of federal income tax expense computed using the federal statutory rate of 34% to actual income tax expense.

FINANCIAL CONDITION

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SUMMARY

An analysis of the summary year-end balance sheet data for 1994 through 1998 as presented in Selected Financial Data (Item 6) illustrates an increasing rate of growth over the last four years. From 1995 to 1998, the Company's total assets have grown an average of over 12% per year. During the same period, loan growth averaged 13%, deposit growth averaged 12% and stockholders' equity grew at an average rate of 20% per year.

A review of the Company's rate of growth for year-end 1998 over 1997 reflects a 20% increase in total assets, a 13% increase in total loans, and a 21% increase in deposits. A number of factors supported the growth of assets, loans and deposits in 1998. The Company focused on opportunities to attract new clients which were presented by bank merger and acquisition activity in its market areas. Loan growth, primarily in commercial, commercial real estate and construction lending, was encouraged by the expansion of the local real estate markets. The volatile stock market helped to promote bank deposits, primarily certificates of deposit, as a safe short term investment. The following discussion of the Company's financial condition is segmented into loans, investments, deposits and capital resources.

LOANS

Gross loans and leases, the Company's primary use of funds, represented 70% of total assets at December 31, 1998 compared to 75% at year-end 1997. Gross loans increased 13% to $237.7 million at year-end 1998 and 17% to $211.0 million in 1997 from $180.4 million in 1996. Average gross loans for 1998 increased 14% or $26.7 million to $222.2 million from $195.5 million in 1997 which represented an increase of 14% from average loans of $171.9 million in 1996. Average gross loans represented 80% and 79% of total average deposits in 1998 and 1997, respectively.

As presented in Table Five, real estate construction loans at year-end 1998 had increased 92% to $19.9 million and 197% to $10.3 million in 1997 following declines in the previous two years due to a decline in real estate values and a generally poor economy in Southern California. During 1996 the demand for real estate in Southern California, and therefore, real estate values, began improving and have continued to improve through

the end of 1998, largely accounting for the increase in real estate construction loans outstanding and undisbursed real estate construction loan commitments. Real estate construction loans represented 8.4% and 4.9% of total loans at December 31, 1998 and 1997, respectively. Total undisbursed commitments for these loans were $10.9 million at year-end 1998 compared to $18.9 million the end of 1997. The Company's real estate construction loans are primarily for single family residences located within San Diego and Riverside counties in the $100,000 to $400,000 range. Based upon the current housing market in its market area, management believes real estate demand will likely continue at its current strong levels and believes that its level of real estate construction activities will expand over that of 1998.

Commercial real estate loans (commercial loans secured by first trust deeds on commercial real estate) increased 20% to $51.5 million at year-end 1998 from $42.9 million in 1997, which represented a 23% increase over $35.0 million in 1996. These increases were the result of the Company's promotional efforts in the commercial real estate market as well as stabilization of commercial real estate values in Southern California.

Residential mortgages decreased 25% to $2.2 million in 1998 from $2.9 million in 1997, a decrease of 13% from $3.3 million at year-end 1996. The Company closed its residential mortgage banking operations in early 1995, unable to generate a sufficient volume of residential mortgage loans to support a profitable operation. At December 31, 1998, 1997 and 1996, the amount of mortgage loans which the Company continued to service was $35.3 million, $45.7 million and $51.6 million, respectively, with related servicing income of $104,000, $145,000 and $149,000, respectively. Declining home mortgage rates have increased mortgage refinancing activity, which, if continued, will continue to reduce servicing income on these loans.

TABLE FIVE - LOAN DISTRIBUTION
(DOLLARS IN THOUSANDS)

The following table sets forth the amount of total loans outstanding in each category and the percentage of total loans of each category at the dates indicated.

<TABLE>
<CAPTION>

DECEMBER 31,

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<S>	1998 <C>	1997 <C>	1996 <C>	1995 <C>	1994 <C>
Commercial loans	$128,298	$111,726	$ 81,692	$ 74,755	$ 75,700
Commercial real estate loans	51,520	42,891	35,012	23,075	19,287
Installment and consumer loans	34,171	41,024	53,815	46,748	45,022
Real estate construction loans	19,881	10,334	3,481	9,212	14,211
Residential real estate loans	2,192	2,912	3,340	3,795	7,454
Lease financing	617	1,270	2,329	3,586	4,148
All other loans (including overdrafts)	1,023	834	741	779	787
Total gross loans	237,702	210,991	180,410	161,950	166,609
Less: Allowance for loan and lease losses	3,592	3,268	3,129	2,916	2,739
Total net loans (1)	$234,110	$207,723	$177,281	$159,034	$163,870
PERCENTAGE OF TOTAL LOANS:					
Commercial loans	54.0%	53.0%	45.3%	46.2%	45.4%
Commercial real estate loans	21.6	20.3	19.4	14.2	11.6
Installment and consumer loans	14.4	19.4	29.8	28.9	27.0
Real estate construction loans	8.4	4.9	1.9	5.7	8.5
Residential real estate loans	0.9	1.4	1.9	2.3	4.5
Lease financing	0.3	0.6	1.3	2.2	2.5
All other loans (including overdrafts)	0.4	0.4	0.4	0.5	0.5
Total gross loans	100.0	100.0	100.0	100.0	100.0

</TABLE>

(1) Net of participations sold of $1.5 million, $2.2 million, $2.2 million, $2.9 million, and $4.2 million in 1998, 1997, 1996, 1995, and 1994, respectively. Participations are sold without recourse.

Commercial loans, as illustrated in Table Five, have grown at annual rates of 15%, 37% and 9% in 1998, 1997 and 1996, respectively, representing 54%, 53% and 45% of year-end gross loans in 1998, 1997, and 1996, respectively. Commercial lending is primarily to professionals and companies with sales from $1 million to $15 million. The Company also originates loans partially guaranteed by the SBA which are included in the commercial loan category and were largely responsible for the growth in 1998 and 1997. SBA loans have maturities ranging from seven to 25 years and are currently guaranteed up to 80% by the SBA. These loans increased 19% to $65.8 million in 1998 from $55.1 million in 1997, representing an increase of 87% over $29.5 million at year-end 1996. The increases were largely due to expansion of the Company's market area in 1997 and to Management's decision during 1996 to retain these loans rather than sell the guaranteed portions for a premium. The Company's SBA loan originations totaled approximately $29.6 million, $35.0 million and $15.4 million in 1998, 1997 and 1996, respectively. In 1997, the Company opened two new offices for the production of SBA lending, located in the Seattle, Washington area and Orange County, California. The Orange County office proved unprofitable due to strong competition in that market and was closed in January 1999. The Company intends to continue expanding its SBA lending activities possibly entering new geographic markets in 1999. In 1996, Management's decision to reduce the volume of SBA loan sales and retain these loans in the portfolio was due to the low level of demand for other types of loans. Management does not currently intend to sell a significant amount of these loans, however, some sales are likely depending on loan demand, premium levels, prepayment risk and the characteristics of these loans. SBA loan sales totaled $7.5 million in 1998, $0 in 1997 and $8.3 million in 1996.

Installment and consumer loans have shown a steady rate of decline in total and as a percentage of gross loans since 1996. These loans decreased 17% and 24% in 1998 and 1997, respectively, and represented 14% and 19% of total gross loans, respectively. As of year-end 1996, this category had increased 15% over the prior year and constituted 30% of gross loans. The four largest sub-categories of installment and consumer loans are automobile loans, Title I home improvement loans, home equity lines of credit and other home equity loans. The decreases in installment and consumer loans in 1998 and 1997 and the increase in 1996 were due primarily to the Company's Title I loan activities. Title I loans decreased 31% to $7.2 million in 1998 and decreased 55% to $10.4 million in 1997 from $23.0 million in 1996, an increase of 92% from $12.0 million at year-end 1995.

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Title I loans are secured by junior liens on residential properties and insured up to 90% by an agency of the U.S. Government. The proceeds of Title I loans must be used for home improvements. In addition to offering these loans to its customers, the Company also purchases Title I loans from other Title I lenders. The amount of Title I loans that the Company originated or purchased declined to approximately $2.5 million in 1998 and $6.8 million in 1997 from $18.0 million in 1996, due to increased competition in the Title I market and the the rising popularity of other home equity loans. Prior to 1997, the Company's policy was to hold certain Title I loans in its portfolio and sell the remaining loans often retaining the servicing rights. A higher than acceptable loss ratio, however, prompted the Company to change its policy and currently the Company sells all Title I loan originations immediately resulting in a large volume of sales in 1997. The Company continues to hold $7.2 million of Title I loans as of December 31, 1998 compared to $10.4 million in 1997. During 1998, 1997 and 1996, the Company sold a total of $2.1 million, $18.5 million and $5.3 million, respectively, in Title I loans. The Company serviced a total of $2.3 million, $3.6 million and $9.3 million in Title I loans at December 31, 1998, 1997 and 1996, respectively.

Other home equity loans are secured by junior trust deeds on residential properties and may be made to homeowners with little or no equity in the property. Unlike Title I loans, the proceeds can be used for a variety of purposes the most common of which are home improvement and debt consolidation. The Company purchases and originates equity loans for immediate sale into the secondary market. As a result of increased demand for other types of equity loans, and to mitigate the impact of decreased premiums from the sale of Title I loans to current income, the Bank increased its volume in other equity loans during 1997 and 1996. The secondary market demand for these loans decelerated in 1998 and consequently the Company's volume declined. During 1998, 1997 and 1996, the Bank originated or purchased approximately $30.4 million, $37.1 million and $13.5 million, respectively, in equity loans which were sold in the secondary market. These loans totaled $ 3.2 million, $4.5 million, and $1.2 million at year-end 1998, 1997 and 1996, respectively. Despite the recent decline in demand for Title I and other home equity loans, the Company currently intends to remain active in this line of business.

Home equity lines of credit, secured primarily by second trust deeds on single family residences, declined 7% to $6.0 million in 1998 from $6.5 million in 1997, a decrease of 12% from $7.4 million the prior

year. The Company requires a debt-to-value ratio of not higher than 80% for home equity lines. Automobile loans increased only 1% in 1998 to $9.5 million after decreasing 2% to $9.4 million in 1997 from $9.6 million at year-end 1996. The decline in the volume of automobile loans since 1996 is due to the intense competition from other bank and non-bank lenders in this market.

The Company provides lease financing to municipalities and school districts in its market area subject to the same underwriting considerations and criteria as commercial loans. These leases are qualified tax-exempt lease obligations for federal income tax purposes. Low taxable-equivalent yields as compared to commercial, commercial real estate and SBA loans has significantly reduced the Company's level of activity in these leases (see Table Five).

In the usual course of business, the Company makes commitments to extend credit provided there is no violation of any conditions established in the loan contract. Total unfunded commitments to extend credit were $68.5 million, $68.4 million and $45.1 million at December 31, 1998, 1997 and 1996, respectively, and included standby letters of credit of $1.3 million, $1.7 million, and $1.9 million, respectively.

Loan repayments and maturities represent a significant source of liquidity for the Company. Table Six shows selected loan maturity data as of December 31, 1998 and indicates that 34% of the selected loans had contractual maturities of one year or less.

