SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the 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 ______

COMMISSION FILE NUMBER 000-23815

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

STATE OF CALIFORNIA	77-0378956
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

7060 N. FRESNO STREET, FRESNO, CALIFORNIA	93720
(Address of principal executive office)	(Zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (209) 438-2600

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
NONE	NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS
COMMON STOCK

Indicate by check mark whether the registrant (1) has 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. Yes X No _____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 10,1999 was $26,263,000.

As of March 10, 1999, the registrant had 2,624,374 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this Form 10-K: (1) Portions of the definitive Proxy Statement for the 1998 annual meeting of shareholders into Part III. Items 10-13.

The Index to Exhibits is located at page 90.

REGENCY BANCORP

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PART I

Item 1. BUSINESS

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Changes to such risks and uncertainties, which could impact future financial performance, include, among others, (1) competitive pressures in the banking industry; (2) changes in the interest rate environment; (3) general economic conditions, either nationally or regionally; (4) changes in the regulatory environment; (5) changes in business conditions and inflation; (6) changes in securities markets; and (7) Year 2000 compliance problems. Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company and the Bank.

GENERAL DEVELOPMENT OF BUSINESS

Regency Bancorp (the "Company") is a California corporation organized to act as the holding company for Regency Bank (the "Bank"), and Regency Investment Advisors, Inc. ("RIA"), a SEC registered investment advisor. The Company and the Bank maintain their administrative headquarters and banking offices in Fresno, California. The Bank also maintains a full service banking office in Madera, California and a loan production office in Modesto, California. In 1995, upon its formation, the Company acquired all of the outstanding common stock of the Bank. Other than its investment in the Bank and RIA, the Company currently conducts no other significant business activities, although it is authorized to engage in a variety of activities which are deemed closely related to the business of banking upon prior approval of the Board of Governors of the Federal Reserve System (the "Board of Governors"), the Company's principal regulator.

The Bank is a California banking corporation which has served small and medium-sized businesses, professionals, merchants and individuals located in and adjacent to Fresno, California since 1980. The Company and Bank operate through the administrative headquarters office and Herndon Branch banking office located at 7060 N. Fresno St., Fresno, California, and offer a full range of commercial banking services, including the acceptance of demand, savings and time deposits, and the making of commercial, real estate (including real estate construction and residential mortgage), Small Business Administration, personal, home improvement, automobile and other installment and term loans. It also offers Visa credit cards, traveler's checks, safe

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deposit boxes, notary public, courier service and other customary bank services.

The Bank's Herndon branch office is open from 9:00 a.m. to 5:00 p.m., Monday through Friday. In addition to its Herndon Office, the Bank operates a full service banking office at 126 N. "D" Street in Madera, California. The Madera office hours are 9:00 a.m. to 5:00 p.m. Monday through Thursday, 9:00 a.m. to 6:00 p.m. on Friday and 9:00 a.m. to 1:00 p.m. on Saturday. The Bank also operates a full service facility and loan production office located at 5240 N. Palm Ave., Fresno, California. The facility is open from 9:00 a.m. to 6:00 p.m., Monday through Friday and 9:00 a.m. to 1:00 p.m. on Saturday. Additionally, the Bank has established a loan production office in Modesto, California. The Bank has automated teller machines located at its headquarters office and its Madera office. The Bank is insured under the Federal Deposit Insurance Act and each depositor's account is insured up to the legal limits thereon. The Bank is chartered (licensed) by

the California Commissioner of Financial Institutions ("Commissioner") and became a member of the Federal Reserve System in the third quarter of 1998. Additionally, in the fourth quarter of 1998, the Bank was accepted as a member of the Federal Home Loan Bank.

The Bank has one subsidiary, Regency Service Corporation ("RSC"), a California corporation which engaged in the business of real estate development primarily in the Fresno/Clovis area. For more information on RSC, see, "Real Estate Development Activities" under this section and additionally, under note 4 of the Company's audited consolidated financial statements included in item 8.

The Company's second subsidiary, Regency Investment Advisors ("RIA"), provides investment management and consulting services from offices located in the Company's headquarters office at 7060 N. Fresno St., Fresno, California. For more information on RIA, see, "Investment Management Activities" under this section.

The three areas in which the Bank has directed virtually all of its lending activities are: (i) commercial loans; (ii) real estate loans (including residential construction and mortgage loans); and (iii) consumer loans. As of December 31, 1998, these three categories accounted for approximately 66 percent, 28 percent and 6 percent, respectively, of the Bank's loan portfolio.

The Bank's deposits are attracted primarily from small and medium-sized businesses, professionals, merchants and individuals. The Bank's deposits are not received from a single depositor or group of affiliated depositors the loss of any one of which would have a material adverse effect on the business of the Bank, nor is a material portion of the Bank's loans concentrated within a single industry or group of related industries.

As of December 31, 1998, the Bank had total deposits of $206.6 million. Of this total, $54.2 million represented noninterest-bearing demand deposits, $101.3 million represented interest-bearing demand deposits and interest-bearing savings deposits, and $51.1 million represented time deposits.

REAL ESTATE DEVELOPMENT ACTIVITIES

The Bank, through RSC and pursuant to California Financial Code Section 751.3 has engaged in real estate development activities since 1986. Such activities typically involved the acquisition, development and sale of the properties (but sometimes involved the sale of properties prior to development) and historically were structured as limited partnerships in which RSC was the limited partner and a local developer the general partner. Partnerships are accounted for under the equity method. Sales of properties are recognized on the accrual method and are allocated between the partners based on the provisions of the various partnership agreements.

Under FDIC regulations, banks were required to divest their real estate development investments as quickly as prudently possible but in no event later than December 19, 1996, and submit a plan to the FDIC regarding divestiture of such investments. Such regulations also permitted banks to apply for the FDIC's consent to continue, on a limited basis, certain real estate development activities. In December 1995, the Bank and RSC submitted a request to extend the mandatory time period in which it must divest its real estate development interests. In December 1996, the FDIC, responding to the Bank's request, granted the Bank and RSC a two-year extension, until December 31, 1998, to continue its divestiture activities.

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As of December 31, 1998, RSC had divested of all real estate investments and loans with the exception of one limited partnership interest with one completed home as its primary asset. At December 31, 1998, this one remaining partnership investment had been fully reserved for. For more information regarding RSC and its financial performance, see "Item 7 - Regency Service Corporation", below and additionally, note 4 of the Company's audited financial statements included in Item 8.

INVESTMENT MANAGEMENT ACTIVITIES

RIA was formed in August 1993 through the acquisition by the Bank of the assets, including client list, of a fee-only investment management and consulting firm. RIA provides investment management and consulting services, including comprehensive financial and retirement planning and investment advice to individuals and corporate clients for an annual fee that varies depending upon the size of a client's account. For more information regarding RIA and its financial performance, see "Item 7 - Regency Investment Advisors", below.

SUPERVISION AND REGULATION

The common stock of the Company is subject to the registration requirements of the Securities Act of 1933, as amended, and the qualification requirements of the California Corporate Securities Law of 1968, as amended. The Bank's common stock, however, which is owned 100 percent by the Company, is exempt from such requirements. The Company is also subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934, as amended, which include, but are not limited to, filing annual, quarterly and other current reports with the Securities and Exchange Commission.

The Bank is licensed by the Commissioner, its deposits are insured by the FDIC, and became a member of the Federal Reserve System in the third quarter of 1998. Consequently, the Bank is subject to the supervision of, and is regularly examined by, the Commissioner and the Board of Governors. Such supervision and regulation include comprehensive reviews of all major aspects of the Bank's business and condition, including its capital ratios, subsidiary operations, allowance credit losses and other factors. However, no inference should be drawn that such authorities have approved any such factors. The Company and the Bank are required to file reports with the Commissioner and the Board of Governors and provide such additional information as the Commissioner and the Board of Governors may require.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), and is registered as such with, and subject to the supervision of, the Board of Governors. The Company is required to obtain the approval of the Board of Governors before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, the Company would own or control more than 5 percent of the voting shares of such bank. The Bank Holding Company Act prohibits the Company from acquiring any voting shares of, or interest in, all or substantially all of the assets of, a bank located outside the State of California unless such an acquisition is specifically authorized by the laws of the state in which such bank is located. Any such interstate acquisition is also subject to the

provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 discussed below.

The Company, and any subsidiaries which it may acquire or organize, are deemed to be "affiliates" of the Bank within the meaning of that term as defined in the Federal Reserve Act. This means, for example, that there are limitations (a) on loans by the Bank to affiliates, and (b) on investments by the Bank in affiliates' stock as collateral for loans to any borrower. The Company and its subsidiary are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

In addition, regulations of the Board of Governors promulgated under the Federal Reserve Act require that reserves be maintained by the Bank in conjunction with any liability of the Company under any obligation (promissory note, acknowledgment of advance, banker's acceptance or similar obligation) with a weighted average maturity of less than seven (7) years to the extent that the proceeds of such obligations are used for the purpose of supplying funds to the Bank for use in its banking business, or to maintain the availability of such funds.

In 1995, pursuant to Congressional mandate, the FDIC reduced bank deposit insurance assessment rates to a range from $0 to $0.27 per $100 of deposits, dependent upon a bank's risk. The FDIC has continued these reduced assessment rates through the first semiannual assessment period of 1999.

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The Board of Governors and other federal banking agencies have adopted risk-based capital guidelines for evaluating the capital adequacy of bank holding companies and banks. The guidelines are designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to aid in making the definition of bank capital uniform internationally. Under the guidelines, the Company and the Bank are required to maintain capital equal to at least 8.0 percent of its assets and commitments to extend credit, weighted by risk, of which at least 4.0 percent must consist primarily of common equity (including retained earnings) and the remainder may consist of subordinated debt, cumulative preferred stock, or a limited amount of loan loss reserves.

Assets, commitments to extend credit, and off-balance sheet items are categorized according to risk and certain assets considered to present less risk than others permit maintenance of capital at less than the 8 percent ratio. For example, most home mortgage loans are placed in a 50 percent risk category and therefore require maintenance of capital equal to 4 percent of such loans, while commercial loans are placed in a 100 percent risk category and therefore require maintenance of capital equal to 8 percent of such loans.

The guidelines establish two categories of qualifying capital: Tier 1 capital comprising core capital elements and Tier 2 comprising supplementary capital requirements. At least one-half of the required capital must be maintained in the form of Tier 1 capital. Tier 1 capital includes common shareholder's equity and qualifying perpetual preferred stock less intangible assets and certain other adjustments. However, no more than 25 percent of the Company's total Tier 1 capital may consist of perpetual preferred stock. The definition of Tier 1 capital for the Bank is the same, except that perpetual preferred stock may be included only if it is noncumulative. Tier 2 capital includes, among other items, limited life (and in the case of banks, cumulative) preferred stock, mandatory convertible securities, subordinated debt and a limited amount of reserves for credit losses. Effective October 1, 1998 the Board of Governors and other federal

bank regulatory agencies approved including in Tier 2 capital up to 45 percent of the pretax net unrealized gains on certain available-for-sale equity securities having readily determinable fair values (i.e. the excess, if any, of fair market value over the book value or historical cost of the investment security). The federal regulatory agencies reserve the right to exclude all or a portion of the unrealized gains upon a determination that the equity securities are not prudently valued. Unrealized gains and losses on other types of assets, such as bank premises and available-for-sale debt securities, are not included in Tier 2 capital, but may be taken into account in the evaluation of overall capital adequacy and net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital as a cushion against risk.

The Board of Governors and other federal banking agencies have adopted a revised minimum leverage ratio for bank holding companies as a supplement to the risk-weighted capital guidelines. The old rule established a 3 percent minimum leverage standard for well-run banking organizations (bank holding companies and banks) with diversified risk profiles. Banking organizations which did not exhibit such characteristics or had greater risk due to significant growth, among other factors, were required to maintain a minimum leverage ratio 1 percent to 2 percent higher. The old rule did not take into account the implementation of the market risk capital measure set forth in the federal regulatory agency capital adequacy guidelines. The revised leverage ratio establishes a minimum Tier 1 ratio of 3 percent (Tier 1 capital to total assets) for the highest rated bank holding companies and banks. All other bank holding companies and banks must maintain a minimum Tier 1 leverage ratio of 4 percent with higher leverage capital ratios required for banking organizations that have significant financial and/or operational weaknesses, a high risk profile, or are undergoing or anticipating rapid growth.

On December 19, 1991, President Bush signed the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). The Board of Governors and other federal banking agencies adopted regulations effective December 19, 1992, implementing a system of prompt corrective action pursuant to Section 38 of the Federal Deposit Insurance Act and Section 131 of the FDICIA. The regulations establish five capital categories with the following characteristics: (1) "Well capitalized" - consisting of institutions with a total risk-based capital ratio of 10 percent or greater, a Tier 1 risk-based capital ratio of 6 percent or greater and a leverage ratio of 5 percent or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive; (2) "Adequately capitalized" - consisting of institutions with a total risk-based capital ratio of 8 percent or greater, a Tier 1 risk-based capital ratio of 4 percent or greater and a leverage ratio of 4 percent or greater, and the institution does not meet the definition of a "well capitalized" institution; (3)

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"Undercapitalized" - consisting of institutions with a total risk-based capital ratio less than 8 percent, a Tier 1 risk-based capital ratio of less than 4 percent, or a leverage ratio of less than 4 percent; (4) "Significantly undercapitalized" - consisting of institutions with a total risk-based capital ratio of less than 6 percent, a Tier 1 risk-based capital ratio of less than 3 percent, or a leverage ratio of less than 3 percent; (5) "Critically undercapitalized" - consisting of an institution with a ratio of tangible equity to total assets that is equal to or less than 2 percent.

The regulations established procedures for classification of financial institutions within the capital categories, filing and reviewing capital restoration plans required under the regulations and procedures for issuance of directives by the appropriate regulatory agency, among other matters. The regulations impose restrictions upon all institutions to refrain from certain actions which would cause an institution to be classified within any one of the three

"undercapitalized" categories, such as declaration of dividends or other capital distributions or payment of management fees, if following the distribution or payment the institution would be classified within one of the "undercapitalized" categories. In addition, institutions which are classified in one of the three "undercapitalized" categories are subject to certain mandatory and discretionary supervisory actions. Mandatory supervisory actions include (1) increased monitoring and review by the appropriate federal banking agency; (2) implementation of a capital restoration plan; (3) total asset growth restrictions; and (4) limitation upon acquisitions, branch expansion, and new business activities without prior approval of the appropriate federal banking agency. Discretionary supervisory actions may include (1) requirements to augment capital; (2) restrictions upon affiliate transactions; (3) restrictions upon deposit gathering activities and interest rates paid; (4) replacement of senior executive officers and directors; (5) restrictions upon activities of the institution and its affiliates; (6) requiring divestiture or sale of the institution; and (7) any other supervisory action that the appropriate federal banking agency determines is necessary to further the purposes of the regulations. Further, the federal banking agencies may not accept a capital restoration plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company under the guaranty is limited to the lesser of (i) an amount equal to 5 percent of the depository institution's total assets at the time it became undercapitalized, and (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it were "significantly undercapitalized." The FDICIA also restricts the solicitation and acceptance of and interest rates payable on brokered deposits by insured depository institutions that are not "well capitalized." An "undercapitalized" institution is not allowed to solicit deposits by offering rates of interest that are significantly higher than the prevailing rates of interest on insured deposits in the particular institution's normal market areas or in the market areas in which such deposits would otherwise be accepted.

Any financial institution which is classified as "critically undercapitalized" must be placed in conservatorship or receivership within 90 days of such determination unless it is also determined that some other course of action would better serve the purposes of the regulations. Critically undercapitalized institutions are also prohibited from making (but not accruing) any payment of principal or interest on subordinated debt without the prior approval of the FDIC and the FDIC must prohibit a critically undercapitalized institution from taking certain other actions without its prior approval, including (1) entering into any material transaction other than in the usual course of business, including investment expansion, acquisition, sale of assets or other similar actions; (2) extending credit for any highly leveraged transaction; (3) amending articles or bylaws unless required to do so to comply with any law, regulation or order; (4) making any material change in accounting methods; (5) engaging in certain affiliate transactions; (6) paying excessive compensation or bonuses; and (7) paying interest on new or renewed liabilities at rates which would increase the weighted average costs of funds beyond prevailing rates in the institution's normal market areas.

Under the FDICIA, the Board of Governors and other federal agencies have adopted regulations which require banks to establish and maintain comprehensive written real estate policies which address certain lending considerations, including loan-to-value limits, loan

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administrative policies, portfolio diversification standards, and documentation, approval and reporting requirements. The FDICIA further generally prohibits an insured state bank from engaging as a principal in any activity that is impermissible for a national bank, absent FDIC determination that the activity would not pose a significant risk to the Bank Insurance Fund, and that the bank is, and will continue to be, within applicable capital standards. Similar restrictions apply to subsidiaries of insured state banks. The Company does not currently intend to engage in any activities which would be restricted or prohibited under the FDICIA.