TABLE SIX - SELECTED LOAN MATURITY DATA
(DOLLARS IN THOUSANDS)

This table presents maturity distribution and interest sensitivity of selected loan categories (excluding nonaccrual commercial loans of $387,000). Maturities are presented on a contractual basis.

<TABLE>
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	MATURING			
	WITHIN ONE YEAR	AFTER ONE BUT WITHIN FIVE YEARS	MORE THAN FIVE YEARS	TOTAL

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Real estate construction loans	$19,320	$ 561	$ --	$ 19,881
Commercial loans	30,345	28,397	69,169	127,911
Total	$49,665	$ 28,958	$ 69,169	$147,405
Sensitivity of loans due after one year to changes in interest rates:				
Fixed interest rate		$ 16,320	$ 7,531	$ 23,851
Floating or adjustable interest rate		12,638	61,638	74,276
Total		$ 28,958	$ 69,169	$ 98,127

</TABLE>

NONPERFORMING ASSETS AND RESTRUCTURED LOANS

Nonperforming assets consist of nonperforming loans and other real estate owned ("OREO"). The Company considers a loan to be nonperforming when any one of the following events occurs: (i) any installment of principal or interest is 90 days past due; (ii) the full timely collection of interest or principal becomes uncertain; (iii) the loan is classified as "doubtful" by bank examiners; or (iv) a portion of its principal balance has been charged-off. OREO, which is any real estate owned other than banking premises, typically consists of foreclosed properties.

Total nonperforming assets declined 71% to $1.2 million at December 31, 1998 from $4.0 million at year-end 1997, a decline of 36% from $6.3 million the prior year-end. This progress was the result of the Company's continued efforts to improve asset quality, as well as improvement in the Southern California economy. As presented in Table Seven, nonaccrual loans decreased 74% to $788,000 at December 31, 1998 from $3.0 million at year-end 1997, a 15% decrease from $3.5 million at December 31, 1996. OREO at December 31, 1998 totaled $374,000, a decrease of 62% from $986,000 at the end of 1997, which represented a decrease of 64% as compared to $2.8 million at December 31, 1996.

OREO is recorded at its net realizable value at the time the asset is transferred to OREO. Additional writedowns in the value of the properties may occur depending upon changes in the market, annual appraisals

of the property and the estimated length of time needed to dispose of the property. The Company has experienced some improvement in its ability to dispose of its OREO over the last several years, selling nine properties that totaled $1.2 million in 1998, thirteen properties that totaled $3.3 million in 1997 and 22 properties that totaled $2.8 million in 1996. At December 31, 1998, OREO consisted of one single family residence totaling $306,000, five parcels of vacant land zoned for residential use carried at $68,000 and one parcel of vacant land zoned for commercial use carried at $0.

Interest income included in net interest income relating to nonaccrual loans was $38,000 and $123,000 for the years ended December 31, 1998 and 1997, respectively. Additional interest income of $62,000 and $212,000 would have been recorded during 1998 and 1997, respectively, if the loans had been paid in accordance with their original terms.

TABLE SEVEN - NONPERFORMING ASSETS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Loans 90 days or more past due and still accruing (as to principal or interest):					
Installment and consumer loans	$ --	$ --	$ --	$ --	$ 14
Nonaccrual loans:					
Residential real estate	130	--	150	317	622
Commercial real estate	--	--	--	778	565
Real estate construction	--	--	581	1,506	1,389
Commercial	387	2,163	1,540	1,560	1,775
Installment and consumer loans	271	858	1,270	1,129	767

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Total	788	3,021	3,541	5,290	5,118
Total nonperforming loans	788	3,021	3,541	5,290	5,132
Other real estate owned	374	986	2,756	2,402	3,607
Total nonperforming assets	$1,162	$4,007	$6,297	$7,692	$8,739
Nonperforming loans to total gross loans	0.33%	1.43%	1.96%	3.27%	3.08%
Nonperforming assets to total gross loans plus other real estate owned	0.49%	1.89%	3.44%	4.68%	5.13%

</TABLE>

Other past due loans at December 31, 1998 included $877,000 of loans past due more than 30 days but less than 90 days.

TABLE EIGHT - RESTRUCTURED LOANS
(DOLLARS IN THOUSANDS)

The following table provides information with respect to the components of the Company's restructured loans at the dates indicated.

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Residential real estate	$ 151	$ 171	$ 240	$ 548	$ 646
Commercial real estate	4,759	3,207	3,853	4,405	2,960
Real estate construction	--	--	581	1,506	1,171
Commercial	166	484	731	479	1,354
Total restructured loans	$5,076	$3,862	$5,405	$6,938	$6,131

</TABLE>

Restructured loans consist of loans whose terms have been modified to provide some relief from the scheduled interest and principal payments in light of the customer's financial difficulties, the objective of which is to maximize the Bank's possibility of collection. Restructured loans totaled $5.1 million and $3.9 million at

December 31, 1998 and 1997, respectively. There were no restructured loans accounted for as nonaccrual loans at December 31, 1998. Restructured loans includes $115,000 and $45,000 in residential real estate loans and commercial loans, respectively, which were accounted for as nonaccrual loans at December 31, 1997.

A loan is deemed to be impaired when it is probable that a creditor may not collect amounts due according to the original contractual terms of the original loan agreement. Impaired loans are measured using one of the following methods: (i) the present value of expected cash flows discounted at the loan's effective interest rate; (ii) the observable value of the loan's market price; or (iii) the fair value of the collateral if the loan is collateral dependent. All impaired loans at December 31, 1998 were measured based on the fair value of the loan collateral. Interest income on impaired loans is recognized on a cash basis.

The Bank's recorded investments in impaired loans at December 31, 1998 and 1997, were $954,000 and $2,163,000, respectively. Reserves for loan losses of $48,000 and $151,000 were established for impaired loans at December 31, 1998 and 1997, respectively. The average recorded investments in impaired loans during 1998 and 1997 were $1,654,000 and $2,528,000, respectively. Interest income on impaired loans of $16,000 and $120,000 was recognized for cash payments received in 1998 and 1997. The Company is not committed to lend additional funds to debtors whose loans have been modified.

ALLOWANCE FOR LOAN AND LEASE LOSSES

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The allowance for loan and lease losses at December 31, 1998 totaled $3.6 million or 1.51% of total gross loans as compared to $3.3 million or 1.55% of total gross loans at December 31, 1997 and $3.1 million or 1.73% of total gross loans at December 31, 1996.

It is the Company's practice to maintain the allowance for loan and lease losses at a level considered by Management to be adequate. Each month Management calculates a minimum acceptable allowance for loan and lease losses using an internal rating system based upon the risk associated with various categories of loans. In determining the actual allowance for loan and lease losses to be maintained, Management augments this calculation with an analysis of the present and prospective financial condition of certain borrowers, industry concentrations within the portfolio, trends in delinquent and nonaccrual loans and general economic conditions. A portion of the calculation is based upon the historical loss experience of the preceding five years and in some risk categories the degree of collateralization. The risk assigned to each loan is first determined when the loan is originated. It is then reviewed quarterly and revised as appropriate. In addition, the Company maintains a monitoring system for all credits that have been identified either internally or externally as warranting additional Management attention. These credits are formally reported to Management by the lending officers on a quarterly basis and are subsequently reviewed by the Loan Committee of the Board of Directors. Reserves against these loans are based on the credit risk assigned to the loans as described above utilizing a schedule of percentages developed by Management in accordance with historical loss experience, ranging from 0.5% to 50% of the present loan balances. These percentages may be modified, based upon current or prospective local economic conditions. The comments of bank examiners, the Company's independent auditors and a third party loan review consultant hired by the Company on a periodic basis are also considered in revising risk category assignments.

The allowance for loan and lease losses is based upon estimates and ultimate losses may vary from current estimates. The continuing evaluation of the loan portfolio and assessment of current economic conditions will dictate future funding levels. Management believes that the allowance for loan and lease losses at December 31, 1998 was adequate to absorb the known and inherent risks in the loan portfolio. However, no assurance can be given that changes in the current economic environment in the Company's principal market area or other circumstances will not result in increased losses in the Company's loan portfolio in the future. Net charged-off loans as a percentage of the beginning of the period allowance for loan and lease losses were 35.2%, 31.4% and 37.3% in 1998, 1997 and 1996, respectively.

Table Nine summarizes, for the periods indicated, loan balances at the end of each period and daily averages during the period, changes in the allowance for loan and lease losses arising from loans charged off, recoveries on loans previously charged off, and additions to the allowance which have been charged to operating expense; and certain ratios relating to the allowance for loan losses.

TABLE NINE - ALLOWANCE FOR LOAN AND LEASE LOSSES
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
BALANCES:					
Average loans during period	$222,193	$195,536	$171,906	$165,374	$168,076
Loans at end of period	237,702	210,991	180,410	161,950	166,609
ALLOWANCE FOR LOAN AND LEASE LOSSES:					
Balance at beginning of period	3,268	3,129	2,916	2,739	2,195
Actual charge-offs:					
Residential real estate loans	--	13	10	137	380
Commercial real estate loans	--	--	88	46	--
Real estate construction loans	--	--	263	525	71
Commercial loans	291	502	450	1,514	1,595
Installment and consumer loans	1,110	1,054	609	1,022	804
Total	1,401	1,569	1,420	3,244	2,850
Recoveries on loans previously charged off:					
Residential real estate loans	--	--	--	--	--
Commercial real estate loans	35	--	--	--	--
Real estate construction loans	--	489	--	--	--
Commercial loans	98	33	274	47	184

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Installment and consumer loans	118	64	59	68	75
Total	251	586	333	115	259
Net loan charge-offs	1,150	983	1,087	3,129	2,591
Provision for loan and lease losses	1,474	1,122	1,300	3,306	3,135
Balance at end of period	$ 3,592	$ 3,268	$ 3,129	$ 2,916	$2,739
RATIOS:					
Net loan charge-offs to average loans	0.52%	0.50%	0.63%	1.89%	1.54%
Allowance for loan and lease losses to loans at end of period	1.51	1.55	1.73	1.80	1.64
Net loan charge-offs to beginning of the period allowance for loan and lease losses	35.2	31.4	37.3	114.2	118.0
Net loan charge-offs to provision for loan and lease losses	78.0	87.6	83.6	94.7	82.7

</TABLE>

Each type of loan made by the Company presents various types of risk of loss to the Company. The primary risk element considered by Management with respect to each installment, commercial real estate and residential real estate loan is lack of timely payment and the value of the collateral. The primary risk elements with respect to real estate construction loans are fluctuations in real estate values in the Company's market areas, inaccurate estimates of construction costs, fluctuations in interest rates, the availability of conventional financing, the demand for housing in the Company's market area and general economic conditions. The primary risk elements with respect to commercial loans are the financial condition of the borrower, general economic conditions in the Company's market area, the sufficiency of collateral, the timeliness of payment and with respect to adjustable rate loans and interest rate fluctuations. Management has a policy of requesting and reviewing annual financial statements from its commercial loan customers and periodically reviews the existence and value of its collateral. Management also has a reporting system that monitors all past due loans and has adopted policies to pursue its creditor's rights in order to preserve the Company's position.