The Board of Governors and other federal banking agencies have established safety and soundness standards for insured financial institutions covering (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest rate exposure; (5) asset growth; (6) compensation, fees and benefits; and (7) excessive compensation for executive officers, directors or principal shareholders which could lead to material financial loss. If the agency determines that an institution fails to meet any standard, the agency may require the financial institution to submit to the agency an acceptable plan to achieve compliance with the standard. If the agency requires submission of a compliance plan and the institution fails to timely submit an acceptable plan or to implement an accepted plan, the agency must require the institution to correct the deficiency. Under the final rule, an institution must file a compliance plan within 30 days of a request to do so from the institution's primary federal regulatory agency. The agencies may elect to initiate enforcement action in certain cases rather than rely on an existing plan particularly where failure to meet one or more of the standards could threaten the safe and sound operation of the institution.

The Board of Governors issued final amendments to its risk-based capital guidelines to be effective December 31, 1994, requiring that net unrealized holding gains and losses on securities available for sale determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," are not to be included in the Tier 1 capital component consisting of common stockholders' equity. Net unrealized losses on marketable equity securities (equity securities with a readily determinable fair value), however, will continue to be deducted from Tier 1 capital. This rule has the general effect of valuing available for sale securities at amortized cost (based on historical cost) rather than at fair value (generally at market value) for purposes of calculating the risk-based and leverage capital ratios.

On December 13, 1994, the Board of Governors issued amendments to its risk-based capital guidelines regarding concentration of credit risk and risks of non-traditional activities, which were effective January 17, 1995. As amended, the risk-based capital guidelines identify concentrations of credit risk and evaluate a bank's ability to manage such risks and the risk posed by non-traditional activities as important factors in assessing a bank's overall capital adequacy.

The Board of Governors and other federal banking agencies issued a joint agency policy statement during 1996 regarding the management of interest-rate risk exposure (interest rate risk is the risk that changes in market interest rates might adversely affect a bank's financial condition) with the goal of ensuring that institutions with high levels of interest-rate risk have sufficient capital to cover their exposures. This policy statement reflected the agencies' decision at that time not to promulgate a standardized measure and explicit capital charge for interest rate risk in the expectation that industry techniques for measurement of such risk will evolve.

However, the Federal Financial Institution Examination Counsel ("FFIEC") on December 13, 1996, approved an updated Uniform Financial Institutions Rating System ("UFIRS"). In addition to the five components traditionally in the so-called "CAMEL" rating system which has been used by bank examiners for a number of years to classify and evaluate the soundness of financial institutions (including capital adequacy, asset quality, management, earnings and liquidity), UFIRS includes for all bank regulatory examinations conducted on or after January 1, 1997, a new rating for a sixth category identified as sensitivity to market risk. Ratings in this category are intended to reflect the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices may adversely affect an institution's earnings and capital. The rating system henceforth will be identified as the "CAMELS" system.

COMPETITION

The banking business in California generally, and in the Bank's primary service area specifically is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major

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banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Bank are their ability to finance wide-ranging advertising campaigns and to allocate their investment assets to geographic regions of higher yield and demand. Such banks offer certain services such as trust services and international banking services which are not offered directly by the Bank and, by virtue of their greater total capitalization upon which legal lending limits are based, such banks have substantially higher limits than the Bank. At December 31, 1998, the Bank's legal lending limits to a single borrower and such borrower's related interests were $3.0 million on an unsecured basis and $5.0 million on a fully secured basis based on regulatory capital of $20.0 million.

The Bank's primary service area encompasses Fresno County and Madera County. As cited in "The Market Share Report" published by the FDIC, as of June 30, 1998, there were 27 banks and savings and loans operating in Fresno County with total deposits of $5.4 billion. At that time, the Bank held a total of $164.5 million in deposits at its Fresno branches representing approximately 3.1 percent of total bank and savings and loan deposits in Fresno County. Additionally, there were 15 banks and savings and loans operating in Madera County with total deposits of $601.6 million. At June 30, 1998, the Bank held a total of $21.1 million in deposits, representing approximately 3.5 percent of total bank and savings and loan deposits in Madera County.

In order to compete with the major financial institutions in its primary service area, the Bank uses to the fullest extent possible the flexibility which is accorded by its independent status. This includes an emphasis on specialized services, local promotional activity, and personal contacts by the Bank's officers, directors and employees. The Bank also seeks to provide special services and programs for individuals in its primary service area who are employed in the professional and business fields, such as loans for equipment, furniture, tools of the trade or expansion of practices or businesses. In the event there are customers whose loan demands exceed the Bank's lending limits, the Bank seeks to arrange for such loans on a participation basis with other financial institutions. The Bank also assists those customers requiring services not offered by the Bank to obtain such services from correspondent banks.

Banking is a business which depends on interest rate differentials. In general, the difference between the interest rate paid by the Bank to obtain its deposits and its other

borrowings and the interest rate received by the Bank on loans extended to its customers and on securities held in the Bank's portfolio comprise the major portion of the Bank's earnings.

Commercial banks compete with savings and loan associations, credit unions, other financial institutions and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

The interest rate differentials of the Bank, and therefore its earnings, are affected not only by general economic conditions, both domestic and foreign, but also by the monetary and fiscal policies of the United States as set by statutes and as implemented by federal agencies, particularly the Federal Reserve Board. This agency can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States government securities, adjustments in the amount of interest free reserves that banks and other financial institutions are required to maintain, and adjustments to the discount rates applicable to borrowing by banks from the Federal Reserve Board. These activities influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and timing of any future changes in monetary policies and their impact on the Bank can't be predicted.

Since 1986, California has permitted California banks and bank holding companies to be acquired by banking organizations based in other states on a "reciprocal" basis (i.e., provided the other state's laws permit California banking organizations to acquire banking organizations in that state on substantially the same terms and conditions applicable to local banking organizations). Some increase in merger and acquisition activity among California and out-of-state banking organizations has occurred as a result of this law, as well as increased competition for loans and deposits. Since October 2, 1995, California law implementing certain provisions of prior federal law has (1) permitted interstate merger transactions; (2) prohibited interstate branching through the acquisition of a branch business unit located in California without acquisition of the whole business unit of the California bank; and (3) prohibited interstate branching through de novo

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establishment of California branch offices. Initial entry into California by an out-of-state institution must be accomplished by acquisition of or merger with an existing whole bank which has been in existence for at least five years.

Community Reinvestment Act ("CRA") regulations effective as of July 1, 1995 evaluate banks' lending to low and moderate income individuals and businesses across a four-point scale from "outstanding" to "substantial noncompliance," and are a factor in regulatory review of applications to merge, establish new branches or form bank holding companies. In addition, any bank rated in "substantial noncompliance" with the CRA regulations may be subject to enforcement proceedings.

The Bank has a current rating of "satisfactory" CRA compliance, and is scheduled for further examination for CRA compliance during 1999.

The federal banking agencies, especially the OCC and the Board of Governors, have taken steps to increase the types of activities in which national banks and bank holding companies can engage, and to make it easier to engage in such activities. On November 20,

1996, the OCC issued final regulations permitting national banks to engage in a wider range of activities through subsidiaries. An "eligible institution" (those national banks that are well capitalized, have a high overall rating and a satisfactory CRA rating, and are not subject to an enforcement order) may engage in activities related to banking through operating subsidiaries after going through an expedited application process. In addition, the regulations include a provision whereby a national bank may apply to the OCC to engage in an activity through a subsidiary in which the bank itself may not engage. This OCC regulation could be advantageous to national banks depending on the extent to which the OCC permits national banks to engage in new lines of business.

Certain legislative and regulatory proposals that could affect the Bank and the banking business in general are pending or may be introduced before the United States Congress, the California State Legislature and federal and state government agencies. The United States Congress is considering numerous bills that could reform banking laws substantially. For example, proposed bank modernization legislation under consideration would, among other matters, include a repeal of the Glass-Steagall Act restrictions on banks that now prohibit the combination of commercial and investment banks.

It is not known to what extent, if any, the legislative proposals will be enacted and what effect such legislation would have on the structure, regulation and competitive relationships of financial institutions. It is likely, however, that many of these proposals would subject the Company and the Bank to increased regulation, disclosure and reporting requirements and would increase competition and the cost of doing business.

In addition to pending legislative changes, the various federal and state banking regulatory agencies frequently propose rules and regulations to implement and enforce already existing legislation. It cannot be predicted whether or in what form any such rules or regulations will be enacted or the effect that such rules and regulations may have on the business of the Company and the Bank.

Item 2. PROPERTIES

The Company leases land and a building at 5240 N. Palm Avenue, Fresno, California, under a lease agreement having an initial term of approximately 30 years with 2 five year options. The lease is accounted for as an operating lease for the land and a capital lease for the building. The facility is approximately 9,000 square feet with rental payments of $1.05 per square foot per month. The lease calls for rent payment increases of 25 percent every five years. The foregoing description of the lease is qualified by reference to the lease agreement dated December 22, 1988 attached as exhibit 10.10 to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on July 27, 1994.

On February 20, 1995, the Bank entered into a lease agreement for its SBA loan production office located at 3501 Coffee Road, Suite 3, Modesto, California. The lease is for a period of 5 years on facilities of 1,072 square feet at a lease rate of $1.35 per square foot. The lease calls for annual rent adjustments based on changes in the consumer price index of not less than 3 percent and not more than 5 percent. The foregoing description of the lease is qualified by reference to the lease agreement dated February 20, 1995 and

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attached as exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

On August 17, 1995, the Company entered into a sale-leaseback of its corporate headquarters located at 7060 N. Fresno Street, Fresno, California. The leaseback is accounted for as an operating lease with a term of 15 years and contains provisions for periodic rent increases every three years based on changes in the consumer price index not to exceed 12 percent per adjustment. The facility is approximately 24,100 square feet with the initial rental rate set at $1.35 per square foot. The foregoing description of the lease is qualified by reference to the lease agreement dated August 17, 1995 and attached as exhibit 10.21 to the Company's Form 10-K for the year ended December 31, 1995.

On May 13, 1996, the Bank entered into a lease for its fourth branch office, commonly referred to as the Madera Branch, at 126 North "D" Street, Madera, California. The initial term of the lease is for three years at a fixed rate of $2,091 per month with an option for an additional three years at a rate of $2,510 per month. The facility is approximately 2,500 square feet in size and is located in the primary downtown business district in Madera. The foregoing description of the lease is qualified by reference to the lease agreement dated May 13, 1996 and attached as exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

Rent expense under all operating lease agreements was $636,000, $528,000 and $540,000, for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the aggregate minimum future lease commitments under capital leases and noncancelable operating leases with terms of one year or more consist of the following (in thousands):

	CAPITAL LEASES	OPERATING LEASES
1999	$ 48	$ 573
2000	76	544
2001	76	492
2002	76	492
2003	76	492
Thereafter	2,450	4,294
Total minimum lease payments	2,802	$ 6,887
Amount representing interest	(2,255)	
Net present value of minimum lease payments	$ 547	

Item 3. LEGAL PROCEEDINGS

There are no material proceedings adverse to the Company or the Bank to which any director, officer, affiliate of the Company or 5 percent shareholder of the Company or the Bank, or any associate of any such director, officer, affiliate or 5 percent shareholder of the Company or Bank is a party, and none of the above persons has a material interest adverse to the Company or the Bank.

Neither the Company nor the Bank is a party to any pending legal or administrative proceedings (other than ordinary routine litigation incidental to the Company's or the Bank's business) and no such proceedings are known to be contemplated.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

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Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) MARKET INFORMATION

In May 1998, the Company's Stock began trading on the Nasdaq National Market System under the symbol REFN. Prior to that date there was limited trading in and no established public market for the Company's Common Stock. Hoefer & Arnett, Incorporated, Sutro & Co., Banc Stock Exchange and Van Kasper & Company act as market makers and facilitate trades in the Company's Common Stock. Based on information provided by Nasdaq and the aforementioned market makers, the range of high and low bids for the Company's Common Stock for the two most recent fiscal years are set forth below. Such bid prices represent inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

CALENDAR YEAR	LOW	HIGH
1997		
First Quarter	9.125	10.625
Second Quarter	9.000	10.000
Third Quarter	8.250	10.125
Fourth Quarter	9.250	11.000
1998		
First Quarter	10.250	14.875
Second Quarter	13.625	14.625
Third Quarter	11.000	16.125
Fourth Quarter	12.937	14.812

The bid price for the Company's Common Stock was $14.50 as of March 10, 1999.

(b) HOLDERS

As of March 10, 1999, there were approximately 650 holders of the Common Stock of the Company. There are no other classes of common equity outstanding.

(c) DIVIDENDS

The Company's shareholders are entitled to receive dividends when and as declared by its Board of Directors, out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law further provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (1) the corporation's assets equal at least 1-1/4 times its liabilities; and (2) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's

interest expenses for such fiscal years, then the corporation's current assets must equal at least 1-1/4 times its current liabilities. Funds for payment of any cash dividends by the Company would be obtained from its investments as well as dividends and/or management fees from the Bank. The payment of cash dividends by the Bank is subject to restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that banks may not make a cash distribution to its shareholders in excess of the lesser of (a) the bank's retained earnings; or (b) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the Commissioner, make a distribution to its shareholders in an amount not exceeding the greater of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that the Commissioner determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the Commissioner may order the bank to refrain from making a proposed distribution.

The FDIC may also restrict the payment of dividends if such payment would be deemed unsafe or unsound or if after the payment of such dividends,

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the Bank would be included in one of the "undercapitalized" categories for capital adequacy purposes pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. Additionally, while the Board of Governors has no general restriction with respect to the payment of cash dividends by an adequately capitalized bank to its parent holding company, the Board of Governors might, under certain circumstances, place restrictions on the ability of a particular bank to pay dividends based upon peer group averages and the performance and maturity of the particular bank, or object to management fees on the basis that such fees cannot be supported by the value of the services rendered or are not the result of an arm's length transaction.

During 1998 and 1997, the Company paid no cash dividends. During 1996, the Company paid four quarterly cash dividends of $.06 per common share. There can be no assurance that the Company will pay dividends in the future. The determination to pay dividends is subject to regulatory restrictions applicable to the Bank and the Company, the financial condition of the Bank and the Company and such other factors as the Board of Directors of the Company may consider.

Item 6. SELECTED FINANCIAL DATA

The following table presents certain consolidated financial information concerning the business of the Company and the Bank. This information should be read in conjunction with the Consolidated Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein.

<TABLE>
<CAPTION>

(In thousands, except percentages, share and per share data)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING RESULTS:					
Interest income	$ 18,636	$15,286	$ 13,227	$12,841	$ 10,708
Interest expense	5,452	5,321	4,694	5,092	2,989
Net interest income	13,184	9,965	8,533	7,749	7,719
Provision for credit losses	375	1,353	-	470	487
Net interest income after provision for credit losses	12,809	8,612	8,533	7,279	7,232
Non-interest income	$ 2,962	$ 2,687	$ 3,109	$ 1,883	$ 4,026
Non-interest expense	9,455	13,406	9,902	12,105	8,327
Income (loss) before income taxes	6,316	(2,107)	1,740	(2,943)	2,931
Income taxes (benefit)	2,643	(833)	732	(1,176)	1,195
Net Income (loss)	$ 3,673	$ (1,274)	$ 1,008	$ (1,767)	$ 1,736
FINANCIAL CONDITION AND CAPITAL YEAR END BALANCES:					
Total assets	$ 231,967	$198,241	$ 181,058	$ 163,682	$ 155,802
Net loans	147,588	126,430	99,770	94,529	89,589
Investments in real estate	-	4,338	16,926	17,954	16,209
Deposits	206,637	176,279	159,802	143,745	137,889
Shareholders' equity	22,449	18,734	13,470	12,942	14,327
FINANCIAL CONDITION AND CAPITAL AVERAGE BALANCES:					
Total assets	$ 207,481	$186,243	$ 166,534	$ 160,215	$ 144,734
Net loans	137,389	110,025	98,333	91,046	83,230
Investments in real estate	929	12,538	17,892	17,801	15,667
Deposits	183,466	168,296	143,723	142,943	128,288
Shareholders' equity	20,218	13,272	13,358	14,948	13,737
FINANCIAL RATIOS:					
Return on average assets	1.77%	(0.68%)	0.61%	(1.10%)	1.20%
Return on average equity	18.17%	(9.60%)	7.55%	(11.82%)	12.64%
Average equity to average assets	9.75%	7.13%	8.02%	9.33%	9.49%
Dividend payout ratio	-	-	43.33%	(19.93%)	9.50%
Allowance for loan losses to total loans	1.74%	1.71%	1.58%	1.85%	1.69%

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EARNINGS (LOSS) PER COMMON SHARE:					
Basic	$ 1.40	$ (.68)	$ .55	$ (.98)	$ 1.00
Diluted	$ 1.31	$ (.68)	$ .54	$ (.98)	$ .94
SHARES ON WHICH EARNINGS (LOSS) PER COMMON SHARE WERE BASED:					
Basic	2,624,000	1,860,000	1,818,000	1,805,000	1,734,000
Diluted	2,800,000	1,860,000	1,872,000	1,805,000	1,841,000
CASH DIVIDENDS DECLARED PER COMMON SHARE:	-	-	$0.24	$0.20	$0.10

</TABLE>

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

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Changes to such risks and uncertainties, which could impact future financial performance, include, among others, (1) competitive pressures in the banking industry; (2) changes in the interest rate environment; (3) general economic conditions, either nationally or regionally; (4) changes in the regulatory environment; (5) changes in business conditions and inflation; (6) changes in securities markets; and (7) Year 2000 compliance problems. Therefore, the information set forth therein should be carefully considered when evaluating the business prospects of the Company and the Bank.

OVERVIEW

The 1998 fiscal year was a year of growth and record profits for Regency Bancorp. Highlights included overall asset growth of 17.0 percent with total assets reaching $232.0 million at year end, completion of the divestiture of RSC's real estate investment assets, a return to profitability with net income after tax reaching $3.7 million for the year, and, in May the Company's common stock began trading on the Nasdaq national market system under the symbol REFN. In September 1998, the Bank received written acknowledgement from the Federal Deposit Insurance Corporation ("FDIC") and California Department of Financial Institutions ("CDFI") that the administrative orders issued in November 1997 had been rescinded. Additionally, the Bank was accepted as a member of both the Federal Reserve Bank and the Federal Home Loan Bank of San Francisco.

For the year ended December 31, 1998, the Company recorded net income of $3.7 million representing a $4.9 million improvement from a net loss of $1.3 million in 1997 and a $2.7 million increase from income of $1.0 million in 1996. Record income for 1998 was primarily the result of a decrease in expenses associated with RSC's divestiture, as well as a significantly larger earning asset base resulting in greater interest income. The net loss in 1997 was primarily the result of losses totaling $5.7 million related to the dissolution of RSC's real estate development activities.

Earnings per share for 1998 were $1.40 (basic) and $1.31 (diluted), compared to a net loss per share for 1997 of $.68 (basic and diluted) and net income per share of $.55 (basic) and $.54 (diluted) in 1996. For the year ended December 31, 1998, return on average assets and average equity were 1.77 and 18.17 percent, respectively. Shareholders' equity increased in 1998 by $3.7 million or 19.8 percent, primarily as a result of income generated by the Company's subsidiaries. Shareholders' equity increased by $5.3 million during 1997 primarily as a result of the Company's capital offering offset by the net loss for the year. The Company's ratio of common shareholders' equity to total assets was 9.7 percent at December 31, 1998, compared to 9.5 percent at December 31, 1997 and 7.4 percent at December 31, 1996. The Company's and Bank's levels of risk based capital to assets were considered "well capitalized" at year-end.

During 1998, the Company effectively completed divestiture of RSC's real estate holdings reducing the Company's investment in real estate from $4.1 million at December 31, 1997 to zero at year-end 1998. At December 31, 1996 the Company's investment in real estate was $16.3 million. The elimination of nonperforming real estate assets had a significant effect on the Company's overall increase in earning assets and an improved ratio of earning assets to total assets. For the year ended December 31, 1998, the Company's ratio of average earning assets to average total assets was 90.3 percent, compared to 83.9 percent in 1997 and 79.5 percent in 1996. The higher levels of earning assets achieved in 1998 were a significant reason for the increase in interest income, and subsequently the increase in overall net income achieved during 1998.

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NET INTEREST INCOME

The Company's operating results depend primarily on net interest income (the difference between the interest earned on loans, investment securities and federal funds sold less interest expense on deposit accounts and borrowings). A primary factor affecting the level of net interest income is the Company's interest rate margin, the difference between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities, as well as the difference between the relative amounts of average interest-earning assets and interest-bearing liabilities.

The following table presents, for the years ended December 31, 1998, 1997 and 1996, the Company's total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities and the resultant cost, expressed both in dollars and rates. The table also sets forth the net interest income and the net earning asset balances for the periods indicated.

CONSOLIDATED AVERAGE BALANCE SHEETS, NET INTEREST INCOME AND INTEREST RATES

<TABLE>
<CAPTION>

	1998			1997			1996		
(In thousands, except percentages)	AVERAGE BALANCE	YIELD/ RATE	INTEREST	AVERAGE BALANCE	YIELD/ RATE	INTEREST	AVERAGE BALANCE	YIELD/ RATE	INTEREST
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS:									
Interest-earning assets:									
Loans (1)	$ 139,891	11.29%	$ 15,793	$ 111,891	11.18%	$12,506	$ 100,052	11.25%	$ 11,255
Investment securities (2)	39,149	6.17%	2,416	35,879	6.49%	2,328	29,013	6.22%	1,805
Federal funds sold & other	8,304	5.14%	427	8,417	5.36%	452	3,254	5.13%	167
Total interest-earning assets	187,344	9.95%	18,636	156,187	9.79%	15,286	132,319	10.00%	13,227
Noninterest-earning assets:									
Allowances for credit losses	(2,502)			(1,866)			(1,719)		
Cash and due from banks	11,629			9,562			8,482		
Real estate investments	929			12,538			17,518		
Other real estate owned	673			462			374		
Premises and equipment, net	1,649			2,041			2,296		
Cash surrender value of life insurance	3,104			2,965			2,829		
Accrued interest receivable and other assets	4,655			4,354			4,435		
Total average assets	$ 207,481			$ 186,243			$ 166,534		
LIABILITIES AND SHAREHOLDERS' EQUITY:									
Interest-bearing liabilities:									
Transaction accounts	$ 50,218	2.32%	$ 1,166	$ 50,240	2.52%	$ 1,264	$ 46,237	2.67%	$ 1,235
Savings accounts	42,223	3.85%	1,625	34,150	4.09%	1,397	25,327	4.18%	1,058
Time deposits	47,923	5.34%	2,557	47,223	5.47%	2,580	41,791	5.36%	2,241
Federal funds purchased and other	874	11.94%	104	3,104	2.58%	80	6,795	2.36%	160
Total interest-bearing liabilities	141,238	3.86%	5,452	134,717	3.95%	5,321	120,150	3.91%	4,694
Noninterest-bearing liabilities:									
Transaction accounts	43,102			36,683			30,369		
Other liabilities	2,923			1,571			2,657		
Total liabilities	46,025			172,971			153,176		
Shareholders' equity:									
Common stock	15,176			9,202			8,868		
Retained earnings	4,818			4,029			4,529		
Accumulated other comprehensive income	224			41			(39)		
Total shareholders' equity	20,218			13,272			13,358		
Total average liabilities and shareholders' equity	$ 207,481			$ 186,243			$ 166,534		
Net interest income			$ 13,184			$ 9,965			$ 8,533

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Interest income as a percentage of average interest-earning assets	9.95%	9.79%	10.00%
Interest expense as a percentage of average interest-earning assets	2.91%	3.41%	3.55%
Net interest margin	7.04%	6.38%	6.45%

</TABLE>

(1) Loan amounts include nonaccrual loans, but the related interest income has been included only for the period prior to the loan being placed on a nonaccrual basis. Loan interest income includes loan fees of approximately $1,331,000, $1,252,000 and $1,232,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

(2) Applicable nontaxable securities yields have not been calculated on a taxable-equivalent basis

Changes in the net interest income can be attributed to changes in the yield on interest-earning assets, the rate paid on interest-bearing liabilities, as well as changes in the volume of interest-earning assets and interest-bearing liabilities. The following table presents the dollar amount of certain changes in interest income and expense for each major component of interest-earning assets and interest-bearing liabilities and the difference attributable to changes in average rates and volumes for the periods indicated.

VOLUME/RATE ANALYSIS

<TABLE>
<CAPTION>

(In thousands)	1998 - 1997			1997 - 1996		
	Volume	Rate	Total	Volume	Rate	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET INTEREST EARNINGS VARIANCE ANALYSIS: (1)						
Increase (decrease) in interest income:						
Loans	$ 3,160	127	$ 3,287	$ 1,323	(72)	1,251
Investment securities (2)	190	(102)	88	443	80	523
Federal funds sold and other	(6)	(19)	(25)	277	8	285
Total	$ 3,344	6	$ 3,350	$ 2,043	16	$ 2,059
Increase (decrease) in interest expense:						
Transaction accounts	(1)	(97)	(98)	88	(59)	29
Savings accounts	304	(76)	228	360	(21)	339
Time deposits	40	(63)	(23)	295	44	339
Federal funds purchased and other	(6)	30	24	(97)	17	(80)
Total	337	(206)	131	646	(19)	627
Increase in net interest income	$ 3,007	212	$ 3,219	$ 1,397	35	$ 1,432

</TABLE>

(1) A change due to both volume and rate has been allocated to the change in volume and rate in proportion to the relationship of the dollar amount of the change in each.

(2) Changes calculated on nontaxable securities have not considered tax equivalent effects.

Total interest income increased $3.4 million or 21.9 percent in 1998 to $18.6 million. During 1997, interest income increased $2.1 million or 15.6 percent to $15.3 million. Interest expense in 1998 increased $131,000 or 2.4 percent to $5.5 million from $5.3 million in 1997. In 1997, interest expense increased by $627,000 or 13.4 percent. One of the primary reasons for the Company's increased profitability in 1998 was the increase in net interest income. Net interest income for 1998 increased by $3.2 million or 32.3 percent. The Company's net interest margin increased to 7.04 percent in 1998 from 6.38 percent in 1997 and 6.45 percent in 1996. The higher margin for 1998 resulted from a higher percentage of loans to earning assets and a recovery of nonaccrued interest on loans RSC had carried on its books for several years. Management expects the net interest margin will return to more normalized levels in 1999.

Average interest-earning assets increased by $31.2 million in 1998 to

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$187.3 million compared to $156.2 million in 1997 and $132.3 million in 1996. For the year ended December 31, 1998, growth in average interest earning assets was paced by growth in average loans outstanding of 25.0 percent, growth in average investments of 9.1 percent, and a decline in average federal funds sold of 1.4 percent. Average interest bearing liabilities grew by 4.8 percent overall in 1998 with the majority of growth occurring in the Bank's preferred savings product, which experienced an increase of $8.1 million or 23.6 percent. The other subcategories of deposits had only minor growth or, as was the case of Federal Funds purchased, a decline on average for the year.

For the year ended December 31, 1997, average interest-earning assets increased $23.9 million to $156.2 million, compared to $132.3 million in 1996. In 1997, growth in average interest earning assets was spread over all earning asset categories with federal funds sold increasing 158.7

percent, investments increasing 23.7 percent and loans increasing 11.8 percent. Average interest bearing liabilities grew by $14.6 million in 1997 to $134.7 million from $120.2 million in 1996. All major interest bearing liability categories grew during 1997 with the exception of federal funds purchased. Of note in 1997 was a substantial reduction in Federal Funds purchased and other borrowings. During 1997, the Company was able to retire all debt incurred as a result of the acquisition of limited partnership properties involving RSC.

NONINTEREST INCOME

The Company receives a significant portion of its income from noninterest sources related both to activities conducted by the Bank (loan originations, servicing and depositor service charges), as well as from RIA (income from investment management services). The following table presents the dollar amount of the Company's noninterest income for the years ended December 31, 1998, 1997 and 1996 respectively.

(In thousands)	1998	1997	1996
NONINTEREST INCOME:			
Gain on sale of loans	$356	$608	$ 1,315
Depositor service charges	500	397	338
Income from investment management services	916	810	682
Gain (loss) on sale of securities	15	(19)	-
Gain on sale of premises & equipment	4	252	18
Servicing fees on loans sold	119	329	322
Other	1,052	310	434
TOTAL	$2,962	$ 2,687	$ 3,109

NONINTEREST INCOME 1998 VS. 1997

Noninterest income increased $275,000 or 10.2 percent in 1998 to $2.96 million. The increase was primarily the result of an increase of $742,000 in other income resulting from recoveries of previously charged off investments in real estate and loans made by Regency Service Corporation of $739,000. Additional noninterest income categories reflecting an increase in 1998 included: depositor service charges, up $103,000 primarily as a result of growth in the Company's deposit base; income from RIA investment management services, up $106,000 as a result of increased assets under management; and gains on the sale of securities, up $34,000. Noninterest income categories with decreased income in 1998 were led by gain on sale of loans with a decline of $252,000. Gain on sale of loans declined primarily as a result of lower amounts of SBA loans sold throughout the year. The majority of the income in this category in 1998 was the result of newly originated mortgage loans generated by the Bank. Additional noninterest income categories declining in 1998 included: gain on sale of premises and equipment, down $248,000; and servicing fees on loans sold, down $210,000. During 1997, the Company recognized a gain on the sale of certain facilities resulting in greater than normal gain from the sale of premises & equipment. The Company generally does not sell non-financial assets, consequently, 1997's gain of $252,000 was a nonrecurring event and 1998's reduced income in this category should be more reflective of future income in this category. Income from servicing fees on loans sold is dependent on the volume of loans serviced and the speed at which serviced loans pre-pay their principal balances. The Company's overall servicing portfolio declined in 1998 as older loans in the servicing portfolio paid off while new loans originated were held on the Company's balance sheet rather than sold and serviced. The decline in portfolio size combined with the amortization of the future-servicing asset

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associated with a number of loans that paid off at an accelerated rate combined to reduce income in this category.

NONINTEREST INCOME 1997 VS. 1996

For the year ended December 31, 1997, noninterest income decreased $422,000 or 13.6 percent to $2.7 million from $3.1 million in 1996. The overall decrease in noninterest income was primarily the result of decreased income from the sale of loans. For the year, gains on the sale of loans were down $707,000, primarily as a result of the Company's decision to retain the guaranteed portion of SBA loans originated to increase interest income, rather than sell the guaranteed portion to generate immediate noninterest income. Additional noninterest income categories reflecting declines in 1997 included: gain (loss) on sale of investments down $19,000 from 1996; and other income declining $124,000. The decline in other noninterest income was primarily a result of a decrease in broker fees of $84,000. Noninterest income categories reflecting an increase in 1997 included: gain on sale of premises & equipment, up $234,000 as a result of the Company's recognition of the gain associated with the sale of certain facilities; depositor service fee income, up $59,000 primarily as a result of growth in the Bank's deposit base; income from RIA investment management services, up $128,000 as a result of a larger asset base under management; and servicing fee income, up $7,000 as a result of a larger servicing portfolio of loans.

REGENCY INVESTMENT ADVISORS

As described above, Regency Investment Advisors is a wholly owned subsidiary of Regency Bancorp providing investment management and consulting services on a fee only basis. Revenue from RIA is primarily a result of fees generated from assets under management. At December 31, 1998, RIA's assets under management were $110.3 million, a 27.5 percent increase from assets under management of $86.5 million at December 31, 1997. During 1997, assets under management increased $9.3 million or 12.0 percent from $77.2 million at December 31, 1996. Assets in client accounts managed by RIA are not reflected in the consolidated assets of the Company.

Revenue from RIA's operations increased $106,000 or 13.1 percent in 1998 to $916,000 from $810,000 in 1997. In 1996, revenue from investment management services was $682,000. The increased revenue over the past two years was primarily the result of a larger asset base managed by RIA. On a stand alone basis, RIA provided the Company with pre-tax net income of $217,000, $181,000 and $55,000 in the years ended December 31, 1998, 1997 and 1996, respectively.

NONINTEREST EXPENSE

Noninterest expense reflects the costs of products, services, systems, facilities and personnel for the Company. The following table presents the Company's noninterest expense, stated both as dollars and as a percentage of average assets, for the years ended December 31, 1998, 1997 and 1996 respectively.

(In thousands, except percentages)	1998		1997		1996	
NONINTEREST EXPENSE:						
Salaries and related benefits	$5,134	2.47%	$4,782	2.57%	$4,561	2.74%
Occupancy	1,559	.75%	1,639	.88%	1,568	.94%
FDIC insurance and regulatory assessments	270	.13%	120	.06%	63	.04%
Marketing	475	.23%	450	.24%	428	.26%
Professional services	684	.33%	461	.25%	749	.45%
Directors' fees and expenses	219	.11%	270	.15%	383	.23%
Management fees for real estate projects	-	-	120	.07%	488	.29%
Supplies, telephone and postage	312	.15%	329	.18%	349	.21%
(Gain) loss from investments in real estate	(171)	(.08%)	3,973	2.13%	351	.21%
Other	973	.47%	1,262	.68%	962	.58%
TOTAL NONINTEREST EXPENSE	$9,455	4.56%	$ 13,406	7.20%	$9,902	5.95%

NONINTEREST EXPENSE 1998 VS. 1997

Noninterest expenses decreased by $3.95 million or 29.5 percent to $9.5 million in 1998 from $13.4 million in 1997. The 1998 decrease in noninterest expense resulted from a gain experienced by RSC on investments in real estate of

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$171,000, compared to a loss of $3.97 million during 1997. When compared to average assets for the respective periods, noninterest expense decreased to 4.56 percent from 7.20 percent.

Additional noninterest expense categories reflecting a decrease for the year included: occupancy expense, down $80,000 to $1.6 million primarily as a result of lower amounts of depreciation on fixed assets; director's fees and expense, down $51,000 to $219,000 as a result of reduced board fees and a streamlined meeting schedule; management fees for real estate projects, down $120,000 to zero as a result of the cancellation of RSC's third party management contract; and other noninterest expense, down $289,000. In 1997, other expense was abnormally high due to expenses related to the charge-off of accounts receivable at RSC. No similar expense occurred in 1998.