Loans are charged against the allowance when, in Management's opinion, they are deemed uncollectible, although the Company continues to aggressively pursue collection. Although Management believes that the allowance for loan and lease losses is adequate to absorb losses as they arise, there can be no assurance that (i) the Company will not sustain losses in any given period which could be substantial in relation to the size of the allowance for loan and lease losses, (ii) the Company's level of nonperforming loans will not increase, (iii) the Company will not be required to make significant additional provisions to its allowance for loan and lease losses, or (iv) the level of net charge-offs will not increase and possibly exceed applicable reserves.

INVESTMENT PORTFOLIO

The Company's investment strategy is to maximize portfolio yields commensurate with risk and liquidity considerations. The primary objectives of the investment strategy are to provide adequate levels of investment income and secondarily to maintain an appropriate level of liquidity. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment and liquidity requirements. Among other things, the Company's investment policy prohibits investments in derivative securities.

At December 31, 1998, investment securities totaled $43.8 million or 13% of total assets, an increase of 48% compared to $29.7 million or 11% of total assets at December 31, 1997. The 1998 increase was funded by deposit growth which outpaced growth in the loan portfolio, the Company's primary use of funds. Average investment securities in 1998 actually decreased slightly by 2% to $32.5 million from $33.2 million in 1997. Investment purchases in 1998 totaled $29.5 million, of which $21.2 million were in Federal agency securities. The Company utilizes the services of a professional investment advisor on a portion of its investment portfolio for which it pays a fee.

The Company's investment securities are classified into two portfolios: available for sale and held to maturity. The Company does not maintain a trading portfolio. Investments classified as available for sale are carried at market value, with the unrealized gain or loss net of tax

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effect accumulated as other comprehensive income, a separate component of stockholders' equity. Unrealized gains of $71,000 in 1998 and unrealized losses of $3,000 and $156,000 for 1997 and 1996, respectively, were recognized in the available for sale portfolio. Held to maturity investments are carried at amortized cost. Table Ten presents the year-end carrying value for the total portfolio for each of the investment categories for the past three years.

TABLE TEN - INVESTMENT SECURITIES
(DOLLARS IN THOUSANDS)

AVAILABLE FOR SALE:	1998	1997	1996
U.S. Treasury securities	$ --	$ --	$ 501
Obligations of other U.S. government agencies	--	1,002	9,022
Obligations of states and political sub-divisions	2,085	2,116	2,142
Mortgage-backed securities	13,306	12,896	7,362
Equity securities (1)	1,802	1,530	4,090
Total	$17,193	$17,544	$23,117
HELD TO MATURITY:			
U.S. Treasury securities	$ 301	$ 301	$747
Obligations of other U.S. government agencies	21,854	7,478	5,674
Obligations of states and political sub-divisions	1,849	1,748	1,751
Mortgage-backed securities	2,041	2,608	3,172
Asset-backed securities	583	--	--
Total	$26,628	$12,135	$11,344

----

(1) Equity securities in 1998, 1997 and 1996, included $687,000, $498,000 and $3.4 million, respectively, in government securities bond and money market funds which invest in securities guaranteed by the U.S. Government, $877,000, $794,000 and $733,000 in Federal Home Loan Bank stock in 1998, 1997 and 1996, respectively, and $238,000 in Federal Reserve Bank stock in 1998 and 1997. Equity securities, part of the available for sale portfolio, are carried on the books of the Company at the lower of aggregate cost or market. In 1998, 1997 and 1996 stockholders' equity was reduced by $39,000, $36,000 and $68,000, respectively to reflect a decline in the market value of these securities.

The Company's available for sale portfolio consists primarily of mortgage-backed securities, which constituted 77% and 74%, respectively, of this portfolio at the end of 1998 and 1997. Most of these securities are comprised of adjustable rate mortgages most commonly tied to the one, three or five year U.S. Treasuries or the Federal Home Loan Bank Eleventh District cost of funds index. Although market value may fluctuate, the interest rates of the individual mortgages in these pools are periodically adjusting to current rates, resulting in

an asset with a market value that is relatively stable compared to a fixed rate security with similar characteristics, reducing the Company's interest rate risk. Also, due to an active secondary market, mortgage-backed securities can offer liquidity similar to U.S. Treasury securities at yields that are typically higher than comparable Treasury securities.

The held to maturity portfolio consists primarily of U.S. Government and Federal agency securities, which comprised 82% and 62%, respectively, of this portfolio at the end of 1998 and 1997. This security category contained $5.0 million, or 19% of the portfolio total, in agency discount notes at the end of 1998, which matured within one month and offered a higher yielding alternative for investing excess liquidity as compared to Federal funds sold.

TABLE ELEVEN - INVESTMENT PORTFOLIO MATURITIES AND YIELDS

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(DOLLARS IN THOUSANDS)

This table summarizes the maturity of the Company's investment securities and their weighted average yields at December 31, 1998. Tax-exempt income from investment securities is presented on a tax-equivalent basis assuming a 34% federal income tax rate for 1998. Mortgage-backed securities are categorized based on final maturity dates.

	WITHIN ONE YEAR		AFTER ONE BUT WITHIN FIVE YEARS		AFTER FIVE BUT WITHIN TEN YEARS		AFTER TEN YEARS		TOTAL	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD
U.S. Treasury securities	$ 301	5.15%	$ --	-- %	$ --	-- %	$ --	-- %	$ 301	5.15%
Obligations of other U.S. government agencies	6,499	5.27	10,147	6.01	5,208	6.13	--	--	21,854	5.82
Obligations of states and political subdivisions	2,716	6.26	619	6.43	--	--	599	6.32	3,934	6.30
Mortgage-backed securities ..	--	--	210	8.20	1,192	7.06	13,945	6.53	15,347	6.59
Asset-backed securities	583	5.25	--	--	--	--	--	--	583	5.25
Equity securities	1,802	5.50	--	--	--	--	--	--	1,802	5.50
Total investment securities	$11,901	5.52%	$10,976	6.08%	$6,400	6.31%	$14,544	6.52%	$43,821	6.11%

DEPOSITS

Total average deposits during 1998 increased 13% to $277.1 million compared to $246.0 million in 1997, an increase of 11% from $220.8 million in 1996. The following discussion addresses changes in average balances in 1998 and 1997 compared to the prior years. Average deposit balances and yields are presented in Table Twelve. The largest percentage increases in 1998 were in noninterest-bearing demand accounts which increased by 13% to $92.9 million and time deposits which increased by 21% to $62.4 million. There were no significant shifts in average deposit mix in 1998. As a percentage of total deposits, noninterest-bearing demand deposits were at 34%, interest-bearing demand accounts at 15%, savings and money market accounts at 29% and time deposits at 23%. Time deposits as a percentage of total deposits increased to 21% in 1997 from 16% the prior year due to a local deposit promotion during the first part of 1997 that raised approximately $17.0 million in seven month certificates of deposit. Noninterest-bearing demand deposits increased 12% or $8.7 million during 1997 and represented 33% of total deposits at both December 31, 1997 and 1996, respectively.

The levels of noninterest-bearing demand deposits (including retail accounts) are influenced by such factors as customer service, service charges and the availability of banking services (i.e., extended hours, convenience of location, availability of ATMs). No assurance can be given that the Company will be able to maintain its current level of noninterest-bearing deposits. The Company's percentage of noninterest-bearing deposits remains high compared to similar sized institutions. Competition from other banks and thrift institutions as well as money market funds, some of which offer interest rates substantially higher than the Company, makes it difficult for the Company to maintain the current level of noninterest-bearing deposits. Management continually works to implement pricing and marketing strategies designed to lower the average rate paid on interest-bearing deposits and to maintain a stable deposit mix. The rapid rise in time deposits during 1998 precipitated Management's efforts to reduce interest expense by lowering the rates paid on time deposits which is expected to continue into 1999.

TABLE TWELVE - AVERAGE DEPOSITS
(DOLLARS IN THOUSANDS)

This table summarizes the distribution of average deposits and the average rates paid for the periods indicated.

YEARS ENDED DECEMBER 31,		
1998	1997	1996

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<S>	AVERAGE BALANCE <C>	AVERAGE RATE <C>	AVERAGE BALANCE <C>	AVERAGE RATE <C>	AVERAGE BALANCE <C>	AVERAGE RATE <C>
Noninterest-bearing demand deposits	$ 92,885	--	$ 81,958	--	$ 73,298	--
Interest-bearing demand deposits	41,391	1.32%	36,809	1.43%	36,791	1.44%
Savings deposits	80,415	3.19	75,650	3.29	75,583	3.29
Time deposits	62,359	5.02	51,621	5.11	35,166	4.77
Total deposits...	$277,050	2.25%	$246,038	2.30%	$220,838	2.13%

</TABLE>

As part of its asset/liability management policy, the Company generally limits the issuance of time deposits of $100,000 or greater primarily to customers who have other business relationships with the Company and who reside within the Company's market area, although the Company may offer such deposits to others to help it meet its liquidity needs. The Company generally limits the terms of these deposits to less than one year in order to allow it to react quickly to changing interest rates. Table Thirteen depicts the maturity distribution of these deposits at year-end 1998. At December 31, 1998 and 1997, time deposits of $100,000 or more totaled $20.9 million and $9.2 million, respectively, representing 7% and 4% of total period-end deposits, respectively.

TABLE THIRTEEN - MATURITY OF TIME DEPOSIT OF $100,000 OR MORE
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

TIME DEPOSITS MATURING IN <S>	DECEMBER 31, 1998 <C>
Three months or less..	$11,062
Over three months through six months........................	2,117
Over six months through twelve months.......................	5,537
Over twelve months..	2,152
Total..	$20,868

</TABLE>

CAPITAL RESOURCES

Stockholders' equity increased $4.8 million or 19% to $30.0 million at December 31, 1998, from $25.2 million at December 31, 1997. This increase was due to net income of $4.8 million and an increase of $41,000 in unrealized gains on available for sale securities, net of $33,000 in income taxes. Stockholders' equity increased $5.0 million or 25% to $25.2 million at year-end 1997 from $20.2 million the prior year-end. This increase was due to net income of $3.5 million, the conversion of subordinated debentures, net of deferred offering costs, of $1.4 million, and a decrease of $84,000 in unrealized losses on available for sale securities, net of $69,000 in taxes. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations.")

Under the risk-based capital guidelines for banks and bank holding companies adopted by the federal banking regulators in 1988 the Company and the Bank are required to maintain a minimum ratio of total capital to total risk-weighted assets of 8.00% (at least one-half of which must consist of Tier 1 capital). Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items.

Additionally, the federal banking regulators adopted minimum Tier 1 leverage capital ratio requirements in 1990 supplementing the risked-based capital regulations and replacing minimum leverage ratios used prior to 1990. The rules require a minimum ratio of Tier 1 capital to total assets of 3.00% for institutions receiving the highest regulatory rating. All other institutions are required to meet a minimum ratio of 4.00% to 5.00%. Tier 1 capital consists of common equity, minority interest in equity of consolidated subsidiaries, and qualifying

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perpetual preferred stock. Table Fourteen presents the risk-based and Tier 1 leverage capital ratios for the Company and the Bank at year-end 1998 and 1997. (See "Description of Business - Regulation and Supervision - Capital Adequacy Requirements").