Noninterest expense categories reflecting an increase in 1998 included; salaries and related benefits, up $352,000 or 7.4 percent due primarily to an increase in bonuses paid under the Company's incentive compensation plan; FDIC insurance and regulatory assessments, up $150,000 or 125.0 percent as a result of the regulatory orders the Bank was under until September 1998; marketing, up 25,000 or 5.6 percent primarily as a result of increased radio advertising; and professional services, up $223,000 or 48.4 percent as a result of increased legal expense related to the Company's capital offering, Nasdaq listing, regulatory orders, as well as, increased audit expense related to the Bank's regulatory orders and increased consulting expense related to the Company's Year 2000 project. Management expects the expense categories of FDIC insurance and professional services will be reduced in 1999 with the termination of the Bank's regulatory orders and the nonrecurring professional fees related to the Company's capital offering and Nasdaq listing.

NONINTEREST EXPENSE 1997 VS. 1996

Noninterest expenses increased by $3.5 million to $13.4 million in 1997 from $9.9 million in 1996. This increase was a significant contributing factor to the Company's overall net loss for the year. The primary cause of the increase in noninterest expense came as a result of losses associated with RSC's divestiture of investments in real estate, which increased by $3.6 million in 1997. When compared to average assets for the respective periods, noninterest expense increased to 7.20 percent from 5.95 percent.

Additional noninterest expense categories increasing in 1997 included: salaries and related benefits, up $222,000 or 4.9 percent to $4.8 million, primarily as a result of higher commissions paid to staff on incentive based compensation; occupancy expense, up $72,000 to $1.6 million, primarily as a result of a full year's rental expense related to the Bank's Madera office (opened in late 1996), as well as higher maintenance and utility expense; FDIC insurance and regulatory assessments, up $57,000 to $120,000, primarily as a result of the administrative orders issued to the Bank and lower capital levels at the mid-year assessment period; and other expenses, up $299,000 to $1.3 million, primarily as a result of a one-time expense related to the write-off of an unsecured account receivable held by RSC.

Noninterest expense categories that decreased in 1997 compared to 1996 included: professional services, down $288,000 to $461,000, primarily as a result of lower legal and accounting expenses related to RSC; and management fees paid for real estate projects, down $368,000 to $120,000 as a result of a restructured management contract with RSC's project manager. Additionally, supplies, telephone and postage declined by $21,000 in 1997.

REGENCY SERVICE CORPORATION

As described above, Regency Service Corporation is a wholly owned subsidiary of Regency Bank and has engaged in real estate development activities primarily in the Fresno/Clovis area since 1986.

For the year ended December 31, 1998, RSC experienced a gain from sales of real estate in the amount of $171,000 compared to a loss of $4.0 million for the year ended December 31, 1997, and a loss of $351,000 for the year ended December 31, 1996. The gain in 1998 resulted from the sale of several properties which had previously been written down to reflect RSC's anticipated sales proceeds. For the year ended December 31, 1998, on a stand alone basis, RSC's activities (including gains from the sale of properties, recoveries of RSC's provision for real estate losses and credit losses, plus operating expenses), increased the Company's overall pre-tax income by $1.6 million compared to a decrease of $5.7 million in 1997 and a decrease of $1.5 million in 1996, respectively.

BALANCE SHEET ANALYSIS

For the year ended December 31, 1998, total assets increased by $33.7 million or 17.0 percent to $232.0 million from $198.2 million at December 31, 1997. During 1997, total assets increased by $17.2 million or 9.5 percent, from $181.0 million at December 31, 1996.

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For 1998, total loans increased $21.5 million or 16.6 percent to $151.2 million from $129.6 million at December 31, 1997, primarily as a result of growth in the SBA and B&I loan portfolios.

During 1997, total loans increased $27.3 million or 26.7 percent as a result of the Company's decision to hold newly originated SBA loans rather than sell the guaranteed portion in the secondary market. Investment securities increased 30.2 percent to $48.2 million at December 31, 1998, from $37.0 million at year-end 1997.

During 1998, the Company effectively completed divestiture of RSC's real estate investments reducing the Company's investment in real estate from $4.3 million at December 31, 1997, to zero at year-end 1998. At December 31, 1996, the Company's investment in real estate was $16.5 million. The elimination of nonperforming real estate assets has been a significant cause of the Company's overall increase in earning assets and an improved ratio of earning assets to total assets. For the year ended December 31, 1998, the Company's ratio of average earning assets to average total assets was 90.3 percent, compared to 83.9 percent in 1997, and 79.5 percent in 1996. The higher levels of earning assets was a significant reason for the increase in net interest income in 1998 compared to 1997.

Deposits increased during 1998 by $30.4 million or 17.2 percent to end the year at $206.6 million. During 1997, deposits increased $16.5 million or 10.3 percent to $176.3 million from $159.8 million at December 31, 1996. Interest-bearing deposits grew 17.7 percent in 1998 while noninterest-bearing deposits grew 16.0 percent. Notes payable and capital lease obligations were little changed during 1998 and represent the capital lease obligation on the Company's Palm branch facility. During 1997, notes payable decreased 90.7 percent or $4.9 million as the Company paid off all debts related to the acquisition of real estate properties from RSC's former partners.

Shareholders' equity increased in 1998 by $3.7 million or 19.8 percent primarily as a result of income generated by the Company's subsidiaries. Shareholders equity increased by $5.3 million during 1997 primarily as a result of the Company's capital offering offset by a net loss for the year.

INVESTMENT SECURITIES

The Company maintains a securities portfolio consisting of U.S. Treasury, U.S. Government agencies and corporations, state and political subdivisions, asset-backed and other securities. An independent custodian holds investment securities in safekeeping. The provisions of SFAS No. 115 require, among other things, that certain investments in debt and equity securities be classified under three categories: securities held-to-maturity; trading securities; and securities available-for-sale. Securities classified as held-to-maturity are to be reported at amortized cost; securities classified as trading securities are to be reported at fair value with unrealized gains and losses included in operations; and securities classified as available-for-sale are to be reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax. If a security is sold, any gain or loss is recorded as a charge to earnings and the equity adjustment is reversed. At December 31, 1998, the Bank held $46.9 million in securities classified as available for sale. At December 31, 1998, an unrealized gain of $220,000, net of taxes of $159,000, related to these securities, was reflected in shareholders' equity. The Company had no securities classified as held-to-maturity or as trading securities at December 31, 1998 or 1997, respectively. For more information on investment securities, see Notes 1 and 2 to the consolidated financial statements.

The following table reflects the carrying amount (fair value) of the Company's investment securities available-for-sale as of December 31, 1998, 1997, and 1996 respectively.

<TABLE>
<CAPTION>

AVAILABLE -FOR-SALE SECURITIES	1998		1997		1996	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasuries	$ 1,003	$ 1,008	$ 2,007	$ 2,012	$ 2,020	$ 2,030
U.S. Government Agencies	16,434	16,468	17,431	17,489	21,408	21,383
Mortgage-backed Securities	17,761	17,779	11,541	11,647	7,972	7,948
State and Political Subdivisions	11,166	11,488	5,441	5,624	1,517	1,559
Equity Securities	247	247	214	214	350	350

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	$46,611	$46,990	$ 36,634	$ 36,986	$33,267	$33,270

The following table sets forth the relative maturities and yields of the Company's available-for-sale securities at December 31, 1998 based on amortized cost. Weighted average yields have been computed by dividing annual interest income, adjusted for amortization of premium and accretion of discount, by the amortized value of the related security. Yields on state and political subdivision securities have not been calculated on a fully taxable equivalent basis.

SECURITIES AVAILABLE-FOR-SALE (1)	WITHIN ONE YEAR		AFTER ONE THROUGH FIVE YEARS		AFTER FIVE THROUGH TEN YEARS		AFTER TEN YEARS		TOTAL	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasuries	$ 1,003	5.47%	-	-	-	-	-	-	$ 1,003	5.47%
U.S. Government agencies	-	-	$ 1,049	6.11%	$15,385	6.47%	-	-	16,434	6.45%
Mortgage-backed securities	-	-	278	8.47%	1,884	5.91%	$15,599	6.37%	17,761	6.36%
State and political subdivisions	375	5.72%	743	5.96%	1,182	4.46%	8,866	4.84%	11,166	4.90%
Equity Securities	247	5.55%	-	-	-	-	-	-	247	5.55%
TOTAL	$ 1,625	5.54%	$ 2,070	6.37%	$18,451	6.37%	$24,465	5.82%	$46,611	6.02%

(1) Yields calculated on nontaxable securities have not considered tax equivalent effects.

LOAN PORTFOLIO

The following table shows the composition of the Company's loan portfolio, by type of loan, as of December 31, for the years indicated:

LOAN PORTFOLIO COMPOSITION:

(IN THOUSANDS, EXCEPT PERCENTAGES)	1998		1997		1996		1995		1994	
Commercial	$99,341	65.7%	$ 75,487	58.3%	$56,625	55.4%	$54,150	55.7%	$46,374	50.3%
Real estate:										
Construction	25,192	16.7%	30,128	23.2%	23,640	23.1%	23,706	24.4%	29,857	32.4%
Real estate mortgage	16,682	11.0%	14,900	11.5%	13,260	12.9%	10,389	10.7%	9,318	10.1%
Consumer and other	9,936	6.6%	9,120	7.0%	8,778	8.6%	8,892	9.2%	6,559	7.2%
SUBTOTAL	151,151	100%	129,635	100%	102,303	100%	97,137	100%	92,108	100%
Less:										
Allowances for credit losses	2,631		2,219		1,615		1,784		1,541	
Deferred loan fees	492		363		392		356		542	
Unearned discount	440		623		526		468		436	
TOTAL LOANS, NET	$147,588		$126,430		$99,770		$94,529		$89,589	

The following table represents the maturity distribution of the loan portfolio as of December 31, 1998.

MATURITY DISTRIBUTION OF LOAN PORTFOLIO	WITHIN ONE YEAR	AFTER ONE THROUGH FIVE YEARS	AFTER FIVE YEARS	TOTAL
Loans:				
Commercial	$28,894	$14,134	$56,313	$99,341
Real estate construction	23,178	1,530	484	25,192

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Real estate mortgage	3,115	7,164	6,403	16,682
Consumer and other	1,299	2,295	6,342	9,936
TOTAL	$56,486	$25,123	$69,542	$151,151
Fixed rate	2,217	2,390	2,261	6,868
Variable rate	54,269	22,733	67,281	144,283
TOTAL	$56,486	$25,123	$69,542	$151,151

</TABLE>

During 1998, the Bank continued its success in SBA lending, leading the 15 county Fresno SBA district in the dollar volume of loans made for the seventh consecutive year. In addition, the Bank continued to actively participate in the U.S. Department of Agriculture Business and Industry Loan program. Business and Industry loans ("B&I") contain a government guarantee on a portion of the loan similar to that of an SBA loan guarantee. For the B&I fiscal year ended September 30, 1998, the Bank was the leading B&I lender in California in new loans made.

Commercial loans, including SBA and B&I loans, comprised approximately 65.7 percent of the Company's loan portfolio at December 31, 1998, compared to 58.3 percent at December 31, 1997, primarily as a result of the Bank holding newly originated SBA and B&I loans in its portfolio rather than selling these loans on the secondary market. Commercial loans are generally made to small and mid-size businesses and professionals. Commercial loans are diversified as to industries and types of business, with no material industry concentrations. Most of these loans have floating rates based upon underwriting analysis. The primary source of repayment on most commercial loans is cash flow from the primary business. Additional collateral in the form of real estate, cash, accounts receivable, inventory or other financial instruments is often obtained as a secondary source of repayment.

Real estate construction lending comprised 16.7 percent of the Company's loan portfolio at December 31, 1998, compared to 23.2 percent of the Company's loan portfolio at December 31, 1997. These loans are primarily made for the construction of single family residential housing. Loans in this category may be made to the homebuyer or to the developer. Construction loans are secured by deeds of trust on the primary property. The majority of construction loans have floating rates based upon underwriting analysis. A significant portion of the borrowers' ability to repay these loans is dependent upon the sale of the property, which is affected by, among other factors, the residential real estate market. In this regard, the Company's potential risks include a general decline in the value of the underlying property, as well as cost overruns or delays in the sale or completion of a property.

Real estate mortgage loans comprised 11.0 percent of the loan portfolio at December 31, 1998, compared to 11.5 percent at December 31, 1997. Real estate mortgage loans are made up of non-residential properties and single-family residential mortgages. The non-residential loans generally are "mini-perm" (medium-term) commercial real estate mortgages with maturities under seven years. The residential mortgages are secured by first trust deeds and have varying maturities. Both types of loans may have either fixed or floating rates. The majority are floating. Risks

associated with non-residential loans include the decline in value of commercial property values; economic conditions surrounding commercial real estate properties; and vacancy rates. The repayment of single-family residential mortgage loans is generally dependent upon the income of the borrower from other sources; however, declines in the underlying property value may create risk in these loans.

Consumer loans represented the remainder of the loan portfolio at December 31, 1998, comprising 6.6 percent of the loan portfolio compared to 7.0 percent of total loans at December 31, 1997. This category includes traditional Consumer loans, Home Equity Lines of Credit, and Visa Card loans. Consumer loans are generally secured by third trust deeds on single-family residences or personal property, while Visa Cards are unsecured.

RISK ELEMENTS AND CONCENTRATIONS

The Company assesses and manages credit risk on an ongoing basis through stringent credit review and approval policies, extensive internal monitoring and established formal lending policies. Additionally, the Bank contracts with an outside loan review consultant to periodically grade new loans and to review the existing loan portfolio. Management believes its ability to identify and assess risk and return characteristics of the Company's loan

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portfolio are critical for profitability and growth. Management strives to continue the historically low level of credit losses by continuing its emphasis on credit quality in the loan approval process, active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan review and grading system that functions to continually assess the credit risk inherent in the loan portfolio. Additionally, management believes its ability to manage portfolio credit risk is enhanced by the knowledge of the Bank's service area by the lending personnel and Board of Directors.

Generally, loans are secured by various forms of collateral. The loans are expected to be repaid from income of the borrower or with proceeds from the sale of assets securing the loans. The Company's loan policy requires sufficient collateral to meet the Company's relative risk criteria for each borrower. The Company's collateral mainly consists of real estate, cash, accounts receivable, inventory and other financial instruments. The Company either maintains possession of the collateral in safekeeping or perfects a security interest with the State of California. The Company's largest concentration of loans based on collateral is in real estate mortgages, including commercial real estate, and real estate construction lending. A significant portion of its customers' ability to repay these loans is dependent upon the economic sectors of residential real estate development and construction. If a significant decline in real estate property values were to occur in Fresno County, loans associated with these collateral types could become impaired as to their full collectability should default occur.

The Company does not believe there to be any concentration of loans in excess of 10 percent of total loans, other than those disclosed above, which would be significantly impacted by economic or other conditions. For further discussion of the impact of California economic conditions upon the loan portfolio, see "Allowance for Credit Losses" below.

NONPERFORMING LOANS

The Company's current policy is to cease accruing interest when a loan becomes 90-days past due as to principal or interest; when the full, timely collection of interest or principal becomes uncertain; or when a portion of the principal balance has been charged off, unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, the accrued and uncollected interest receivable is reversed and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement or when the loan is both well secured and in process of collection.

At December 31, 1998, nonaccrual loans totaled $1.2 million or .79 percent of total loans, compared to $1.7 million or 1.34 percent at December 31, 1997, and $3.3 million or 3.23 percent at December 31, 1996. The decrease in total nonaccrual loans was primarily the result of the Company's divestiture of RSC's real estate development assets including loans made by RSC to facilitate the divestiture of partnership properties. As of December 31, 1998, RSC had no loans outstanding. Of the total nonaccrual loans at December 31, 1997, $1.1 million represented loans RSC had made to facilitate the sale of former partnerships.

Of the nonaccrual loans at December 31, 1998, $831,000 represented the portion of SBA loans that are guaranteed by the SBA. Beginning in 1997, the SBA changed the requirements for banks originating SBA loans, which are subsequently sold in the secondary market. Under the current requirement, if a borrower defaults on a SBA guaranteed loan, the originating bank is required to buy the guaranteed portion back and hold it in its portfolio until collection efforts are exhausted. While this guaranteed portion is backed by the full faith and credit of the U.S. government and poses little risk of loss to the Bank, the Bank does incur loss of the use of the funds while awaiting payoff from the SBA or other loan collateral. Expense from the loss of use of the funds is expected to be minimal; however, due to this requirement it is expected that the Bank's SBA non-accrual loan levels will be slightly higher than in prior years.

The gross interest income that would have been recorded for loans placed on nonaccrual status was $103,000, $254,000 and $276,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The following table reflects the dollar value of various nonperforming assets, allowance for credit losses, assets and loans, as well

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as various nonperforming asset ratios as of December 31, 1998, 1997, 1996, 1995 and 1994, respectively.

(In thousands, except percentages)	1998	1997	1996	1995	1994
NONPERFORMING ASSETS:					
Nonaccrual RSC loans	$-	$ 1,138	$ 3,250	$505	$-
Nonaccrual Bank loans	1,197	598	51	76	391
Nonperforming loans	1,197	1,736	3,301	581	391
Other real estate owned	684	503	437	341	299
Total nonperforming assets	1,881	2,239	3,738	922	690
Accruing loans 90 days past due	16	48	19	725	58
Total loans before allowance for losses	$151,151	$ 129,635	$102,303	$97,137	$91,130
Total assets	231,967	198,241	181,058	163,682	155,802
Allowance for possible credit losses	(2,631)	(2,219)	(1,615)	(1,784)	(1,541)
RATIOS:					
Nonperforming loans to total loans	.79%	1.34%	3.23%	.60%	.43%
Nonperforming loans to total loans (excluding RSC loans)	.79%	.46%	.05%	.08%	.43%
Nonperforming assets to:					
Total loans	1.24%	1.73%	3.65%	.95%	.76%
Total loans and OREO	1.24%	1.73%	3.64%	.95%	.75%
Total assets	.81%	1.13%	2.06%	.56%	44%
Allowance for possible credit losses to total nonperforming assets	139.91%	99.11%	43.20%	193.5%	223.3%
Allowance for possible credit losses to loans	1.74%	1.71%	1.58%	1.85%	1.69%

Management is not aware of any potential problem loans which were accruing and current at December 31, 1998, where serious doubt exists as to the ability of the borrower to comply with present repayment terms.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses reflects management's judgment as to the level which is considered adequate to absorb potential losses inherent in the loan portfolio. This allowance is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Management determines an appropriate provision based on information currently available to analyze credit loss potential, including: (1) the loan portfolio growth in the period; (2) a comprehensive grading and review of new and existing loans outstanding; (3) actual previous charge-offs; and (4) changes in economic conditions.

For the year ended December 31, 1998, the Company had net recoveries of $37,000 or (.03) percent of average loans. The net recoveries in 1998 were the result of net charge-offs of $105,000 on the Bank's loan portfolio, offset by recoveries of $142,000 on RSC's loan portfolio. During 1997, net charge-offs totaled $749,000 with $148,000 in net charge-offs attributable to the Bank and $601,000 attributable to RSC's real estate development divestiture activities. Net charge-offs during 1996 were $169,000.

The following table reflects loan charge-off and recovery activity for the Bank and RSC respectively, as well as on a consolidated basis, for the years indicated:

(In thousands)	1998	1997	1996	1995	1994
Charge-offs:					
Bank	$(217)	$(294)	$(258)	$(265)	$(313)
RSC	-	(601)	-	-	-
Total charge-offs	(217)	(895)	(258)	(265)	(313)
Recoveries:					
Bank	112	146	89	38	29
RSC	142	-	-	-	-

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Total recoveries	254	146	89	38	29
Net charge-offs					
Bank	(105)	(148)	(169)	(227)	(284)
RSC	142	(601)	-	-	-
Total net recoveries (charge-offs)	$ 37	$(749)	$(169)	$(227)	$(284)
Net recoveries (charge-offs) to average loans outstanding					
Bank Only	.08%	.14%	.17%	.24%	.34%
Total	(.03%)	.66%	.17%	.24%	.34%

</TABLE>

The Company's allowance for credit losses totaled $2.6 million or 1.74 percent of total loans at December 31, 1998, compared to $2.2 million or 1.71 percent of total loans at December 31, 1997, and $1.6 million or 1.58 percent at December 31, 1996. It is the policy of management to maintain the allowance for credit losses at a level deemed adequate for known and currently anticipated future risks inherent in the loan portfolio. Based on information currently available to analyze credit loss potential, including economic factors, overall credit quality, historical delinquency and a history of actual charge-offs, management believes that the credit loss provision and allowance is adequate. However, no prediction of the ultimate level of loans charged-off in future years can be made with any certainty.

Although management is of the opinion that the allowance for credit losses is maintained at an adequate level for known and currently anticipated future risks inherent in the loan portfolio, the Fresno economy and its real estate market remain important factors when assessing risk. The Bank's loan portfolio could be adversely affected if economic conditions and the real estate market in the Bank's market area deteriorate. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and OREO and the level of the allowance for credit losses, which could adversely affect the Company's and the Bank's future growth and profitability.

Following is a table presenting the activity within the Company's allowance for credit losses for the period between December 31, 1994 and December 31, 1998.

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance, (beginning of year)	$ 2,219	$ 1,615	$ 1,784	$ 1,541	$ 1,338
Provision charged to expense	375	1,353	-	470	487
Charge-offs:					
Commercial	(118)	(132)	(193)	(211)	(259)
Real estate construction	(64)	(663)	-	(8)	-
Real estate mortgage	-	-	-	-	-
Consumer and other	(35)	(100)	(65)	(46)	(54)
Total Charge-offs	(217)	(895)	(258)	(265)	(313)
Recoveries:					
Commercial	40	122	76	37	27
Real Estate construction	203	-	-	-	2
Real estate mortgage	-	-	-	-	-
Consumer and other	11	24	13	1	-
Total Recoveries	254	146	89	38	29
Net recoveries (charge-offs)	37	(749)	(169)	(227)	(284)
Balance, (end of year)	$ 2,631	$ 2,219	$ 1,615	$ 1,784	$ 1,541
Net (recoveries) charge-offs to average loans outstanding	(.03%)	.66%	.17%	.24%	.34%

</TABLE>

The following table represents the allocation of the allowance for loan losses for the period between December 31, 1994 and December 31, 1998.

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<TABLE>
<CAPTION>

(In thousands, except percentages)	1998 Amount	1998 Percent of loans in each category to total loans	1997 Amount	1997 Percent of loans in each category to total loans	1996 Amount	1996 Percent of loans in each category to total loans	1995 Amount	1995 Percent of loans in each category to total loans	1994 Amount	1994 Percent of loans in each category to total loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 1,301	65.7%	$ 1,184	58.3%	$ 1,069	55.4%	$ 1,005	55.7%	$ 1,001	50.3%
Real estate construction	126	16.7%	506	23.2%	208	23.1%	215	24.4%	135	32.4%
Real estate mortgage	151	11.0%	121	11.5%	100	12.9%	78	10.7%	65	10.1%
Consumer and other	247	6.6%	226	7.0%	238	8.6%	221	9.2%	184	7.2%
Unallocated	806	-	182	-	-	-	265	-	156	-
Total	$ 2,631	100.0%	$ 2,219	100.0%	$ 1,615	100.0%	$ 1,784	100.0%	$ 1,541	100.0%

</TABLE>

DEPOSITS AND SHORT TERM BORROWINGS

Deposits represent the Bank's primary source of funds for investment. Deposits are primarily core deposits in that they are demand, savings, and time deposits generated from local businesses and individuals. These sources are considered to be relatively more stable, long-term deposit relationships thereby enhancing steady growth of the deposit base without major fluctuations in overall deposit balances. The Bank normally experiences a seasonal decline in deposits in the first quarter of each year. In order to assist in meeting its funding needs, the Bank maintains a Fed Funds line with a correspondent bank in the amount of $5.0 million. During 1998, the Bank applied for, and was accepted as a member of the Federal Home Loan Bank of San Francisco (the " FHLB"). At December 31, 1998, the Bank held stock in the FHLB which would allow the Bank to borrow up to $11.5 million using various loans or securities as collateral. In addition to these borrowing methods, the Bank from time to time uses its investment portfolio to raise funds through repurchase agreements. The Bank may, from time to time, obtain additional deposits through the use of brokered time deposits. As of December 31, 1998, the Bank held no institutional brokered time deposits. For more information on deposits and other short term borrowings, see Notes 6 and 7 to the consolidated financial statements.

The following table presents the composition of the deposit mix at December 31, 1994, through December 31, 1998, respectively.

<TABLE>
<CAPTION>

(In thousands, except percentages)	1998 Amount	1998 Percent	1997 Amount	1997 Percent	1996 Amount	1996 Percent	1995 Amount	1995 Percent	1994 Amount	1994 Percent
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
DEPOSITS:										
Noninterest-bearing	$ 54,236	26.2%	$ 46,744	26.5%	$ 36,613	22.9%	$ 32,672	22.7%	$ 30,589	22.2%
Interest-bearing deposits	101,342	49.1%	85,114	48.3%	73,391	45.9%	75,539	52.6%	72,615	52.7%
Time under $100,000	17,682	8.6%	15,778	9.0%	19,032	11.9%	12,229	8.5%	12,852	9.3%
Time over $100,000	33,377	16.1%	28,643	16.2%	30,766	19.3%	23,305	16.2%	21,833	15.8%
Total interest-bearing deposits	152,401	73.8%	129,535	73.5%	123,189	77.1%	111,073	77.3%	107,300	77.8%
TOTAL DEPOSITS	$206,637	100%	$176,279	100%	$159,802	100%	$143,745	100%	$137,889	100%

</TABLE>

The following table represents maturities of time deposits of $100,000 or more at December 31, 1998.

<TABLE>

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<CAPTION>

(In thousands)	Three Months Or Less	Over Three Though Twelve Months	Over Twelve Months	Total
<S>	<C>	<C>	<C>	<C>
Maturities of Time Deposits Greater Than $100,000	$ 15,945	$ 12,480	$ 4,952	$ 33,377

</TABLE>

CAPITAL RESOURCES

The Company and Bank are subject to various minimum capital requirements as defined by regulation. For further discussion of the requirements see "Item 1- Supervision and Regulation", of this report. The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management. The Company's capital position represents the level of capital available to support continued operations and expansion. The Company's primary capital resource is shareholders' equity, which increased $3.7 million or 19.8 percent from the previous year-end and increased $9.0 million or 66.7 percent from December 31, 1996. The ratio of total risk-based capital to risk-adjusted assets was 16.14 percent at December 31, 1998, compared to 13.87 percent at December 31, 1997. Tier 1 risk-based capital to risk-adjusted assets was 14.89 percent at December 31, 1998, compared to 12.62 percent at December 31, 1997.

The Board of Governors of the Federal Reserve System and other federal banking agencies have adopted risk-based capital guidelines for evaluating the capital adequacy of bank holding companies and banks. The guidelines are designed to make capital requirements sensitive to differences in risk profiles among banking organizations, to take into account off-balance sheet exposures and to aid in making the definition of bank capital uniform internationally. Under the guidelines, the Company and the Bank are required to maintain capital equal to at least 8.0 percent of its assets and commitments to extend credit, weighted by risk, of which at least 4.0 percent, must consist primarily of common equity (including retained earnings) and the remainder may consist of subordinated debt, cumulative preferred stock, or a limited amount of loan loss reserves. Assets, commitments to extend credit and off-balance sheet items are categorized according to risk and certain assets considered to present less risk than other permit maintenance of capital at less than the 8 percent ratio.

The guidelines establish two categories of qualifying capital: Tier 1 capital comprising core capital elements and Tier 2 comprising supplementary capital requirements. At least one-half of the required capital must be maintained in the form of Tier 1 capital. Tier 1 capital includes common shareholder's equity and qualifying perpetual preferred stock less intangible assets and certain other adjustments. However, no more than 25 percent of the Company's total Tier 1 capital may consist of perpetual preferred stock. The definition of Tier 1 capital for the Bank is the same, except that perpetual preferred stock may be included only if it is noncumulative. Tier 2 capital includes, among other items, limited life (and in the case of banks, cumulative) preferred stock, mandatory convertible securities, subordinated debt and a limited amount of reserves for credit losses. Effective October 1, 1998 the Board of Governors and other federal bank regulatory agencies approved including Tier 2 capital up to 45 percent of the pretax net unrealized gains on certain available-for-sale equity securities having readily determinable fair values (i.e. the excess, if any, of fair market value over the book value or historical cost of the investment security). The federal regulatory agencies reserve the right to exclude all or a portion of the unrealized gains upon a determination that the equity securities are not prudently valued. Unrealized gains and losses on other types of assets, such as bank premises and available-for-sale debt securities, are not included in Tier 2 capital, but may be taken into account in the evaluation of overall capital adequacy and net unrealized losses on available-for-sale equity securities will continue to be deducted from Tier 1 capital as a cushion against risk.

The Board of Governors and other federal banking agencies have adopted a revised minimum leverage ratio for bank holding companies as a supplement to the risk-weighted capital

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guidelines. The old rule established a 3 percent minimum leverage standard for well-run banking organizations (bank holding companies and banks) with diversified risk profiles. Banking organizations which did not exhibit such characteristics or had greater risk due to significant growth, among other factors, were required to maintain a minimum leverage ratio 1 percent to 2 percent higher. The old rule did not take into account the implementation of the market risk capital measure set forth in the federal regulatory agency capital adequacy guidelines. The revised leverage ratio establishes a minimum Tier 1 ratio of 3 percent (Tier 1 capital to total assets) for the highest rated bank holding companies or those that have implemented the risk-based capital market risk measure. All other bank holding companies must maintain a minimum Tier 1 leverage ratio of 4 percent higher leverage capital ratios required for bank holding companies that have significant financial and/or operational weaknesses, a high risk profile, or are undergoing or anticipating rapid growth. The old rule remains in effect for banks, however, the federal regulatory agencies are currently continuing work on a revised leverage rule for banks.

On December 19, 1991, President Bush signed the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). The Board of Governors and other federal banking agencies adopted regulations effective December 19, 1992, implementing a system of prompt corrective action pursuant to Section 38 of the Federal Deposit Insurance Act and Section 131 of the FDICIA. The regulations establish five capital categories with the following characteristics: (1) "Well capitalized" - consisting of institutions with a total risk-based capital ratio of 10 percent or greater, a Tier 1 risk-based capital ratio of 6 percent or greater and a leverage ratio of 5 percent or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive; (2) "Adequately capitalized" - consisting of institutions with a total risk-based capital ratio of 8 percent or greater, a Tier 1 risk-based capital ratio of 4 percent or greater and a leverage ratio of 4 percent or greater, and the institution does not meet the definition of a "well capitalized" institution; (3) "Undercapitalized" - consisting of institutions with a total risk-based capital ratio less than 8 percent, a Tier 1 risk-based capital ratio of less than 4 percent, or a leverage ratio of less than 4 percent; (4) "Significantly undercapitalized" - consisting of institutions with a total risk-based capital ratio of less than 6 percent, a Tier 1 risk-based capital ratio of less than 3 percent, or a leverage ratio of less than 3 percent; (5) "Critically undercapitalized" - consisting of an institution with a ratio of tangible equity to total assets that is equal to or less than 2 percent.

Financial institutions classified as undercapitalized or below are subject to various limitations including, among other matters, certain supervisory actions by bank regulatory authorities and restrictions related to (a) growth of assets, (b) payment of interest on subordinated indebtedness, (c) payment of dividends or other capital distributions, and (d) payment of management fees to a parent holding company. The FDICIA requires the bank regulatory authorities to initiate corrective action regarding financial institutions which fail to meet minimum capital requirements. Such action may be taken in order to, among other matters, augment capital and reduce total assets. Critically undercapitalized financial institutions may also be subject to appointment of a receiver or conservator unless the financial institution submits an adequate capitalization plan.

The following tables reflect the Company's and Bank's capital amounts (in thousands) and ratios for the periods presented and applicable regulatory capital requirements for such periods:

<TABLE>
<CAPTION>

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES:		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS:	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AS OF DECEMBER 31, 1998						
Total Capital (to Risk Weighted Assets):						
Company	$22,814	16.14%	>=$11,309	>=8.00%	N/A	
Regency Bank	$20,047	14.16%	>=$11,327	>=8.00%	>=$ 14,159	>=10.00%
Tier 1 Capital (to Risk Weighted Assets):						

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Company	$ 21,042	14.89%	>=$ 5,654	>=4.00%	N/A	
Regency Bank	$ 18,266	12.90%	>=$ 5,664	>=4.00%	>=$ 8,495	>= 6.00%
Tier 1 Capital (to Average Assets):						
Company	$ 21,042	9.22%	>=$ 9,128	>=4.00%	N/A	
Regency Bank	$ 18,266	8.02%	>=$ 9,108	>=4.00%	>=$ 11,385	>= 5.00%

</TABLE>

<TABLE>
<CAPTION>

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES:		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS:	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AS OF DECEMBER 31, 1997						
Total Capital (to Risk Weighted Assets):						
Company	$18,779	13.87%	>=$10,828	>=8.00%	N/A	
Regency Bank	$16,003	11.79%	>=$10,860	>=8.00%	>=$ 13,576	>=10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Company	$ 17,081	12.62%	>=$ 5,414	>=4.00%	N/A	
Regency Bank	$ 14,300	10.53%	>=$ 5,430	>=4.00%	>=$ 8,145	>= 6.00%
Tier 1 Capital (to Average Assets):						
Company	$ 17,081	8.89%	>=$ 7,686	>=4.00%	N/A	
Regency Bank	$ 14,300	7.46%	>=$ 7,663	>=4.00%	>=$ 9,579	>= 5.00%

</TABLE>

The risk-based capital ratios increased in 1998 as the increase in equity outpaced the growth in total assets. Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Company's future needs. All ratios are in excess of the regulatory definition of "well capitalized."

INFLATION

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing or other commercial concerns, primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company indirectly through its effect on the ability of its customers to repay loans, or its impact on market rates of interest, and thus the ability of the Bank to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand, and potentially adversely affects the Company's capital adequacy because loan growth in inflationary periods may increase more rapidly than capital. Interest rates in

particular are significantly affected by inflation, but neither the timing nor the magnitude of the changes coincides with changes in the Consumer Price Index, which is one of the indicators used to measure the rate of inflation. Adjustments in interest rates may be delayed because of the possible imposition of regulatory constraints. In addition to its effects on interest rates, inflation directly affects the Company by increasing the Company's operating expenses. The effect of inflation during the three-year period ended December 31, 1998 has not been significant to the Company's financial position or results of operations.