TABLE FOURTEEN - CAPITAL RATIOS

	North County Bancorp		North County Bank	
	1998	1997	1998	1997
Risk-based Capital:				
Tier 1	11.68%	10.88%	11.58%	10.85%
Total	12.93%	12.14%	12.83%	12.10%
Tier 1 leverage capital	8.80%	8.76%	8.72%	8.73%

In May 1990, the Company issued $1.7 million in 9 1/4% convertible subordinated debentures (the "Debentures"). In September 1997, at which time $1.5 million in Debentures remained outstanding, the Company announced that it was exercising its option to redeem the Debentures at a price of 102.25% effective October 31, 1997. Most holders of the Debentures elected to convert to common stock, receiving 267 shares per $1,000 face value of Debentures, representing a conversion price of $3.74. The conversion of Debentures during 1997 resulted in an increase in common stock, a component of Tier 1 capital, of $1.4 million, net of deferred offering costs of $101,000.

As a bank holding company without significant assets other than its equity interest in the Bank, the Company's ability to meet its obligations depends upon the dividends it receives from the Bank. The Bank resumed the payment of dividends in 1997 on the Bank's preferred stock. Such dividends had not been paid since 1994, pursuant to formal and informal agreements with the Bank's regulators and a Board resolution adopted in May of 1996, the last of which was terminated in March 1997.

As of December 31, 1995, the Bank, operating under the terms of a regulatory order (the "Order") entered into with the FDIC in May 1995 and an informal agreement entered into with the California Superintendent of Banks in April 1994, had agreed, among other things, not to pay cash dividends to the Company without the prior consent of the FDIC. The Order was terminated in May of 1996, when, at the request of the FDIC, the Board passed a resolution stating that the Bank would: (i) maintain an adequate level of capital, (ii) continue to reduce its overall level of classified assets, (iii) strengthen certain credit review procedures, (iv) increase and stabilize its earnings, and (v) correct certain deficiencies in its internal audit and regulatory compliance programs. The FDIC lifted this restriction in March 1997.

During 1999, Management anticipates capital expenditures of approximately $2.4 million primarily related to construction of a new office facility for its existing Murrieta branch scheduled to open in the third quarter of 1999, and the opening of a full service branch office located at Palomar Airport Road and Business Park Drive in the City of Vista, California. This office, which will be a leased facility, is scheduled to open in mid 1999.

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

The liquidity of a banking institution reflects its ability to provide funds to meet customer credit needs, to accommodate possible outflows in deposits, to provide funds for day-to-day operations, and to take advantage of interest rate market opportunities. Funding of loan requests, providing for liability outflows, and management of interest rate risk requires continuous analysis in order to match the maturities of categories of loans and investments with the maturities of deposits and bank-related borrowings. A bank's liquidity is normally considered in terms of the nature and mix of its sources and uses of funds. Asset liquidity is provided by cash, certificates of deposit with other financial institutions, Federal funds sold, maturing investments, and loan maturities and repayments. Liquid assets (consisting of cash, Federal funds sold and investment securities) comprised 26.0% and 20.6% of the Company's total assets at December 31, 1998 and 1997, respectively. Liquidity management also includes the management of unfunded commitments to make loans and undisbursed amounts under lines of credit. At December 31, 1998 these commitments totaled $45.3 million in commercial loans, $1.3 million in letters of credit, $10.9 million in real estate construction loans, and $11.1 million in installment and consumer loans. At December 31, 1997 these commitments totaled $37.5 million in commercial loans, $1.7 million in letters of credit, $18.9 million in real estate construction loans, and $10.4 million in

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installment and consumer loans. Average Federal funds sold were $15.9 million in 1998 and $8.1 million in 1997.

The Bank also has several secondary sources of liquidity. Many of the Bank's real estate construction, commercial real estate and SBA loans are originated pursuant to underwriting standards which make them readily marketable to other financial institutions or investors in the secondary market. In addition, in order to meet liquidity needs on a temporary basis, the Bank has unsecured lines of credit in the amount of $15.0 million for the purchase of Federal funds with other financial institutions and may borrow funds from the Federal Home Loan Bank and at the Federal Reserve discount window subject to the Bank's ability to supply collateral. Average Federal funds purchased were $291,000 and $272,000 in 1998 and 1997, respectively.

The Company regularly monitors the interest rate sensitivity of its assets and liabilities and has established guidelines for each asset and liability category and for its interest rate sensitivity position overall. From time to time Management may emphasize or de-emphasize certain products, change its product mix, product pricing, funding policies or take other actions to maintain an acceptable level of interest rate risk. The Company attempts to minimize the impact of interest rate changes on the Company's earnings through the management of the amount, composition and repricing periods of rate-sensitive assets and rate-sensitive liabilities. Emphasis is placed on maintaining a rate-sensitivity position within the Company's policy guidelines to avoid wide swings in spreads and to minimize risk due to changes in interest rates. At December 31, 1998 and 1997, approximately 62.6% and 59.8%, respectively, of the Company's total loans and 62.2% and 54.8%, respectively, of the Company's total interest-earning assets were tied to the Company's base lending rate, national prime rate, or mature within one year. Most of the Company's interest-bearing liabilities are immediately repriceable or mature in one year or less (93.9% in 1998 and 97.6% in 1997). In order to match the rate-sensitivity of its assets, the Company's policy is to offer a significant number of variable rate deposit products and limit the level of large dollar time deposits with maturities greater than one year.

TABLE FIFTEEN - INTEREST RATE SENSITIVITY GAP
(DOLLARS IN THOUSANDS)

This table sets forth the rate-sensitivity of the Company's interest-earning assets and interest-bearing liabilities as of December 31, 1998, the interest rate-sensitivity gap (interest rate-sensitive assets less interest rate-sensitive liabilities), cumulative interest rate-sensitivity gap, the Company's interest rate-sensitivity gap ratio (interest rate-sensitive assets divided by interest rate-sensitive liabilities) and the Company's cumulative interest rate-sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it matures or could be repriced within such period in accordance with its contractual terms. Nonaccrual loans of $788,000 are excluded from the presentation.

<TABLE>
<CAPTION>

	WITHIN THREE MONTHS	AFTER THREE MONTHS BUT WITHIN SIX MONTHS	AFTER SIX MONTHS BUT WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNINGS ASSETS:						
Loans	$ 134,072	$ 5,800	$ 8,844	$ 60,630	$ 27,568	$236,914
Investment securities	6,802	2,903	10,149	15,502	8,465	43,821
Federal funds sold	17,000	--	--	--	--	17,000
Total	157,874	8,703	18,993	76,132	36,033	297,735
INTEREST-BEARING LIABILITIES:						
Interest-bearing demand deposits	42,825	--	--	--	--	42,825

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Savings deposits	79,682	--	--	--	--	79,682
Time deposits	34,139	11,341	22,534	12,064	9	80,087
Borrowed funds	1,551	--	--	--	387	1,938
Total	158,197	11,341	22,534	12,064	396	204,532
Interest rate-sensitivity gap	(323)	(2,638)	(3,541)	64,068	35,637	$ 93,203
Cumulative interest rate sensitivity gap	$ (323)	$ (2,961)	$ (6,502)	$ 57,566	$ 93,203	
Interest rate-sensitivity gap ratio	1.00x	.77x	.84x	6.31x	90.99x	1.46x
Cumulative interest rate sensitivity gap ratio	1.00x	.98x	.97x	1.28x	1.46x	

</TABLE>

As of December 31, 1998, the Company was liability-sensitive within one year and asset-sensitive beyond one year. Liability sensitive means that rate-sensitive liabilities exceed rate-sensitive assets. This position will generally result in enhanced earnings in a falling interest rate environment and declining earnings in a rising interest rate environment. Asset sensitive means that rate-sensitive assets exceed rate-sensitive liabilities. This position will generally result in enhanced earnings in a rising interest rate environment and declining earnings in a falling interest rate environment because a larger volume of assets than liabilities will reprice. However, the foregoing table does not necessarily indicate the impact of general interest rate movements on the Company's net interest yield, because the repricing of various categories of assets and liabilities is discretionary and is subject to competition and other pressures. As a result, various assets and liabilities indicated as repricing within the same period may in fact price at different times and at different rate levels. Management attempts to mitigate the impact of changing interest rates in several ways, one of which is to manage its interest rate-sensitivity gap. The use of a base lending rate by the Company for the majority of its floating rate loans also allows the Company more flexibility than the use of a national prime rate in matching changes to the yield on floating rate loans to changes in its funding costs. In addition to managing its assets/liability position, the Company has taken steps to mitigate the impact of changing interest rates by generating noninterest income through service charges, offering products which are not interest rate-sensitive, such as escrow services and insurance products, and through the sale and servicing of loans. (See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk.")

IMPACT OF INFLATION

The impact of inflation on banks differs from its impact on non-financial institutions. Banks, as financial intermediaries, have assets which are primarily monetary in nature and which tend to fluctuate with inflation. This is especially true for banks with a high percentage of rate-sensitive interest-earning assets and

interest-bearing liabilities. A bank can further reduce the impact of inflation if it can manage its rate-sensitivity gap (the difference between variable rate assets and variable rate liabilities). The Company attempts to structure its assets and liabilities and manage its gap accordingly, thus seeking to minimize the potential effects of inflation. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Asset/Liability Management").

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The composition of the Company's balance sheet consists of investments in interest-earning assets (primarily loans and investment securities) which are primarily funded by interest-bearing liabilities (primarily deposits and borrowings). These financial instruments have varying levels of sensitivity to changes in market interest rates resulting in market risk. In evaluating the Company's exposure to market risk, management relies primarily upon interest-rate sensitivity gap analysis (See "Management's Discussion and Analysis of Financial Condition and Results of Operations --- Liquidity and Asset/Liability Management") and interest rate shock analysis. These methods of analysis provide information as to the maturities and timing in repricing characteristics of interest rate sensitive instruments as well as the impact of interest rate changes upon the fair market value of these instruments. There are certain shortcomings inherent in these methods and the following presentation that must be considered in evaluating market risk. Although certain assets and liabilities may have similar maturities or periods to reprice, they may react in different degrees to changes in market interest rates or they may anticipate or lag behind changes in market interest rates. In addition, certain interest rate sensitive assets may have

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contractual limitations to changes in interest rates on a short-term basis and over the life of the asset. Management considers these various factors and their anticipated effects in managing the Company's exposure to interest rate risk.