OTHER MATTERS

As discussed in the Company's annual report on Form 10-K for the year ended December 31, 1997, during the fourth quarter of 1997, the Bank's Board of Directors consented to administrative orders issued by the FDIC and CDFI. As reported in the Company's quarterly report on Form 10-Q for the period ended September 30, 1998, during the third quarter of 1998, the Bank received written notice from the FDIC and CDFI that both orders had been "terminated" and removed in their entirety.

YEAR 2000 READINESS DISCLOSURE

The inability of most computers, software and other equipment utilizing microprocessors to distinguish the year 1900 from the year 2000 poses

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substantial risks to all financial institutions including the Company. The year 2000 problem is pervasive and complex. Virtually every financial institution service provider and vendor will have their computing operations affected in some way by the rollover of the two-digit year value to 00 if action is not taken to fix the problem before the year 2000 arrives.

In 1997, the Company initiated a five-phase plan ("Plan") which includes awareness, assessment, renovation, validation, and implementation. The Company's Year 2000 Plan addresses the issues associated with the proper functioning of the Company's computer hardware and software systems before, at, and after the turn of the century and other date-related systems issues. The scope of the project covers all computer systems including PC and network hardware and software, and mainframe and mainframe software. It also covers all equipment and other systems utilized in the bank operations or in the premises from which the Company operates. The Company is using the Year 2000 milestones established to date by the Federal Financial Institutions Examination Council (FFIEC) to benchmark and gauge its progress.

Awareness and Assessment Phases - The Company completed the Awareness and Assessment Phases, as defined by the FFIEC, for its mission critical systems and facilities in 1997 and continues to update its assessment as needed. Non-mission critical systems have also been identified and assessed as to Y2K readiness and plans and timelines for renovation of both mission critical and non-mission critical systems have been prepared. Management of the Company reports regularly to the Board of Directors on its Year 2000 efforts.

Renovation Phase - The FFIEC guideline date for institutions to substantially complete program changes and system upgrades for mission critical systems was December 31, 1998. By that date, the Company had completed repairs, upgrades, or replacements of all hardware and software components with the exception of one software program supplied by a third party to RIA, the company's investment advisory subsidiary. The Company expects this one remaining system to be Year 2000 ready in June of 1999 upon receipt and installation of its scheduled

software release. In addition to mission critical systems and applications, the Company has completed redemption of all non-mission critical systems as of December 31, 1998.

Validation and Implementation Phases - To reduce the possibility of unexpected failure of the Company's systems during and after the century date change, which could have an impact on the Company and its customers, the Company continues to test its systems in accordance with a testing strategy and plan developed in 1998.

The FFIEC guideline date for institutions to begin testing their mission critical applications and systems was September 1, 1998. During March 1998, the Company began testing various mission critical and non-mission critical systems. By December 31, 1998, the Company had substantially completed this testing, including both remediated systems and systems presumed to be Year 2000 compliant. As a key part of the validation phase, the computer software that operates the Bank's main customer and accounting system, the "Fiserv CBS System," was thoroughly tested by Fiserv. Fiserv is one of the largest providers of bank computer software nationwide. In addition to Fiserv's efforts, the Bank has conducted additional testing of all components of the software through January 3, 2001, and has detected no Year 2000 problems. All of the systems referred to above have been implemented (i.e., placed into a production environment). All mission critical systems will continue to be monitored and tested throughout 1999 as releases of enhanced software become available.

Business Partner Relationships - As part of the Company's Plan, all third party suppliers and service providers have been contacted and assessed as to their Year 2000 preparedness. If their reliability cannot be reasonably assured, alternative vendors, suppliers and other contingency plans have been, or are, being prepared. In addition, the Bank has communicated with its large borrowers and major vendors upon which it relies to determine the extent to which the Company might be vulnerable if those third parties fail to resolve their Year 2000 issues. Borrowers or large deposit customers are being categorized based upon risk and are monitored on a regular basis. If a borrowing customer is determined to have significant Year 2000 exposure that may impair the quality or collectability of its loan, reserves for potential losses resulting from such Year 2000 exposures are established accordingly.

Because the Company recognizes that its business and operations could be adversely affected if key business partners fail to achieve timely Year 2000 compliance, the Company is evaluating strategies to manage and mitigate the risk to the Company of their Year 2000 failures. However, although the Company is establishing reasonable safeguards, there can be no assurance that all key business partners will adequately address their Year 2000 issues. Therefore, failures of third parties to adequately address their Year 2000 issues could adversely affect the business and operations of the Company.

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Contingency Plans - FFIEC guidelines indicate that contingency plans covering mission critical systems in the event of Year 2000 problems are a prudent business practice. The Company has developed high level contingency plans for applications and systems used by the Bank and RIA that are deemed mission critical as well as plans to cover many non-mission critical applications and systems.

The contingency, or business resumption plan, is based on a review of various emergency scenarios ranging from the Year 2000 failure of a single software or hardware component to the total loss of systems and applications should large-scale power or communications failures occur.

The Company expects to have these plans substantially complete by June 30, 1999. Because business resumption planning is a dynamic process, the Company expects to further refine and test these plans throughout 1999. As part of the contingency planning process, the Company intends to take reasonable steps to mitigate foreseeable and significant risks that can be identified should key business partners fail to be Year 2000 compliant. The Bank's contingency planning includes risk management options to insure adequate liquidity availability for the Bank and its customers should the need arise.

Costs to Address Year 2000 Issues - The majority of costs associated with the Company's Year 2000 preparedness efforts have been associated with the use of existing staff to prepare, test and confirm the components of the plan. In some cases, third parties have been used to assist with planning and testing and certain new software and hardware products have been procured. The majority of these costs would have been incurred in the normal course of business as the company regularly upgrades its various systems in an effort to more efficiently and effectively serve its clientele and conduct its operations. The Company incurred costs of approximately $75,000 in 1998 related to the use of third party consultants and other extraordinary Year 2000 expenses and expects to expend a similar amount in 1999. The costs incurred in 1998 did not have a material effect on the Company's net income for 1998, and the Company does not expect the costs that will be incurred in 1999 to have a material impact on the Company's net income for 1999.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISK

The financial services industry in general and the banking industry specifically encompass various forms and degrees of risk. As the primary source of business, the intermediation of funds presents various degrees and types of risk, which can be managed and controlled, however, can never be completely eliminated. Management of the Company and its' Board of Directors have established a framework of policies and procedures to manage risk by identifying, measuring, monitoring, and controlling the risks involved in the various products and lines of business of the Company.

Market risks comprise several of the risk factors encompassed in the Company's risk management policy/program. Market risk is described as the risk to a financial institution's condition resulting from adverse movements in market rates or prices, such as interest rates, foreign exchange rates, or equity prices. Further description of these components include:

Interest rate risk is the risk to earnings or capital arising from movements in interest rates. The economic perspective focuses on a bank's value given the current interest rate environment and sensitivity of that value to changes in interest rates. Interest rate risk arises from the following: repricing risk differences between the timing of rate changes and the timing of cash flows; basis risk - changing rate relationships among different yield curves affecting bank activities; yield curve risk - changing rate relationships across the spectrum of maturities; options risk - interest-related options embedded in bank products. The Company manages interest rate risk through a comprehensive asset/liability policy.

Price risk is the risk to earnings or capital arising from changes in the value of portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking activities for interest rate, foreign exchange, equity, and commodity markets. Price risk focuses on the changes in market factors (e.g., interest rates, market liquidity, volatilities, etc.) that affect traded instruments. The primary accounts affected by price risk are the ones revalued for financial presentation. The Company does not engage in trading activities and as a result does not have exposure to price risk due to market-making, dealing, and position-taking activities for interest

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rate, foreign exchange, equity, and commodity markets. Some price risk is inherent in the Company's balance sheet based upon changes in interest rates, market liquidity and volatilities. These risks are managed under the Company's investment policy, and secondarily, by the asset/liability and liquidity policies.

Foreign exchange risk a.k.a. transfer risk is the risk to earnings or capital arising from movement of foreign exchange rates. It arises from accrual accounts denominated in foreign currency, including loans, deposits, and equity investments (i.e., cross-border investing). Under GAAP foreign-denominated accounts are periodically revalued into U.S. dollar terms. This periodic revaluation may reveal changes in the value of the investment related to the relative value of the local currency versus the U.S. dollar. The Company does not engage in foreign exchange trading or cross-border investing and has no foreign exchange exposure as of December 31, 1998.

Liquidity risk is the risk to earnings or capital resulting from the bank's inability to meet its obligations when they come due, without incurring unacceptable losses, and includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from a failure to recognize or address changes in market conditions that affect the bank's ability to liquidate assets quickly and with minimal loss in value. The Company manages liquidity risk through the Bank's asset/liability and liquidity policies.

ASSET AND LIABILITY MANAGEMENT

The Company's asset/liability management policy is designed to ensure that the Bank is managed to provide adequate liquidity, maintain adequate capital, and, provide a satisfactory and consistent level of profits, within suitable interest rate risk constraints. Generally, asset-liability ("A/L") management is a comprehensive integrated process for overall financial management. The major purpose of A/L management is to ensure that the Bank's primary financial objectives; profitability, capital adequacy, risk tolerance, and liquidity are achieved.

Through A/L management, the Bank develops a methodology, which can be used to optimize the critical risk/return tradeoff that the institution faces in pricing, maturity selection, funds allocation, and other decisions every day. Doing so will result in earnings which are adequate and consistent, thereby enabling the achievement of profitability and risk objectives.

The primary capital objective is capital preservation, which is achieved by controlling interest rate and credit-related risk exposure, and by the retention of ongoing earnings. The Bank will also strive to ensure that each dollar of capital is optimally leveraged. The Bank's A/L management program consists of four major disciplines; interest rate risk management, net interest margin/spread management, capital management, and liquidity management

The formal integration of these inter-related areas into an effective A/L management program that includes a process of planning, organizing, and controlling all of the Bank's financial resources will enable the Bank to achieve a planned net interest margin over time within acceptable risk levels.

INTEREST RATE RISK

As a financial institution, the Company's most significant market risk factor is interest rate risk. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest earning assets, other than those which possess a short term to maturity. Since all of the Company's interest bearing liabilities and virtually all of the Company's interest earning assets are located at the Bank, virtually all of the Company's interest rate risk exposure lies at the Bank level. As a result, all significant interest rate risk management procedures are performed at the Bank level.

One approach to quantify interest rate risk is to use a simulation model to project changes in net interest income that result from forecast changes in interest rates. The primary analytical tool used by the Company to gauge interest rate sensitivity is a simulation model used by many banks and bank regulators. This industry standard model is used to simulate, based on the current and projected portfolio mix, the effects on net interest income of changes in market interest rates. This analysis calculates the difference between a net interest income forecast over a 12-month period using a flat interest rate scenario and a net interest income forecast using a rising (or falling) rate scenario, where the National Prime rate, serving as a "driver" is made to rise (or fall) by 200 basis points over the 12-month forecast interval triggering a response in the other rates. According to the Company's policy, the simulated changes in net interest income should always be less the 12.5 percent or steps must be taken to reduce interest rate risk. Various strategies the Bank will use to adjust its exposure to interest rate risk include: lengthen/shorten asset maturities; lengthen/shorten liability maturities; new product

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introductions; secondary marketing/sell newly originated assets; and growth/contraction (overall). As can be seen from the results of the following interest rate sensitivity analysis matrix, the simulated change in net interest income, based on the 12-month period ending December 31, 1999, fall well within the 12.5 percent risk limit. (In thousands)

<TABLE>
<CAPTION>

Interest Rate Sensitivity Analysis Matrix

Change in Driver Rate	Net Interest Income	Change $	Change %
<S>	<C>	<C>	
+2.000	16,543	1,617	10.83%
+1.000	15,733	807	5.41%
0.000	14,926	0	0.00%
-1.000	14,121	-805	-5.39%
-2.000	13,318	-1,607	-10.77%

</TABLE>

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

INTEREST RATE SENSITIVITY AND GAP ANALYSIS

It is management's objective to maintain stability in the net interest margin in times of fluctuating interest rates by maintaining an appropriate mix of interest sensitive assets and liabilities. Generally, if assets and liabilities do not reprice simultaneously and in equal volumes, the potential for interest rate risk exposure exists. To achieve this goal, the Bank prices the majority of its interest bearing liabilities at variable rates. At the same time, the majority of its interest-earning assets are also priced at variable rates. This pricing structure tends to stabilize the net interest margin percentage achieved by the Bank.

The following table sets forth the interest rate sensitivity and repricing schedule of the Company's interest-earning assets and interest-bearing liabilities, the interest rate sensitivity gap, the cumulative interest rate sensitivity gap, and the cumulative interest rate sensitivity gap ratio.

<TABLE>
<CAPTION>

(In thousands, except percentages) As of December 31, 1998	Immediately or Within Three Months	After Three Months But Within 12 Months	After One Year But Within Five Years	After Five Years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Interest Rate Sensitivity Gap:					
Loans (1)	$ 105,140	$22,204	$11,754	$10,856	$149,954
Investment securities and other	12,433	5,631	1,869	26,678	46,611
Federal funds sold	5,000	-	-	-	5,000
Total interest-earning assets	$ 122,573	$27,835	$13,623	$37,534	$201,565
Interest-bearing transaction accounts	54,878	-	-	-	54,878
Savings accounts	46,464	-	-	-	46,464
Time deposits	22,092	19,695	9,272	-	51,059
Total interest-bearing liabilities	$123,434	$19,695	$ 9,272	$ -	$152,401
Interest rate sensitivity gap	$ (861)	$ 8,140	$ 4,351	$ 37,534	
Cumulative gap	$ (861)	$ 7,279	$ 11,630	$ 49,164	
Cumulative gap percentage to interest earning assets	-0.43%	3.61%	5.77%	24.39%	

</TABLE>

(1) Amounts exclude nonaccrual loans of $1,197,000.

The table indicates the time periods in which interest-earning assets and interest-bearing liabilities will mature or reprice in accordance with their contractual terms. The table does not necessarily indicate the impact of general

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interest rate movements on the net interest margin since the repricing of various categories of assets and liabilities is subject to competitive pressures. Additionally, this table does not take into consideration changing balances in forward periods as a result of normal amortization, principal paydowns, changes in deposit mix or other such movements of funds as a result of changing interest rate environments.

LIQUIDITY

Liquidity management refers to the Bank's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Bank's liquidity position. Federal Funds lines, short-term investments and securities, and loan repayments contribute to liquidity, along with deposit increases, while loan funding and deposit withdrawals decrease liquidity. The Bank assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. The Bank maintains lines of credit and other wholesale funding sources as described above. Additionally, the Bank maintains a portfolio of SBA loans either available-for-sale or in its portfolio that could be sold should additional liquidity be required.

The Company generated significant liquidity from its operating activities. In addition to net income in 1998 of $3.7 million, other operating activities provided $4.9 million in additional cash flows for a total of $8.6 million in net cash provided by operating activities. Financing activities, primarily the acceptance of customer deposits, provided additional cash flows. Total cash flows provided by financing activities were $30.4 million as a result of the increase in deposits for 1998. The Company uses cash flows to make investments in loans and investment securities. The increase in loans was $22.1 million in 1998 while investment securities increased by $11.2 million. The Company anticipates increasing its cash levels through the end of 1999 mainly due to increased profitability and retained earnings. For the same period, it is anticipated that the demand for loans will continue to moderately increase. The growth in deposit balances is expected to be sufficient to fund loan growth with excess funds available for investment in securities.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Statements of Shareholders' Equity for each of the years in the three year period ended December 31, 1998	52
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REGENCY BANCORP AND

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SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1998 AND 1997, AND FOR EACH OF THE YEARS IN THE THREE YEAR PERIOD ENDED DECEMBER 31, 1998 AND INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Regency Bancorp:

We have audited the accompanying consolidated balance sheet of Regency Bancorp and subsidiaries as of December 31, 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Regency Bancorp and subsidiaries as of December 31, 1997 and for the years ended December 31, 1997 and 1997, were audited by other auditors whose report dated February 20, 1998, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Regency Bancorp and subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ KPMG LLP

February 5, 1999

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Regency Bancorp
Fresno, California

We have audited the accompanying consolidated balance sheet of Regency Bancorp and subsidiaries, as of December 31, 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years then ended. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Regency Bancorp and subsidiaries as of December 31, 1997, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche

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----
Fresno, California
February 4, 1998

REGENCY BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1998 AND 1997 (IN THOUSANDS, EXCEPT SHARES)	1998	1997
ASSETS		
CASH AND DUE FROM BANKS	$ 20,220	$ 16,893
FEDERAL FUNDS SOLD	5,000	3,000
Cash and cash equivalents	25,220	19,893
INTEREST BEARING DEPOSITS IN OTHER BANKS	869	232
INVESTMENT SECURITIES (Note 2):		
Available-for-sale at fair value (cost of $46,611 and $36,634)	46,990	36,986
NON-MARKETABLE EQUITY SECURITIES (FRB & FHLB Stock), at cost	1,170	-
LOANS, net of allowance for credit losses of $2,631 and $2,219 (Notes 3 and 11)	147,588	126,430
INVESTMENTS IN REAL ESTATE (Note 4)	-	4,338
OTHER REAL ESTATE OWNED	684	503
PREMISES AND EQUIPMENT, net (Note 5)	1,500	1,751
CASH SURRENDER VALUE OF LIFE INSURANCE (Note 9)	3,186	3,038
INTEREST RECEIVABLE, DEFERRED INCOME TAXES AND OTHER ASSETS (Note 8)	4,760	5,070
	$ 231,967	$ 198,241

See notes to consolidated financial statements.

	1998	1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS (Note 6):		
Noninterest bearing deposits	$ 54,236	$ 46,744
Interest bearing deposits	152,401	129,535
Total deposits	206,637	176,279
NOTES PAYABLE AND CAPITAL LEASE OBLIGATION (Note 5)	547	509
ACCRUED INTEREST AND OTHER LIABILITIES (Note 9)	2,334	2,719
Total liabilities	209,518	179,507
COMMITMENTS AND CONTINGENCIES (Notes 3 and 7)		
SHAREHOLDERS' EQUITY (Notes 9, 10 and 13):		
Preferred stock, no par value;		
1,000,000 shares authorized;		

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no shares issued	-	-
Common stock, no par value; 5,000,000 shares authorized, 2,624,374 and 2,621,125 shares outstanding	15,229	15,203
Retained earnings	7,000	3,327
Accumulated other comprehensive income:		
Net unrealized gain on investment securities, net of taxes of $159 and $148	220	204
Total shareholders' equity	22,449	18,734
	$231,967	$198,241

</TABLE>

See notes to consolidated financial statements.

<TABLE>

REGENCY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<S>	<C> 1998	<C> 1997	1996
(In thousands, except per share data) INTEREST INCOME:			
Interest and fees on loans	$ 15,793	$ 12,506	$ 11,255
Interest on investment securities:			
Taxable	2,071	2,163	1,718
Nontaxable	345	165	87
	2,416	2,328	1,805
Other	427	452	167
Total interest income	18,636	15,286	13,227
INTEREST EXPENSE:			
Interest on deposits	5,348	5,241	4,534
Interest on borrowings	104	80	160
Total interest expense	5,452	5,321	4,694
Net interest income	13,184	9,965	8,533
Provision for credit losses	375	1,353	-
Net interest income after provision for credit losses	12,809	8,612	8,533
NONINTEREST INCOME:			
Gain on sale of loans (Note 3)	356	608	1,315
Depositor service charges	500	397	338
Income from investment management services	916	810	682
Gain (loss) on sale of investment securities (Note 2)	15	(19)	-
Gain on sale of premises & equipment	4	252	18
Servicing fees on loans sold	119	329	322
Other	1,052	310	434
Total noninterest income	2,962	2,687	3,109
NONINTEREST EXPENSES:			
Salaries and related benefits (Notes 9 and 11)	5,134	4,782	4,561
Occupancy	1,559	1,639	1,568
FDIC insurance and regulatory assessments	270	120	63
Marketing	475	450	428
Professional services	684	461	749
Directors' fees and expenses	219	270	383
Management fees for real estate projects (Note 11)	-	120	488
Supplies, telephone and postage	312	329	349
(Gain) loss from investments in real estate (Note 4)	(171)	3,973	351
Other	973	1,262	962
Total noninterest expenses	9,455	13,406	9,902
Income (loss) before income tax expense (benefit)	6,316	(2,107)	1,740
Income tax expense (benefit) (Note 8)	2,643	(833)	732
Net income (loss)	$ 3,673	$ (1,274)	$ 1,008
EARNINGS (LOSS) PER COMMON SHARE (Note 10)			
Basic	$ 1.40	$ (0.68)	$ 0.55
Diluted	$ 1.31	$ (0.68)	$ 0.54
SHARES ON WHICH EARNINGS (LOSS) PER COMMON SHARE			

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WERE BASED (Note 10)			
Basic	2,624	1,860	1,818
Diluted	2,800	1,860	1,872

</TABLE>

See notes to consolidated financial statements.

<TABLE>

REGENCY BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (IN THOUSANDS)

	1998		1997		1996	
	SHARE-HOLDERS' EQUITY	COMPRE-HENSIVE INCOME	SHARE-HOLDERS' EQUITY	COMPRE-HENSIVE INCOME	SHARE-HOLDERS' EQUITY	COMPRE-HENSIVE INCOME
<S>	<C>	<C>	<C>	<C>	<C>	
COMMON STOCK - SHARES						
Balance, beginning of period	2,621		1,818		1,818	
Issuance of common stock to employee stock ownership plan (Note 9)	-		36		-	
Issuance of common stock under stock option plan (Note 9)	3		17		-	
Issuance of common stock in private placement captial offering, net of expenses (Note 10)	-		750		-	
Balance, end of period	2,624		2,621		1,818	
COMMON STOCK						
Balance, beginning of period	$ 15,203		$ 8,868		$ 8,868	
Issuance of common stock to employee stock ownership plan (Note 9)	-		333		-	
Issuance of common stock under stock option plan (Note 9)	26		75		-	
Issuance of common stock in private placement captial offering, net of expenses (Note 10)	-		5,927		-	
Balance, end of period	15,229		15,203		8,868	
RETAINED EARNINGS						
Balance, beginning of period	3,327		4,601		4,030	
Net Income (loss)	3,673	$ 3,673	(1,274)	$ (1,274)	1,008	$ 1,008
Common stock dividends	-		-		(437)	
Balance, end of period	7,000		3,327		4,601	
CUMULATIVE OTHER COMPREHENSIVE INCOME						
Balance, beginning of period	204		1		44	
Unrealized gain (loss) on investment securities arising during the period, net of tax (expense) benefit of $(21), $(161) and $31.	31	31	184	184	(43)	(43)
Reclassification adjustment for (gain) loss on sale of securities included in net income, net of tax benefit (expense) of $10, $(13) and $0.	(15)	(15)	19	19	-	-
Balance, end of period	220		204		1	
COMPREHENSIVE INCOME		$ 3,689		$ (1,071)		$ 965
Total shareholders' equity	$ 22,449		$ 18,734		$ 13,470	

</TABLE>

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REGENCY BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996 (IN THOUSANDS)	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (loss)	$ 3,673	$ (1,274)	$ 1,008
Adjustments:			
Provision for credit losses	375	1,353	-
Provision for OREO losses	131	121	-
Depreciation and amortization	504	653	632
Deferred income taxes	372	(428)	827
(Increase) decrease in interest receivable and other assets	(73)	1,209	(1,491)
Increase in surrender value of life insurance	(148)	(135)	(139)
Distributions of income from real estate partnerships	452	232	103
Equity in loss (income) of real estate partnerships	17	436	(151)
Decrease in real estate held for sale	3,869	10,783	7,170
(Decrease) increase in other liabilities	(347)	418	(790)
(Gain) loss on sale of securities	(15)	19	-
Gain on sale of loans held for sale	(356)	(608)	(1,315)
Proceeds from sale of loans held for sale	20,040	18,537	13,908
Additions to loans held for sale	(19,907)	(16,453)	(11,313)
(Gain) loss on sale of premises and equipment and OREO	(2)	11	(1)
Net cash provided by operating activities	8,585	14,874	8,448
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of available-for-sale securities	(43,040)	(21,059)	(21,596)
Proceeds from sales of available-for-sale securities	-	2,353	1,000
Proceeds from maturities of available-for-sale securities	32,995	15,262	18,881
Purchases of non marketable equity securities	(1,170)	-	-
Loan participations purchased	-	-	(1,750)
Loan participations sold	-	2,039	4,842
Net increase in loans	(22,123)	(31,918)	(7,802)
Net (increase) decrease in interest bearing deposits in other banks	(636)	(134)	(95)
Cash received through acquisition of partnerships	-	-	804
Proceeds from sale of OREO	501	208	123
Capital contributions to real estate partnerships	-	-	(397)
Capital distributions from real estate partnerships	-	700	1,012
Purchases of premises and equipment	(178)	(136)	(435)
Proceeds from sale of premises and equipment	10	34	-
Net cash used in investing activities	(33,641)	(32,651)	(5,413)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in time deposits	6,638	(5,377)	14,265
Net increase in other deposits	23,719	21,855	1,791
Cash dividends paid	-	-	(437)
Payments on notes payable	-	(7,155)	(8,131)
Proceeds from notes payable	-	2,179	385
Proceeds from the issuance of common stock under employee stock option plan	26	75	-
Proceeds from the issuance of common stock to employee stock ownership plan	-	333	-
Net proceeds from the issuance of common stock	-	5,927	-
Net cash provided by financing activities	30,383	17,837	7,873
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,327	60	10,908
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,893	19,833	8,925
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 25,220	$ 19,893	$ 19,833

</TABLE>

See notes to consolidated financial statements.

REGENCY BANCORP AND SUBSIDIARIES

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1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The consolidated financial statements include the accounts of Regency Bancorp and its wholly-owned subsidiaries, hereinafter referred to as the ("Company"). Regency Bancorp is a California corporation organized to act as the holding company for Regency Bank ("Bank"), with headquarters and branches in Fresno, a branch in Madera and a loan production office in Modesto, and Regency Investment Advisors Inc. ("RIA") a Securities Exchange Commision ("SEC") registered investment advisor. The Bank has one wholly-owned subsidiary, Regency Service Corporation, a California corporation ("RSC"), that engages in the business of real estate development primarily in the Fresno/Clovis area. Other than its investment in the Bank and RIA, the Company currently conducts no other significant business activities, although it is authorized to engage in a variety of activities which are deemed closely related to the business of banking upon prior approval of the Board of Governors of the Federal Reserve System ("Board of Governors"), the Company's principal regulator. All significant intercompany balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS - The Company operates three bank branches through its bank subsidiary in Fresno, California and one branch in Madera, California. The Bank is a California banking corporation which has served individuals, merchants, small and medium-sized businesses and professionals located in and adjacent to Fresno, California, since 1980. The Bank offers a full range of commercial banking services including the acceptance of demand, savings and time deposits, and the making of commercial, real estate (including real estate construction and residential mortgage), Small Business Administration ("SBA"), personal, home improvement, automobile and other installment and term loans. It also offers Visa credit cards, traveler's checks, safe deposit boxes, notary public, customer courier and other customary bank services. The Bank's primary source of revenue is interest generated by providing loans to customers. Additionally, the Bank generates revenue from the sale and servicing of loans made under government guaranteed programs.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SIGNIFICANT ACCOUNTING POLICIES - The accounting and reporting policies of the Company conform to generally accepted accounting principles and to prevailing practices within the banking industry. The following is a summary of significant policies:

a. CASH AND CASH EQUIVALENTS - The Company considers cash and cash equivalents to include cash, federal funds sold, and other short-term investments consisting of deposits in other banks. Generally, federal funds are sold for one-day periods.

b. INVESTMENT SECURITIES - The Company's investment policy, as established by its investment committee, governs the type and quality of securities in which management may invest with the objective of achieving an optimum balance between credit quality, liquidity and income.

   The Company has classified its investment securities as available-for-sale. These securities are recorded at their fair value. Unrealized gains or losses are included in shareholders' equity, net of tax. Gain or loss on the sale of available-for-sale securities is based on the specific identification method.

c. NON MARKETABLE EQUITY SECURITIES - The Bank became a member of both the Federal Reserve Bank and Federal Home Loan Bank System in 1998 and as such was required to own capital stock of these entities in amounts specified by regulations. At December 31, 1998, the Bank owned 5,749 and 5,912 shares of $100 par value capital stock of the Federal Reserve Bank and Federal Home Loan Bank of San Francisco, respectively.

d. LOANS - Loans are stated at the outstanding unpaid principal balance reduced by any partial charge-offs, valuation allowances and

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nonrefundable fees and related direct costs associated with the origination or purchase of loans. Interest on loans is accrued daily based on outstanding loan balances. The recognition of interest income on a loan is discontinued, and previously accrued interest is reversed, when the payment of interest or principal is ninety days past due, unless the outstanding loan is adequately secured and is in the process of collection. The loan is accounted for thereafter on the cash or cost recovery method until qualifying for return to accrual status.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or as a practical expedient at the loan's observable market rate or the fair value of the collateral if the loan is collateral dependent. Impaired loans are accounted for as loans until foreclosure.

Net deferred fees and costs are generally amortized into interest income over the loan term using a method which approximates the interest method. Other credit-related fees, such as standby letter of credit fees, loan placement fees and annual credit card fees are recognized as noninterest income over the commitment period or over the period the related service is performed.

The Company originates loans to customers under a SBA program that generally provides for guarantees of 75 percent to 90 percent of each loan. Loans held for sale are carried at the lower of cost or estimated market value in the aggregate. Historically, the Company has sold the guaranteed portion of each loan to a third-party and has retained the unguaranteed portion in its own portfolio. The Company allocates basis of the loans sold and the retained portions based upon their relative fair market value. The Company may be required to refund a portion of the sales premium received, if the borrower defaults or the loan prepays within 90 days of the settlement date. At December 31, 1998 and 1997, the Company had received premiums of $12,000 and $104,000, respectively, subject to such recourse.

The Company retains a servicing spread on the sale of SBA guaranteed loans that creates loan servicing income. Under Statement of Financial Accounting Standards ("SFAS") No. 125, which was implemented by the Company as of January 1, 1997, the servicing spread is recognized as a servicing asset to the extent the contractual servicing fee in the loan sale agreement exceeds adequate compensation for the servicing. Servicing spread in excess of the contractual fee, formerly known as excess servicing is recognized as an interest only ("IO") strip. The Company

measures the servicing assets and interest only strip by discounting the respective cash flow for the estimated expected life of the loan. The Company uses prepayment statistics and its own prepayment experience in estimating the expected life of the loans. Both the servicing asset and the interest only strip represent the discounted present values of cash flows that are recorded as loan servicing income. These assets are amortized as an offset to loan servicing income over the estimated expected life of the loans, as well as the capitalized excess servicing in prior years.

SFAS No. 125 requires periodic measurements of the fair value for servicing assets and interest only strips as well as loan prepayment experience. The statement further requires that these assets be stratified by one or more predominant risk characteristics of the underlying loans. The Company stratifies the servicing portfolio by date of origination. Fair value is measured by discounting the respective cash flows for the servicing assets and interest only strips over this remaining period.

At December 31, 1998 and 1997, there was no material difference between the Company's amortized carrying value for servicing assets and their fair value.

The Company measures the fair value of its IO strips following the same stratification and discounted cash flow methods used for servicing assets. The IO strip is treated as a financial asset in substance, similar to an available-for-sale security under SFAS No. 115. Differences between the fair value of the strip and its amortized carrying value are recorded as unrealized gains or losses, and recorded net of the related tax effect as a separate component of shareholders' equity. At December 31, 1998 and 1997, there was no material difference between the carrying value and the fair value of the IO strip.

e. ALLOWANCE FOR CREDIT LOSSES - The allowance for credit losses

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represents management's recognition of the risks assumed when extending credit and its evaluation of the quality of the loan portfolio. The allowance is maintained at a level considered to be adequate for potential credit losses based on management's assessment of various factors affecting the loan portfolio, which include a review of problem loans, business conditions and an overall evaluation of the quality of the portfolio. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. Such agencies may require the Company to recognize additions to the allowance based on their judgement of information available to them at the time of their examination. The allowance is increased by provisions for credit losses charged to operations and reduced by charges to the allowance net of recoveries. Management considers the allowance for credit losses adequate to cover any losses that may be inherent in the loan portfolio.

In evaluating the probability of collection, management is required to make estimates and assumptions that affect the reported amounts of loans, allowance for credit losses and the provision for credit losses charged to operations. Actual results could differ significantly from those estimates.

f. PREMISES AND EQUIPMENT - Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

<TABLE>
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<S>	<C>
Buildings	30 years
Leasehold improvements	Life of the lease
Furniture and equipment	3 - 10 years

</TABLE>

g. LONG LIVED ASSETS - The Company periodically evaluates the carrying value of long-lived assets to be held and used, including goodwill and other intangible assets. Based on such an evaluation, the Company determined that there is no impairment loss to be recognized in 1998 or 1997.

h. OTHER REAL ESTATE OWNED - Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expenses.

i. INVESTMENTS IN REAL ESTATE - Investments in real estate represent RSC's equity interests in real estate development partnerships and certain other real estate holdings held for sale or development. All investments in real estate are valued at net realizable value.

j. INCOME TAXES - The Company files a consolidated federal income tax return and a combined California tax return. Deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities in accordance with SFAS No. 109.

k. NET INCOME (LOSS) PER SHARE - Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average common shares outstanding during the period plus potential common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. For the year ended December 31, 1997, diluted loss per common share is equal to basic loss per common share because the effect of potential common stock under the stock option plan was antidilutive.

l. STOCK-BASED COMPENSATION - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board opinion No. 25, "Accounting for Stock

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Issued to Employees".

m. NEW ACCOUNTING PRONOUNCEMENTS - Statement of Financial Accounting Standards ("SFAS") No. 130 "Reporting Comprehensive Income" was issued in June 1997 and is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components, which included net income and changes in equity during the period except those resulting from investments by, or distributed to stockholders. As of January 1, 1998, the Company adopted the provisions of SFAS No. 130, which have been applied retroactively to all periods presented in these financial statements.

n. RECLASSIFICATIONS - Certain reclassifications have been made to prior year balances to conform to current year classifications.