Table Sixteen presents additional information about the Company's financial instruments that are sensitive to changes in interest rates. Cash flows in this presentation are grouped by maturity dates rather than repricing dates with consideration given to prepayment assumptions for mortgage-backed securities and maturity estimations for instruments without contractual maturity dates. Loans are distinguished by variable or fixed rates and contractual principal payments are represented in the cash flows. Loan fair values are estimated using discounted cash flows or based on quoted market prices for Title I and SBA loans (See "Note 9-Fair Values of Financial Instruments" in the accompanying financial statements). Investment securities are divided into mortgage-backed securities and other securities. The cash flows from mortgage-backed securities are influenced by principal prepayments, which are dependent on a number of factors, including, the current interest rate and interest rate index on the security, the availability of refinancing of the underlying mortgages at attractive terms, as well as other factors in specific geographic areas which affect the sales and price levels of residential property. Management utilizes average prepayment speeds provided by dealers to calculate principal repayments and the estimated maturity date for mortgage-backed securities. The cash flows for other securities are based on the actual maturity dates of the instruments, except for equity securities which are included in the third year, 2001. Fair values of investment securities are based on quoted market prices or dealer quotes. Non-maturing deposits consist of interest-bearing demand, savings and money market accounts and have no maturity dates. Cash flow amortizations for these deposits are based on the maximum terms allowable under regulatory guidelines. The fair value of non-maturing deposits is estimated to be the carrying or face value, which is the amount payable on demand. Time deposits are grouped according to their contractual maturity dates. The fair value of time deposits is estimated using a discounted cash flow calculation (See "Note 9-Fair Values of Financial Instruments" in the accompanying financial statements). Average interest rates represent the weighted average yield in each category.

TABLE SIXTEEN - INTEREST-SENSITIVE FINANCIAL INSTRUMENTS
(DOLLARS IN THOUSANDS)

<TABLE>
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	EXPECTED MATURITY DATE							
	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR VALUE
FINANCIAL ASSETS:								
Loans:								
Variable rate	$51,028	$10,587	$ 4,901	$ 4,623	$ 4,044	$55,091	$130,274	$132,038
Average interest rate	10.64%	10.47%	10.66%	10.47%	10.28%	10.53%	10.56%	
Fixed rate	$30,348	$19,677	$15,614	$13,401	$ 8,384	$20,004	$107,428	$107,130
Average interest rate	9.53%	9.72%	9.63%	9.48%	9.63%	8.87%	9.46%	
Investment securities:								
Mortgage-backed securities.	$ 8,254	$ 756	$ 2,617	$ 748	$ 314	$ 2,658	$ 15,347	$ 15,383
Average interest rate	6.29%	6.27%	7.22%	6.60%	7.46%	6.91%	6.59%	
Other investment securities	$11,600	$ 1,187	$ 1,197	$ 1,684	$ 6,999	$ 5,807	$ 28,474	$ 28,446
Average interest rate	5.52%	5.91%	6.23%	6.37%	5.91%	6.15%	5.84%	
Federal funds sold	$17,000	--	--	--	--	--	$ 17,000	$ 17,000
Average interest rate	4.47%	--	--	--	--	--	4.47%	
FINANCIAL LIABILITIES:								
Interest-bearing deposits:								
Non-maturing deposits	$25,782	$34,174	$34,174	$ 7,094	$ 7,094	$14,189	$122,507	$115,264
Average interest rate	3.08%	2.22%	2.22%	1.71%	1.71%	1.71%	2.28%	
Time deposits	$67,993	$ 6,305	$ 1,180	$ 678	$ 3,922	$ 9	$ 80,087	$ 80,578
Average interest rate	4.70%	5.54%	5.68%	5.70%	5.88%	3.89%	4.84%	
Federal funds purchased and U..S. Treasury demand note.	$ 1,551	--	--	--	--	--	$ 1,551	$ 1,551
Average interest rate	4.51%	--	--	--	--	--	4.51%	

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</TABLE>

The fair values of financial instruments may not necessarily be indicative of the net realizable or liquidation value of these instruments. Furthermore, management does not intend to dispose of significant portions of all of its financial instruments and, thus, any aggregate unrealized gain or loss should not be interpreted as a forecast of future earnings and cash flows.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

North County Bancorp's financial statements begin on page 39 of this report.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by these items is contained in the Company's definitive Proxy Statement for the Company's 1999 Annual Meeting of Shareholders which the Company intends to file with the Commission within 120 days after the close of the Company's 1998 fiscal year in accordance with the Commission's Regulation 14A under the Securities Exchange Act of 1934. Such information is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) FINANCIAL STATEMENTS

The following consolidated financial statements and report of independent accountants of North County Bancorp are included in this report commencing on page 39.

Report of Independent Accountants

Consolidated Balance Sheet - December 31, 1998 and 1997

Consolidated Statement of Income - Three Years ended December 31, 1998

Consolidated Statement of Cash Flows - Three Years ended December 31, 1998

Consolidated Statement of Stockholders' Equity - Three Years ended December 31, 1998

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES

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Schedules to the consolidated financial statements are omitted because the required information is inapplicable or the information is presented in North County Bancorp's consolidated financial statements or related notes.

(3) EXHIBITS

Exhibits required to be filed hereunder are indexed on sequentially numbered pages 36 through 38 hereof.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the Company's fiscal year ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 17, 1999

NORTH COUNTY BANCORP,
a California corporation

By: /s/ Michael J. Gilligan

Michael J. Gilligan
Vice President and Chief
Financial Officer

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

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
/s/ Alan P. Chamberlain Alan P. Chamberlain	Director	March 17, 1999
/s/ G. Bruce Dunn G. Bruce Dunn	Director	March 17, 1999
/s/ Michael J. Gilligan Michael J. Gilligan	Vice President and Chief Financial Officer	March 17, 1999
/s/ Ronald K. Goode Ronald K. Goode	Director	March 17, 1999
/s/ James M. Gregg James M. Gregg	Chairman of the Board and Chief Executive Officer	March 17, 1999
/s/ Rodney D. Jones Rodney D. Jones	President and Director	March 17, 1999
/s/ Jack Port	Director	March 17, 1999

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----
Jack Port

/s/ Clarence R. Smith ------------------------------ Clarence R. Smith	Director	March 17, 1999
/s/ Raymond V. Stone ----------------------------- Raymond V. Stone	Director	March 17, 1999
/s/ Burnet F. Wohlford ------------------------------ Burnet F. Wohlford	Director	March 17, 1999

</TABLE>

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT TABLE REFERENCE NUMBER	ITEM	PAGE NUMBER IN SEQUENTIAL NUMBERING SYSTEM
<S>	<C>	<C>
3.1	Articles of Incorporation of North County Bancorp filed October 5, 1981 as amended by Certificate of Amendment of Articles of Incorporation filed July 28, 1988.(2)	
3.2	Amended and Restated Bylaws of North County Bancorp as adopted February 21, 1990.(2)	
4.1	Specimen of Common Stock Certificate.(2)	
4.2	Form of Indenture between North County Bancorp and Security Pacific National Bank, as Trustee, for up to $3,593,000 aggregate principal amount of 9 1/4% convertible subordinated debentures due May 15, 2002.(3)	
4.3	Specimen of Debenture Certificate.(3)	
10.1	Lease dated April 23, 1975 by and between Fifth Avenue Financial Group, a general partnership, and North County Bank, including an Amendment to Lease, effective May 1, 1980, and Assignment of Lease, effective August 1, 1985, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(2)	
10.2	Lease Agreement dated November 1, 1989, between Ontario Associates, a general partnership, and North County Bancorp, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(2)	
10.3	Lease Agreement dated March 1, 1990, between Ontario Associates, a general partnership, and North County Bancorp, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(3)	

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<CAPTION>

EXHIBIT TABLE REFERENCE NUMBER	ITEM	PAGE NUMBER IN SEQUENTIAL NUMBERING SYSTEM

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<S> <C> <C>

10.4	Lease Agreement dated November 1, 1986, between Ontario Associates, a general partnership, and North County Bancorp, relating to a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(2)	
10.5	Assignment of Lease dated July 1, 1989, between First National Bank and North County Bancorp, for the premises located at 8085 Clairemont Mesa Boulevard, San Diego, California.(2)	
10.6	North County Bancorp Incentive Stock Option Plan and Form of Stock Option Agreement.(1)	
10.7	North County Bank Employee Stock Ownership Plan Restated as of January 1, 1989.(2)	
10.8	Employment Contract between James M. Gregg and North County Bank, dated April 14, 1983.(2)	
10.9	Deferred Compensation and Stock Purchase Agreement between James M. Gregg and North County Bank, dated February 1, 1986.(2)	
10.10	Lease Agreement dated March 1, 1990, between Ontario Associates, a general partnership, and North County Bancorp, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(3)	
10.11	Lease Agreement dated July 15, 1991 between Ontario Associates, a general partnership, and North County Bancorp, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(4)	
10.12	Adoption agreement between North County Bank and The Prudential Bank dated August 29, 1991 for the North County Bancorp and Subsidiaries 401(k) Plan.(4)	

Footnotes on following page

<CAPTION>

EXHIBIT TABLE REFERENCE NUMBER	ITEM	PAGE NUMBER IN SEQUENTIAL NUMBERING SYSTEM
<S>	<C>	<C>
10.13	Lease Agreement dated August 27, 1993 between Ontario Associates, a general partnership, and North County Bancorp, for a portion of the office space at the Fifth Avenue Financial Center in Escondido, California.(5)	
10.14	Deferred Compensation and Stock Purchase Agreement between Rodney D. Jones and North County Bank, dated December 31, 1996.(6)	
10.15	North County Bancorp 1997 Stock Option Plan.(7)	
22	Subsidiaries of North County Bancorp	
24	Consent of Price Waterhouse	

</TABLE>

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(1) Incorporated by reference to the Exhibits to the North County Bancorp S-8 Registration Statement, Registration No. 2-84173, as filed with the Commission on May 25, 1983.

(2) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-K for the fiscal year ended December 31, 1989 File No. 0-10627, as filed with the Commission on March 1, 1990, and amended on April 30, 1990.

(3) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-K for the fiscal year ended December 31, 1990 File No. 0-10627, as filed with the Commission on March 31, 1991.

(4) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-K for the fiscal year ended December 31, 1991 File No. 0-10627, as filed with the Commission on March 30, 1992.

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(5) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-K for the fiscal year ended December 31, 1993 File No. 0-10627, as filed with the Commission on March 30, 1994.

(6) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996 File No. 0-10627, as filed with the Commission on March 28, 1997.

(7) Incorporated by reference to the Exhibits to the North County Bancorp Annual Report on Form 10-K405 for the fiscal year ended December 31, 1997 File No. 0-10627, as filed with the Commission on March 26, 1998.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of North County Bancorp

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of North County Bancorp and its subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP
San Diego, California
February 9, 1999

NORTH COUNTY BANCORP
CONSOLIDATED BALANCE SHEET
(Dollars in Thousands)

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 26,885	$ 24,262
Federal funds sold	17,000	4,000
	43,885	28,262
Investment securities:		
Available for sale	17,193	17,544
Held to maturity	26,628	12,135
Loans	237,702	210,991

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Less: Allowance for loan and lease losses	3,592	3,268
	234,110	207,723
Other real estate owned	374	986
Premises and equipment, net	10,013	8,582
Accrued interest receivable and other assets	5,210	5,502
	$337,413	$280,734
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$100,465	$ 89,852
Interest-bearing	202,594	161,703
	303,059	251,555
Accrued expenses and other liabilities	2,416	2,377
Federal funds purchased and U.S. Treasury demand note	1,551	1,194
Capital lease obligation	387	415
Total liabilities	307,413	255,541
Stockholders' equity:		
Common stock, no par value; authorized 10,000,000 shares; outstanding shares 4,868,906 in 1998 and 1997	19,127	16,058
Retained earnings	10,834	9,137
Accumulated other comprehensive income	39	(2)
Total stockholders' equity	30,000	25,193
Commitments and contingencies (Notes 8 and 16)		
	$337,413	$280,734

</TABLE>

See accompanying notes to consolidated financial statements.

NORTH COUNTY BANCORP
CONSOLIDATED STATEMENT OF INCOME
(Dollars in Thousands, Except Per Share Data)

<TABLE>
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income:			
Interest and fees on loans	$22,885	$20,007	$17,764
Investment securities:			
Taxable	1,669	1,648	1,510
Exempt from Federal income taxes	121	120	98
Dividends	84	65	83
Federal funds sold	833	439	385
Deposits with other financial institutions	112	16	--
Total interest income	25,704	22,295	19,840
Interest expense:			
Deposits	6,237	5,652	4,695
Federal funds purchased and U. S. Treasury demand note	44	74	72
Other borrowings	58	215	345

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Total interest expense	6,339	5,941	5,112
Net interest income	19,365	16,354	14,728
Provision for loan and lease losses	1,474	1,122	1,300
Net interest income after provision for loan and lease losses	17,891	15,232	13,428
Noninterest income	7,066	6,788	6,975
Noninterest expense	16,825	16,198	15,567
Income before income taxes	8,132	5,822	4,836
Provision for income taxes	3,363	2,313	2,092
Net income	$4,769	$ 3,509	$ 2,744
Earnings per share:			
Basic	$ 0.98	$ 0.78	$ 0.63
Diluted	$ 0.94	$ 0.72	$ 0.58

</TABLE>

See accompanying notes to consolidated financial statements.

NORTH COUNTY BANCORP
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in Thousands)

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 4,769	$ 3,509	$ 2,744
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of:			
Premises and equipment	1,185	1,229	1,348
Deferred loan fees and costs, net	(802)	(464)	(418)
Investment premiums and discounts, net	206	147	103
Other	34	140	264
(Gain) loss on sale of other real estate owned	(471)	(416)	(285)
Provision for loan and lease losses	1,474	1,122	1,300
(Increase) decrease in interest receivable	(197)	90	(204)
Increase (decrease) in taxes payable	273	233	(41)
Increase in accrued expenses	2	492	361
Increase (decrease) in interest payable	41	(18)	(114)
Other, net	(17)	257	(1,029)
Net cash provided by operating activities	6,497	6,321	4,029
Cash flows from investing activities:			
Proceeds from maturities of investment securities	15,153	9,457	11,070
Proceeds from sale of available for sale securities	--	14,602	2,535
Purchase of investment securities	(29,502)	(19,372)	(22,020)
Net increase in loans	(27,374)	(32,970)	(22,217)
Purchase of premises and equipment	(2,616)	(1,101)	(532)
Proceeds from sale of other real estate owned	1,633	3,723	3,111
Net cash used in investing activities	(42,706)	(25,661)	(28,053)
Cash flows from financing activities:			

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Cash payments on capital lease obligations	(29)	(14)	(32)
Net increase in deposits	51,504	21,204	15,508
Net increase (decrease) in Federal funds purchased and U.S. Treasury demand note	357	(174)	1,833
Net (decrease) increase in other borrowings	--	(1,550)	50
Cash proceeds from sale of common stock	--	--	68
Net cash provided by financing activities	51,832	19,466	17,427
Net increase (decrease) in cash and cash equivalents	15,623	126	(6,597)
Cash and cash equivalents at beginning of year	28,262	28,136	34,733
Cash and cash equivalents at end of year	$ 43,885	$ 28,262	$ 28,136
Supplemental disclosure of cash flow information:			
Total interest paid	$ 6,299	$ 5,958	$ 5,226
Total income taxes paid	$ 3,385	$ 2,212	$ 2,374
Real estate acquired through foreclosure	$ 316	$ 1,871	$ 3,088
Conversion of subordinated debentures into common stock	$ --	$ 1,433	$ 133

</TABLE>

See accompanying notes to consolidated financial statements.

NORTH COUNTY BANCORP
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollars in Thousands, Except Share Data)

<TABLE>
<CAPTION>

	Common Stock			Accumulated Other	
	Shares	Amount	Retained Earnings	Comprehensive Income	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	1,789,779	$ 9,156	$ 8,164	$(93)	$17,227
Five percent stock dividend including cash for fractional shares	89,288	759	(761)		(2)
Five percent stock dividend including cash for fractional shares	95,140	1,642	(1,647)		(5)
Exercise of stock options	10,628	68			68
Conversion of subordinated debentures	18,358	133			133
Comprehensive income:					
Unrealized holding gain on available for sale securities, net of tax of $5				7	7
Net income			2,744		2,744
Total comprehensive income					2,751
Balance at December 31, 1996	2,003,193	11,758	8,500	(86)	20,172
Two for one stock split	2,005,956	--			--
Five percent stock dividend including cash for fractional shares	220,608	2,867	(2,872)		(5)
Exercise of stock options	788	--			--
Conversion of subordinated debentures	406,745	1,433			1,433
Comprehensive income:					
Unrealized holding gain on available for sale securities, net of tax of $69				84	84
Net income			3,509		3,509
Total comprehensive income					3,593
Balance at December 31, 1997	4,637,290	16,058	9,137	(2)	25,193
Five percent stock dividend including cash for fractional shares declared January 20, 1999, payable on March 10, 1999 to stockholders of record on February 10, 1999	231,616	3,069	(3,072)		(3)

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Comprehensive income:					
Unrealized holding gain on available for sale securities, net of tax of $33				41	41
Net income			4,769		4,769

Total comprehensive income					4,810
	---------	-------	-------	----	-------
Balance at December 31, 1998	4,868,906	$19,127	$10,834	$ 39	$30,000
	=========	=======	=======	====	=======

</TABLE>

See accompanying notes to consolidated financial statements.

NORTH COUNTY BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION The consolidated financial statements include the accounts of North County Bancorp (the Company) and its wholly owned subsidiary, North County Bank (the Bank). All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. Economic risk is comprised of three components - interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature and reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from the borrower's inability or unwillingness to make contractually required payments. Market risk results from changes in the value of assets and liabilities which may impact, favorably or unfavorably, the realizability of those assets and liabilities.

The Company is subject to regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination.

CASH AND CASH EQUIVALENTS Cash on hand, cash items in the process of collection, amounts due from correspondent banks and the Federal Reserve Bank and Federal funds sold to other financial institutions are included in cash and cash equivalents.

INVESTMENT SECURITIES Securities held for investment purposes consist of debt obligations, marketable equity securities and stock in the Federal Reserve Bank and Federal Home Loan Bank. Investments are classified into the following two categories: held to maturity or available for sale. Held to maturity securities are carried at amortized cost while available for sale securities are carried at market value. Unrealized gains and losses on available for sale securities are recorded as other comprehensive income, a component of stockholders' equity. Gains or losses on sales are based upon specific identification of securities sold.

LOANS Interest on loans is accrued based upon the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's judgment, the interest will not be paid in accordance with its terms. At that time interest previously recorded but not collected is reversed and charged against current income. Loan origination fees, certain direct loan origination costs and purchase premiums and discounts on loans are deferred and amortized over the related life of the loan as an adjustment to the loan's yield.

The Company may sell the guaranteed portions of Small Business Administration (SBA) loans to a variety of secondary market investors. The Bank retains the unguaranteed portions as well as the rights and obligations to service the loans. The Company receives an interest rate differential from payments made by the borrowers which is at least sufficient to provide for the future servicing costs and an allowance for a reasonable profit. Gains are recorded upon the sale of the loans based upon premiums paid by the purchasers and upon the fair value of any retained interests.

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The Company also sells home equity loans and Federal Home Administration Title I loans to secondary market investors. Gains or losses on the sale of these loans are recognized upon sale as the difference between the net sales price and the carrying value at the time of sale. Deferred origination fees and expenses are recognized at the time of sale.

Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral

dependent. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms.

ALLOWANCE FOR LOAN AND LEASE LOSSES The Company provides an allowance for loan and lease losses by a charge to current operations based on Management's evaluation of the risks in the loan portfolio, prospective economic conditions, past loss experience, and other pertinent factors which form a basis for determining the adequacy of the allowance for loan and lease losses.

OTHER REAL ESTATE OWNED Real estate acquired in satisfaction of loans is reported as other real estate owned. Other real estate owned is recorded at the lower of the loan carrying value at the date of acquisition or the fair value less expected selling costs. Subsequent operating expenses or income, reductions in estimated value, and gains or losses upon sale are charged to current operations.

PREMISES AND EQUIPMENT Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are determined by use of the straight-line method over the estimated useful lives of the assets, 3 to 45 years. Maintenance and repair costs are expensed as they are incurred, while renewals and betterments are capitalized.

INCOME TAXES The Company files consolidated Federal and combined California state income tax returns. The Company provides for income taxes under the liability method. A deferred tax asset and/or liability is computed for both the expected future impact of differences between the financial statement and tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and tax credit carryforwards. A valuation allowance may be established to reflect the likelihood of realization of deferred tax assets. The effect of tax rate changes is reflected in income in the period in which such changes are enacted.

EARNINGS PER SHARE Basic earnings per share (EPS) represents net income divided by the weighted average common shares outstanding during the period excluding any potential dilutive effects. Diluted EPS gives effect to all potential issuances of common stock that would have caused basic EPS to be lower as if the issuance had already occurred. A reconciliation of the income and shares used in the basic and diluted EPS computations, giving retroactive effect for the stock dividends and stock split, for the three years ended December 31, 1998 is as follows (dollars in thousands, except share data):

	1998		
	Income	Shares	Per-Share
Basic EPS	$4,769	4,868,906	$0.98
Effect of Dilutive Shares:			
Stock options		204,465	
Diluted EPS	$4,769	5,073,371	$0.94

	1997		
	Income	Shares	Per-Share
Basic EPS	$3,509	4,513,556	$0.78
Effect of Dilutive Shares:			
Stock options		167,722	
Convertible debentures	70	323,152	

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	Income	Shares	Per-Share
Diluted EPS	$3,579	5,004,430	$0.72

	1996		
	Income	Shares	Per-Share
Basic EPS	$2,744	4,366,729	$0.63
Effect of Dilutive Shares:			
Stock options		72,520	
Convertible debentures	99	444,872	
Diluted EPS	$2,843	4,884,121	$0.58

NOTE 2 - REGULATORY CAPITAL:

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items. The capital amounts and classification of the Company and the Bank are also subject to qualitative judgments by the regulators regarding components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject at December 31, 1998.

As of December 31, 1998, the most recent notification from the appropriate regulatory agency categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum Tier 1 risk-based, total risk-based and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios of the Company and the Bank at December 31, 1998 are presented in the following table (dollars in thousands).

	Actual		Well Capitalized Requirement		Minimum Required	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
North County Bancorp:						
Risk-based capital						
Tier 1	$29,700	11.68%	--	--	$10,173	4.00%
Total	32,884	12.93%	--	--	20,345	8.00%
Tier 1 leverage capital	29,700	8.80%	--	--	13,502	4.00%
North County Bank:						
Risk-based capital						
Tier 1	29,392	11.58%	$15,236	6.00%	10,157	4.00%
Total	32,571	12.83%	25,393	10.00%	20,314	8.00%
Tier 1 leverage capital	29,392	8.72%	16,848	5.00%	13,479	4.00%

NOTE 3 - INVESTMENT SECURITIES:

The amortized cost and market value of investment securities as of December 31, 1998 and 1997 are as follows (dollars in thousands):

Available for sale at December 31, 1998:

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Government and Federal agencies	$ --	$ --	$ --	$ --
States and municipalities	2,073	13	(1)	2,085
Mortgage-backed	13,177	137	(8)	13,306
Equity securities	1,872	--	(70)	1,802
	$17,122	$150	$(79)	$17,193

</TABLE>

Held to maturity at December 31, 1998:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Government and Federal agencies	$22,155	$27	$(71)	$22,111
States and municipalities	1,849	17	--	1,866
Mortgage-backed	2,041	36	--	2,077
Asset-backed	583	--	(1)	582
	$26,628	$80	$(72)	$26,636

Available for sale at December 31, 1997:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Government and Federal agencies	$ 1,000	$ 2	$ --	$ 1,002
States and municipalities	2,104	13	(1)	2,116
Mortgage-backed	12,847	69	(20)	12,896
Equity securities	1,596	--	(66)	1,530
	$17,547	$84	$(87)	$17,544

Held to maturity at December 31, 1997:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U. S. Government and Federal agencies	$ 7,779	$22	$(18)	$ 7,783
States and municipalities	1,748	12	---	1,760
Mortgage-backed	2,608	31	---	2,639
	$12,135	$65	$(18)	$12,182

Investment securities with a carrying value of $7,948,000 and $7,538,000 at December 31, 1998 and 1997, respectively, were pledged to secure public deposits as well as for other purposes required by law. The Company did not sell any securities in 1998. Sales of available for sale securities during 1997 resulted in gross gains and losses of $95,000 and $42,000, respectively, and resulted in net taxes of $21,000.

The maturity distribution of debt securities is presented in the tables below (dollars in thousands). No maturity breakdown is presented for mortgage-backed securities because of the unpredictability as to the timing and amount of principal repayments on these securities.

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December 31, 1998:	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Within one year	$ 1,969	$ 1,977	$ 7,821	$ 7,824
After one but within five years	105	108	10,959	10,957
After five but within ten years	--	--	5,208	5,180
After ten years	--	--	599	599
Mortgage-backed securities	13,176	13,306	2,041	2,076
	$15,250	$15,391	$26,628	$26,636

</TABLE>

<TABLE>
<CAPTION>

December 31, 1998:	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Within one year	$ --	$ --	$ 2,052	$ 2,048
After one but within five years	2,042	2,048	7,475	7,495
After five but within ten years	--	--	--	--
After ten years	1,062	1,070	--	--
Mortgage-backed securities	12,847	12,896	2,608	2,639
	$15,951	$16,014	$12,135	$12,182

</TABLE>

NOTE 4 - LOANS:

Loans at December 31 are summarized as follows (dollars in thousands):

<TABLE>
<CAPTION>

	1998	1997
Commercial	$128,298	$111,726
Installment and consumer	34,171	41,024
Real estate mortgage	53,712	45,803
Real estate construction	19,881	10,334
Lease financing receivables	617	1,270
Other	1,023	834
	$237,702	$210,991

</TABLE>

A summary of the changes in the allowance for loan and lease losses is as follows (dollars in thousands):

<TABLE>
<CAPTION>

	1998	1997	1996
Balance at beginning of year	$ 3,268	$ 3,129	$ 2,916
Provision charged to operating expense	1,474	1,122	1,300
Recoveries on loans previously charged off	251	586	333
Loans charged off	(1,401)	(1,569)	(1,420)
Balance at end of year	$ 3,592	$ 3,268	$ 3,129

</TABLE>

At December 31, 1998 and 1997, loans on a nonaccrual basis were $788,000 and $3,021,000, respectively. Interest income collected relating to nonaccrual loans was $38,000 and $123,000 for the years ended December 31, 1998 and 1997. Additional interest income of $62,000 and $212,000 would have been recorded during 1998 and 1997, respectively, if the loans had been paid in accordance with their original terms.

The Company's recorded investment in impaired loans at December 31, 1998 and 1997, was $954,000 and $2,163,000, respectively. Reserves for loan losses of $48,000 and $151,000 were established for impaired loans at December 31, 1998 and 1997, respectively. The average recorded investments in impaired loans during 1998 and 1997 were $1,654,000 and $2,528,000, respectively. Interest income on impaired loans of $16,000 and $120,000 was recognized for cash

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payments received in 1998 and 1997. The Company is not committed to lend additional funds to debtors whose loans have been modified.

The Company in the normal course of business to meet the financing needs of its customers is a party to financial instruments with off-balance sheet risk. The Company's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amounts of those instruments.

Commitments to extend credit are agreements to lend to a customer provided 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. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the borrower. Since certain of the

commitments are expected to expire without being drawn upon, they do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The Company's off-balance sheet credit risk for undisbursed loan commitments and letters of credit at December 31, was as follows (dollars in thousands):

<TABLE>
<CAPTION>

<S>	1998	1997
Commercial loans	$45,308	$37,534
Installment and consumer loans	11,087	10,370
Real estate construction loans	10,874	18,884
Letters of credit	1,280	1,652
	$68,549	$68,440

</TABLE>

Most of the Company's business activity is with customers located within San Diego and Riverside counties of Southern California. Accordingly, the Company's financial performance may be significantly impacted by the economic conditions of the area.

NOTE 5 - PREMISES AND EQUIPMENT:

Premises and equipment at December 31 are as follows (dollars in thousands):

<TABLE>
<CAPTION>

<S>	1998	1997
Land	$ 2,601	$ 2,068
Building and improvements	7,730	7,536
Furniture, fixtures and equipment	10,751	9,063
	21,082	18,667
Less: Accumulated depreciation and amortization	11,069	10,085
	$10,013	$ 8,582

</TABLE>

Building and improvements include a capitalized lease on the main branch premises of $580,000, less accumulated amortization of $440,000, as of December 31, 1998 (see Note 8). Amortization on this capital lease was $20,000 in both 1998 and 1997.

NOTE 6 - DEPOSITS:

Deposits at December 31 are summarized as follows (dollars in thousands):

<TABLE>

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<CAPTION>

	1998	1997
Noninterest-bearing demand	$100,465	$ 89,852
Interest-bearing demand	42,825	36,620
Savings	79,682	78,352
Time deposits of $100,000 or more	20,868	9,184
Time deposits of less than $100,000	59,219	37,547
	$303,059	$251,555

</TABLE>

The following table summarizes the maturity distribution of time deposits of $100,000 or more at December 31 (dollars in thousands):

<TABLE>
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	1998	1997
Three months or less	$11,062	$5,181
Over three months through six months	2,117	1,439
Over six months through one year	5,537	2,364
Over one year through three years	2,152	200
	$20,868	$9,184

</TABLE>

NOTE 7 - CONVERTIBLE SUBORDINATED DEBENTURES:

In May 1990, the Company issued $1,678,000 in 9 1/4% convertible subordinated debentures (the "Debentures"). In September 1997, at which time $1,492,000 in Debentures were outstanding, the Company announced that it was exercising its option to redeem the Debentures at a price of 102.25% effective October 31, 1997. The conversion of Debentures during 1997 resulted in an increase in common stock, a component of Tier 1 capital, of $1,433,000 which was net of deferred offering costs of $101,000.

NOTE 8 - LEASE OBLIGATIONS:

The Company leases the main office premises under a long-term capital lease agreement which will expire in 2006 and other office space and equipment under various operating leases. The future minimum lease payments for all lease obligations consisted of the following at December 31, 1998 (dollars in thousands):

<TABLE>
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	Capital Lease	Operating Leases
1999	$ 214	$ 751
2000	214	661
2001	214	465
2002	214	437
2003	214	374
Thereafter	484	1,052
Total minimum lease payments	1,554	$3,740
Amounts representing interest	(308)	
Cost escalation	(860)	
Present value of net minimum lease payments	$ 386	

</TABLE>

The amount of future lease payments is contingent upon normal cost escalation

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clauses. Rent expense on the operating leases was $704,000, $607,000 and $489,000 in 1998, 1997 and 1996, respectively.

NOTE 9 - FAIR VALUES OF FINANCIAL INSTRUMENTS:

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 1998 are as follows (dollars in thousands):

	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 26,885	$ 26,885
Federal funds sold	17,000	17,000
Investment securities	43,821	43,829
Loans	237,702	239,168
Financial liabilities:		
Deposits	$303,059	$296,307
Federal funds purchased and U.S. Treasury Demand Note	1,551	1,551

The following methods and assumptions were used to estimate the fair value of each material class of financial instruments at December 31, 1998:

CASH AND DUE FROM BANKS AND FEDERAL FUNDS SOLD The carrying amount of cash and due from banks and Federal funds sold approximates the fair value.

INVESTMENT SECURITIES The fair value of securities held as investments is based on quoted market prices or dealer quotes.

LOANS The fair value of loans is estimated using discounted cash flows. The discount rate used to determine the present value of these loans is equal to current market rates at which similar loans would be made to borrowers with similar credit ratings and for similar maturities. Where credit deterioration has occurred, management has reduced estimated cash flows to give effect to estimated future losses. Title I and SBA loans were valued based on quoted market prices.

DEPOSITS The carrying amount of demand and savings deposits is the estimated fair value, which is the amount payable on demand. The carrying amount for variable rate, fixed term time deposit accounts approximates fair value. The fair value of fixed rate time deposits is estimated using a discounted cash flow calculation. The discount rate on such deposits is based upon rates currently offered for deposits of similar remaining maturities.

FEDERAL FUNDS PURCHASED AND U.S. TREASURY DEMAND NOTE The fair value of Federal funds purchased and U.S. Treasury demand note is estimated to approximate carrying value.

LETTERS OF CREDIT AND UNDISBURSED LOAN FUNDS The fair value of letters of credit and undisbursed loan funds is estimated to be the cost to terminate or otherwise settle such obligations with counterparties.

The fair values of financial instruments may not necessarily be indicative of the net realizable or liquidation value of these instruments. Furthermore, management does not intend to dispose of significant portions of all of its financial instruments and, thus, any aggregate unrealized gain or loss should not be interpreted as a forecast of future earnings and cash flows.

These fair value disclosures do not include certain financial instruments such as equity investments in consolidated subsidiaries, obligations for pension and other post retirement benefits and deferred compensation arrangements. In addition, fair value estimates do not attempt to estimate the value of anticipated future business which may result from existing customer relationships, or the value of assets and liabilities that are not considered financial instruments, such as deferred tax assets, intangible assets or property, plant and equipment.

NOTE 10 - NONINTEREST INCOME AND EXPENSE:

Noninterest income for each year consists of (dollars in thousands):

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	1998	1997	1996
Service charges on deposits	$3,941	$3,936	$3,827
Gain on sale of loans	1,545	1,301	1,425
Loan servicing fees	561	753	747
Other	1,019	798	976
	$7,066	$6,788	$6,975

</TABLE>

Noninterest expense for each year consists of (dollars in thousands):

	1998	1997	1996
Salaries and employee benefits	$ 9,888	$ 9,148	$ 8,136
Occupancy expense	3,477	3,232	3,095
Telephone and postage	895	689	645
Advertising and public relations	692	711	524
Professional services	574	514	315
Printing, stationery and supplies	335	346	275
Branch losses	190	182	323
Collection expense	76	233	321
Regulatory assessments	58	91	228
Other real estate owned	(473)	(98)	614
Other	1,113	1,150	1,091
	$16,825	$16,198	$15,567

NOTE 11 - INCOME TAXES:

The provision for income taxes for each year consists of the following (dollars in thousands):

	1998	1997	1996
Current taxes:			
Federal	$2,421	$1,494	$1,393
State	977	648	611
	3,398	2,142	2,004
Deferred taxes:			
Federal	(14)	179	122
State	(21)	(8)	(34)
	(35)	171	88
	$3,363	$2,313	$2,092

Deferred tax (assets) liabilities at December 31 are comprised of the following (dollars in thousands):

	1998	1997
Provision for loan and lease losses	$ (501)	$ (471)
Deferred compensation	(247)	(202)
Loan fees deferred	(203)	(516)
Writedown of other real estate owned	(107)	(107)
Capital lease amortization	(101)	(105)
Securities held for sale	(60)	(29)
Unrealized loss on securities	--	(2)

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Gross deferred tax assets	(1,219)	(1,432)
Depreciation	247	214
Loan origination cost capitalized	102	112
Unrealized gain on securities	32	--
Loan servicing rights	14	16
Gross deferred tax liabilities	395	342
Deferred tax assets valuation allowance	225	225
	$ (599)	$ (865)

</TABLE>

A reconciliation between the provision for income taxes at the statutory Federal rate and the actual effective provision for income taxes for each year is as follows (dollars in thousands):

	1998	1997	1996
Federal tax at statutory rates	$2,765	$1,979	$1,644
State tax, net of Federal tax effect	631	422	381
Tax exempt income	(49)	(63)	(83)
Other	16	(25)	150
	$3,363	$2,313	$2,092

Tax exempt income consists of income from investment securities and municipal lease financing.

NOTE 12 - STOCK OPTION PLAN:

The Company has granted incentive stock options and non-qualified options to purchase up to 543,847 shares of common stock as of December 31, 1998 under three stock option plans. No compensation cost has been recognized for its employee stock option grants, which are fixed in nature, as the options have been granted at a price equal to the market value of the Company's common stock at the date of grant. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date rather than market value during the three years ended December 31, 1998, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (dollars in thousands, except per share data).

	1998	1997	1996
Net Income:			
As reported	$4,769	$3,509	$2,744
Pro forma	4,713	3,489	2,724
Basic earnings per share:			
As reported	$0.98	$0.78	$0.63
Pro forma	$0.97	$0.77	$0.62
Diluted earnings per share:			
As reported	$0.94	$0.72	$0.58
Pro forma	$0.93	$0.71	$0.58

The fair value for each option grant was estimated at the date of grant using the following assumptions for 1998, 1997, and 1996, respectively: volatility factors of 0.36, 0.27 and 0.20; expected option lives of five, seven and ten years; risk-free interest rates of 5.63%, 5.83% and 6.60%; and a dividend yield of 0.0% for the three years.

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A summary of transactions for the three years ended December 31, 1998, after giving retroactive effect for stock dividends declared, is as follows:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	525,190	$ 4.17	465,353	$ 3.04	418,305	$2.88
Granted	18,297	12.38	68,364	11.79	111,825	3.50
Exercised	--	--	(2,450)	2.38	(24,800)	2.76
Expired	--	--	(6,077)	3.50	(39,977)	2.83
Outstanding at end of year	543,487	$ 4.45	525,190	$ 4.17	465,353	$3.04
Options exercisable at end of year and weighted average exercise price	261,255	$ 2.92	225,330	$ 2.91	191,884	$ 2.91
Weighted average fair value per share of options granted during the year		$ 6.56		$ 5.09		$ 2.41

At December 31, 1998, the Company had outstanding options to purchase 543,487 shares of common stock at exercise prices that ranged from $2.38 to $12.38 per share with a weighted average exercise price of $4.45 per share. The outstanding options have a weighted average remaining contractual life of 4.45 years. Under its stock option plan the Company is authorized to grant an additional 508,869 options for the purchase of the Company's common stock.

NOTE 13 - EMPLOYEE RETIREMENT PLANS:

The Company has established an Employee Stock Ownership Plan (ESOP) to provide an ownership interest in the Company and retirement benefits to substantially all full-time employees. The amount of annual contributions is at the discretion of the Board of Directors, subject to a maximum of 15 percent of the total annual compensation of all eligible participants. The Company contributed $150,000 in 1998, 1997 and 1996. The ESOP held 257,997 shares of the Company's stock at December 31, 1998.

Additionally, all permanent employees who have at least six months of service are eligible to contribute up to 15% annually of their pretax compensation to a retirement account under the North County Bancorp 401(k) Plan. Employees control the investment of their funds and may elect to invest in the Company's common stock. The Company matches 50% of an employee's contribution up to 5% annually of the employee's covered compensation for those who have at least six months of service and who elect to contribute under the plan. The Company contributed $114,000, $100,000 and $94,000 to the plan in 1998, 1997 and 1996, respectively.

NOTE 14 - NORTH COUNTY BANCORP (PARENT CORPORATION):

Condensed financial statements presented on a parent company only basis are as follows:

CONDENSED BALANCE SHEET (dollars in thousands)

	December 31,	
	1998	1997
ASSETS		
Cash	$ 20	$ 22
Investment securities	338	145
Investment in subsidiary	29,696	25,068

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Premises and equipment, net	140	160
Other assets	217	229
	$30,411	$25,624
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	$ 27	$ 16
Capital lease obligation	387	415
	414	431
Stockholders' equity		
Common stock, no par value	19,127	16,058
Retained earnings and other	10,873	9,135
Total stockholders' equity	30,000	25,193
	$30,411	$25,624

</TABLE>

CONDENSED STATEMENT OF INCOME (dollars in thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Dividends from subsidiary	$ 270	$1,510	$ ---
Interest income	10	3	4
Other income	279	281	261
Total income	559	1,794	265
Interest expense	58	215	345
Other operating expense	361	356	282
Total expenses	419	571	627
Income (loss) before income tax	140	1,223	(362)
Income tax benefit	43	107	145
Equity in undistributed income of subsidiary	4,586	2,179	2,961
Net income	$4,769	$3,509	$2,744

</TABLE>

CONDENSED STATEMENT OF CASH FLOWS (dollars in thousands)

<TABLE>
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	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 4,769	$ 3,509	$ 2,744
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	20	131	42
Equity in undistributed income of subsidiary	(4,586)	(2,179)	(2,961)
Increase (decrease) in accrued expenses	11	(73)	(119)
Other, net	5	2	21
Net cash flows provided by (used in) operating activities	219	1,390	(273)
Cash flows used in investing activities:			

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Purchase of investment securities	(193)	--	(145)
Net cash used in investing activities	(193)	--	(145)
Cash flows from financing activities:			
Cash payments on capital lease obligations	(28)	(14)	(32)
Net (decrease) increase in notes payable	--	(1,550)	50
Net decrease in convertible subordinated debentures	--	(1,534)	(144)
Issuance of common stock	--	1,429	195
Net cash (used in) provided by financing activities	(28)	(1,669)	69
Net decrease in cash and cash equivalents	(2)	(279)	(349)
Cash and cash equivalents at beginning of year	22	301	650
Cash and cash equivalents at end of year	$ 20	$ 22	$ 301

</TABLE>

NOTE 15 - RELATED PARTY TRANSACTIONS:

Certain directors and executive officers of the Company and their associates are customers of and have other transactions with the Bank in the ordinary course of business. Loans and commitments included in such transactions are made on substantially the same terms as those prevailing at the time for comparable transactions with other persons. Such loans aggregated $802,000 and $695,000 at December 31, 1998 and 1997, respectively. During 1998 new loans (including drawdowns on revolving lines of credit and loan renewals) aggregated $3,590,000 and repayments (including payments on revolving lines of credit and loan renewals) aggregated $3,483,000.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

At December 31, 1998, the Bank was party to certain legal actions. The Company has reviewed these matters with legal counsel and, in management's opinion, the ultimate resolution of these actions will not have a material effect on the Company's financial position.

At December 31, 1998, the Company had unsecured lines of credit totaling $15,000,000 for the purchase of Federal funds with other financial institutions. In addition the Company may borrow from the Federal Home Loan Bank and at the Federal Reserve discount window, subject to the Company's ability to supply collateral.

NOTE 17 - SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED):

Basic and diluted EPS have been retroactively restated in the following table to give effect to the stock dividends and stock split (dollars in thousands, except per share data).

<TABLE>
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	1998 Quarters Ended			
	December 31	September 30	June 30	March 31
<S>	<C>	<C>	<C>	<C>
Interest income	$6,805	$6,654	$6,342	$5,903
Interest expense	1,733	1,684	1,496	1,426
Net interest income	5,072	4,970	4,846	4,477
Provision for loan and lease losses	(160)	594	450	590
Noninterest income	1,596	1,728	1,755	1,987
Noninterest expense	4,501	3,905	4,207	4,212
Income before income taxes	2,327	2,199	1,944	1,662
Income tax expense	916	980	805	662
Net income	$1,411	$1,219	$1,139	$1,000

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Basic EPS	$0.29	$0.25	$0.23	$0.21
Diluted EPS	$0.28	$0.24	$0.23	$0.20

	1997 Quarters Ended			
	December 31	September 30	June 30	March 31
Interest income	$5,994	$5,837	$5,492	$4,972
Interest expense	1,454	1,580	1,549	1,358
Net interest income	4,540	4,257	3,943	3,614
Provision for loan and lease losses	400	104	283	335
Noninterest income	1,902	1,748	1,693	1,445
Noninterest expense	4,240	4,264	4,012	3,682
Income before income taxes	1,802	1,637	1,341	1,042
Income tax expense	698	695	528	392
Net income	$1,104	$ 942	$ 813	$ 650
Basic EPS	$0.23	$0.21	$0.18	$0.15
Diluted EPS	$0.22	$0.19	$0.17	$0.14

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EXHIBIT 22

SUBSIDIARIES OF NORTH COUNTY BANCORP

1. North County Bank, a California state chartered bank, is a subsidiary of North County Bancorp.

2. NCB Joint Venture-I, Inc. a California corporation, is a subsidiary of North County Bank, and is a participant in Ledford/NCB-I, a California joint venture.

3. GWB Development, a California corporation, is a subsidiary of North County Bank, and is a partner in B & G Joint Venture, a California general partnership.

4. NCB Mortgage, a California corporation, is a subsidiary of North County Bank.

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EXHIBIT 24

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-8 (No. 2-84173) of North County Bancorp of our report dated February 9, 1999 appearing on page 39 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS, LLP

San Diego, California
March 26, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
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40 AND 41 OF THE COMPANY'S 10-K FOR DECEMBER 31, 1998 AND IS QUALIFIED IN ITS
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