2. INVESTMENT SECURITIES

Investment securities are comprised of the following (In thousands):

DECEMBER 31, 1998	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
AVAILABLE-FOR-SALE:				
U.S. Treasuries	$ 1,003	$ 5	$ -	$ 1,008
U.S. Government agencies	16,434	72	(38)	16,468
Mortgage-backed securities	17,761	109	(91)	17,779
State and political subdivisions	11,166	344	(22)	11,488
Equity securities	247	-	-	247
	$ 46,611	$ 530	$ (151)	$ 46,990

DECEMBER 31, 1997	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
AVAILABLE-FOR-SALE:				
U.S. Treasuries	$ 2,007	$ 5	$ -	$ 2,012
U.S. Government agencies	17,431	91	(33)	17,489
Mortgage-backed securities	11,541	142	(36)	11,647
State and political subdivisions	5,441	183	-	5,624
Equity securities	214	-	-	214
	$ 36,634	$ 421	$ (69)	$ 36,986

There were no investment securities classified as held-to-maturity or trading at December 31, 1998 or December 31, 1997.

Gross realized gains and losses on sales of available-for-sale securities for the years ended December 31, 1998, 1997 and 1996 are as follows (In thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Gross realized gains	$ 15	$ 21	$ -
Gross realized losses	-	(40)	-

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Net gain (loss)	$ 15	$ (19)	$ -

</TABLE>

Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The amortized cost and fair value of debt securities available for sale at December 31, 1998, by contractual maturity, are shown below. (In thousands):

<TABLE>
<CAPTION>

	AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>
AVAILABLE-FOR-SALE:		
Due in one year or less	$ 1,625	$ 1,633
Due after one year through five years	2,070	2,114
Due after five years through ten years	18,451	18,546
Due after ten years	24,465	24,697
	$ 46,611	$ 46,990

</TABLE>

At December 31, 1998 and 1997, investment securities with cost basis of approximately $2,003,000 and $4,007,000 (market value of $2,015,000 and $4,011,000, respectively), were pledged as collateral to secure public funds and for other purposes as required by law or contract.

3. LOANS

Loans are comprised of the following (In thousands, except percentages):

<TABLE>
<CAPTION>

	DECEMBER 31,			
	1998		1997	
	AMOUNT	PERCENT OF TOTAL LOANS	AMOUNT	PERCENT OF TOTAL LOANS
<S>	<C>	<C>	<C>	<C>
Commercial	$ 99,341	66%	$ 75,487	58%
Real estate:				
Mortgage	16,682	11%	14,900	12%
Construction	25,192	17%	30,128	23%
Consumer and other	9,936	6%	9,120	7%
Total loans	151,151	100%	129,635	100%
Less:				
Unearned discount	440		623	
Deferred loan fees	492		363	
Allowance for credit losses	2,631		2,219	
Total loans, net	$ 147,588		$ 126,430	

</TABLE>

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Loans serviced for other institutions, principally SBA and Business & Industry loans totaled approximately $34,700,000 and $44,500,000 at December 31, 1998 and 1997, respectively.

The Company's business activity is with customers primarily located within Fresno and Madera counties. The Company grants real estate, commercial and installment loans to these customers. The Company's commercial portfolio is highly diversified among industry groups within the Company's service area. The Company's largest concentration of loans is in real estate mortgages and real estate construction lending. A significant portion of its customers' ability to repay these loans is dependent upon the economic sectors of residential real estate development and construction. Generally, loans are secured by various forms of collateral. The loans are expected to be repaid from income of the borrower or with proceeds from the sale of assets securing the loans. The Company's loan policy requires sufficient collateral to meet the Company's relative risk criteria for each borrower. The Company's collateral mainly consists of real estate, cash, accounts receivable, inventory and other financial instruments. The Company either maintains possession of the collateral in safekeeping or perfects a security interest with the State of California.

At December 31, 1998 and 1997, the following information related to nonperforming assets. (In thousands, except percentages)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Nonperforming Assets:		
Nonperforming loans	$ 1,197	$ 1,736
Other real estate owned	684	503
Total nonperforming assets	1,881	2,239
Total loans before allowance for credit losses	151,151	129,635
Total assets	231,967	198,241
Allowance for credit losses	$ (2,631)	$ (2,219)
Ratios:		
Nonperforming loans to total loans	.79%	1.34%
Nonperforming assets to:		
Total loans	1.24%	1.73%
Total loans and OREO	1.24%	1.72%
Total assets	.81%	1.13%
Allowance for credit losses to total nonperforming assets	139.91%	99.11%
Allowance for credit losses to loans	1.74%	1.71%

</TABLE>

The gross interest income that would have been recorded for loans placed on nonaccrual status was $103,000, $254,000 and $276,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company is not aware of any potential problem loans, which were accruing interest at December 31, 1998, or 1997, where serious doubt exists as to the ability of the borrower to comply with present repayment terms.

The Company does not believe there to be any concentration of loans in excess of 10 percent of total loans which are not disclosed above which would cause them to be significantly impacted by economic or other conditions.

At December 31, 1998 and 1997, the following information related to impaired loans under SFAS No. 114 was included in the total loan balance (In thousands):

<TABLE>
<CAPTION>

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	DECEMBER 31,	
	1998	1997
Total impaired loans	$ 1,519	$ 1,410
Impaired loans without specified SFAS No. 114 allowance for credit losses	567	598
Impaired loans with specific SFAS No. 114 allowance for credit losses	$ 952	$ 812
Specific allowance for credit losses on impaired loans	$ 88	$ 194

</TABLE>

Average impaired loans were $1,542,000, $689,000, and $188,000 for the years ended December 31, 1998, 1997, and 1996, respectively. The Company uses the cash basis method of income recognition for impaired loans. For the years ended December 31, 1998, 1997 and 1996, the Company did not recognize any income on such loans.

An analysis of the changes in the allowance for credit losses is as follows (In thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Balance, beginning of the year	$ 2,219	$ 1,615	$ 1,784
Provision charged to operations	375	1,353	-
Losses charged to the allowance	(217)	(895)	(258)
Recoveries of amounts charged off	254	146	89
Balance, end of the year	$ 2,631	$ 2,219	$ 1,615

Included in commercial loans are SBA loans with guaranteed balances of $25,368,000 and $13,045,000 at December 31, 1998 and 1997, respectively. The unguaranteed balance of these loans was $18,261,000 and $18,567,000 at December 31, 1998 and 1997, respectively.

The activity in the asset accounts related to the servicing spread retained on SBA guaranteed and Business & Industry loan sales for the three years ended December 31, 1998, 1997 and 1996 is summarized as follows:

	1998		1997		1996
	SERVICING ASSETS	IO STRIPS	SERVICING ASSETS	IO STRIPS	SERVICING ASSETS
Balance, beginning of the year	$ 507	$ 418	$ 595	$ -	$ 290
SFAS 125 reclassification	-	-	(143)	143	-
Servicing assets and IO strips recognized on loans sold	37	20	192	317	396
Amortization	(199)	(82)	(137)	(42)	(91)
Balance, end of the year	$ 345	$ 356	$ 507	$ 418	$ 595

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In the ordinary course of business, the Company enters into various types of transactions which involve financial instruments with off-balance sheet risk. These instruments include commitments to extend credit and standby letters of credit which are not reflected in the accompanying consolidated balance sheets. These transactions may involve, to varying degrees, liquidity, credit and interest rate risk in excess of the amount, if any, recognized in the balance sheets. The Company's off-balance sheet credit risk exposure is the contractual amount of commitments to extend credit and standby letters of credit. The Company applies the same credit standards to these contracts as it uses in its lending process.

	DECEMBER 31,	
	1998	1997
Financial instruments whose contractual amount may represent additional risk if funded (In thousands):		
Commitments to extend credit	$ 55,376	$ 44,139
Standby letters of credit	$ 1,557	$ 795

Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Many of these commitments are expected to expire or terminate without funding. Therefore, the total commitment amounts do not necessarily represent future cash requirements. Collateral relating to these commitments varies, but may include cash, securities and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Company upon default of performance. Collateral held for standby letters of credit is based on an individual evaluation of each customers' credit worthiness, but may include cash, securities or other guarantees.

4. REAL ESTATE ACTIVITIES

Regency Service Corporation was involved in residential real estate development in the Fresno/Clovis area through both limited partnership investments and direct investments in real estate projects. These real estate activities consisted of residential subdivisions being developed into lots and homes. Limited partnership investments were accounted for under the equity method. Gains on sales of limited partnership properties were recognized on the accrual method and were allocated between the partners based on the provisions of the partnership agreements.

Included in the investments in real estate balances are acquisition, development and construction loans held by the Bank totaling $0 and $271,000 at December 31, 1998 and 1997, respectively. The remaining investments in real estate balances of $0 and $4,067,000 represent RSC's investments in real estate at December 31, 1998 and 1997.

Condensed financial information relative to RSC included in the Company's consolidated financial statements at December 31, 1998 and 1997, respectively, is as follows (In thousands):

	DECEMBER 31,	
	1998	1997
Financial position:		
Investments in real estate:		
Real estate held for sale	$ -	$ 4,420
Equity in partnerships	232	702
Investment in real estate before allowance	232	5,122
Allowance for real estate losses	(232)	(1,055)

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Investment in real estate	-	4,067
Loans to real estate partnerships and projects	-	1,768
Allowance for loan losses	-	(364)
Net loans	-	1,404
Other assets	935	2,524
Liabilities	(99)	(144)
Bank's investment in RSC	$ 836	$ 7,851

</TABLE>

<TABLE>
<CAPTION>

<S>	YEAR ENDED DECEMBER 31, 1998 <C>	1997 <C>	1996 <C>
Summary of income (loss):			
(Loss) income from partnerships accounted for on the equity method	$ (17)	$ (436)	$ 151
Income (loss) from direct investments in real estate	188	(3,565)	(583)
Recovery of (provision) for loan losses	507	(855)	-
Net income (loss) from real estate projects	678	(4,856)	(432)
Other income	1,145	102	249
Other expenses	(188)	(966)	(1,316)
Total income (loss) from RSC (excluding income tax benefits)	$ 1,635	$ (5,720)	$(1,499)

</TABLE>

During 1997, the Company accelerated the disposition of RSC's real estate holdings. Based upon the Company's decision to pursue the bulk sale of several projects, as well as discounting other holdings to reflect RSC's current anticipated sales proceeds, several properties were written down to their estimated net realizable value. The amount of the writedown in 1997 was $2,342,000.

Condensed financial information relative to investments in real estate limited partnerships accounted for under the equity method, before eliminations, are as follows (In thousands):

<TABLE>
<CAPTION>

<S>	DECEMBER 31, 1998 <C>	1997 <C>
Assets:		
Real estate	$ 494	$ 2,755
Other assets	281	657
Total	$ 775	$ 3,412
Liabilities and Equity:		
Liabilities (primarily third-party debt)	$ 221	$ 1,895
RSC's equity (before write down of $105 in 1998 and $213 in 1997)	337	915
Others' equity	217	602
Total	$ 775	$ 3,412

</TABLE>

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	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Summary of partnerships' income (loss):			
Sales of real estate	$ 3,276	$ 9,493	$ 11,930
Cost of sales and expenses	(3,527)	(9,930)	(11,635)
Net (loss) income	$ (251)	$ (437)	$ 295
RSC's share of net (loss) income in limited partnerships	$ (125)	$ (223)	$ 151
Recovery (write down) of RSC's investment in limited partnerships	108	(213)	--
Total	$ (17)	$ (436)	$ 151
Increases (decreases) to RSC's share of net income:			
Income (loss) from direct investments in real estate	188	(3,565)	(583)
Other	--	28	81
Total	188	(3,537)	(502)
Income (loss) from investments in real estate	$ 171	$ (3,973)	$ (351)

5. PREMISES AND EQUIPMENT

Bank premises and equipment consists of the following (In thousands):

	DECEMBER 31,	
	1998	1997
Buildings	$ 245	$ 250
Leasehold improvements	1,196	1,253
Furniture and equipment	2,979	3,465
	4,420	4,968
Accumulated depreciation and amortization	(2,920)	(3,217)
Total premises and equipment	$ 1,500	$ 1,751

6. DEPOSITS

Deposits are comprised of the following (In thousands):

	DECEMBER 31,	
	1998	1997
Noninterest bearing deposits	$ 54,236	$ 46,744
Interest bearing deposits:		
NOW and money market accounts	54,878	48,616
Savings accounts	46,464	36,498
Time deposits:		
Under $100,000	17,682	15,778

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$100,000 and over	33,377	28,643
Total interest bearing deposits	152,401	129,535
Total deposits	$ 206,637	$ 176,279

At December 31, 1998, time deposits of $100,000 or more include approximately $15,945,000 maturing in 3 months or less, $12,480,000 maturing in 3 to 12 months and $4,952,000 maturing after 12 months.

At December 31, 1998, the scheduled maturities of all certificates of deposits and other time deposits are as follows (In thousands):

	DECEMBER 31, 1998
1999	$ 41,432
2000	6,756
2001	1,577
2002	1,191
2003 and thereafter	103
	$ 51,059

7. SHORT-TERM BORROWINGS, LEASE COMMITMENTS, AND CONTINGENCIES

At December 31, 1998 and 1997, the Company had no federal funds purchased or securities sold under repurchase agreements outstanding.

At December 31, 1998, the Company had unsecured federal funds lines of credit available providing for short-term borrowings up to an aggregate of $5,000,000. Borrowings under federal funds lines are generally on an overnight basis with interest rates determined by market conditions. Interest rates ranged between 4.50 percent and 4.80 percent at December 31, 1998. The agreements are subject to annual renewal. Information concerning federal funds lines is summarized as follows (In thousands, except percentages):

	DECEMBER 31,	
	1998	1997
Average balance during the year	$ 143	$ -
Average interest rate during the year	4.95%	-
Maximum month-end balance during the year	$ -	$ -

In addition to its federal funds lines, the Company uses unpledged securities in its investment portfolio as a source of short-term liquidity by selling securities under repurchase agreements. Securities sold under repurchase agreements generally mature within one to seven days from the transaction date. Securities sold under repurchase agreements are delivered to broker dealers who arrange the transactions. The broker dealers may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations and agree to resell to the Company substantially identical securities at the maturities of the agreements. There were no such outstanding agreements at December 31, 1998 and 1997. During 1998, the Bank applied for, and was accepted as a member of the Federal Home Loan Bank of San Francisco (the " FHLB"). At December 31, 1998, the Bank held stock in the FHLB which would allow the Bank to borrow

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up to $11.5 million using various loans or securities as collateral. Information concerning securities sold under agreements to repurchase is summarized as follows (In thousands, except percentages):

	DECEMBER 31, 1998	DECEMBER 31, 1997
Average balance during the year	$ 204	$ -
Average interest rate during the year	5.65%	-
Maximum month-end balance during the year	$ -	$ -

The Company leases land and a building under a lease agreement having an initial term of approximately 30 years. The lease is accounted for as an operating lease for the land and a capital lease for the building.

During 1995, the Company entered into a sale-leaseback of its corporate headquarters. The leaseback is accounted for as an operating lease with a term of 15 years. Additionally, the Bank has lease commitments related to certain other properties which are accounted for as operating leases. Rent expense under all operating lease agreements was $636,000, $528,000 and $540,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the aggregate minimum future lease commitments under capital leases and noncancelable operating leases with terms of one year or more consist of the following (In thousands):

	CAPITAL LEASES	OPERATING LEASES
1999	$ 48	$ 573
2000	76	544
2001	76	492
2002	76	492
2003	76	492
Thereafter	2,450	4,294
Total minimum lease payments	2,802	$ 6,887
Amount representing interest	(2,255)	
Net present value of minimum lease payments	$ 547	

The Company is party to legal proceedings and claims which arise during the ordinary course of business. In the opinion of management, the ultimate outcome of such litigation and claims will not have a material adverse effect on the Company's financial position or results of its operations.

8. INCOME TAXES

Income tax expense (benefit) is summarized as follows (In thousands):

	YEAR ENDED DECEMBER 31, 1998	1997	1996
Current:			
Federal	$ 1,784	$ (358)	$ (149)
State	487	(47)	54

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Total current	$ 2,271	$ (405)	(95)
Deferred:			
Federal	160	(280)	688
State	212	(148)	139
Total deferred	372	(428)	827
	$ 2,643	$ (833)	$ 732

</TABLE>

A reconciliation of the statutory federal income tax rate with the effective tax rate is as follows:

<TABLE>
<CAPTION>

	PERCENT OF PRE-TAX INCOME YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Statutory rate	35.0 %	(35.0)%	35.0 %
State taxes, net of federal benefit	7.3 %	(6.1)%	7.3 %
Other, net	(0.5)%	1.6 %	(0.3)%
Effective rate	41.8 %	(39.5)%	42.0 %

</TABLE>

The Company's net deferred tax asset (included in other assets) is comprised of the following (In thousands):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Allowance for credit losses	$ 1,062	$ 871
Lease financing	171	150
Deferred compensation	395	340
Nonaccrual loan interest	68	259
Allowance for real estate losses	105	802
Other	325	231
Total deferred tax assets	2,126	2,653
Deferred tax liabilities:		
State taxes	(157)	(205)
Depreciation	(34)	(32)
Unrealized investment gains	(159)	(148)
Other	(500)	(610)
Total deferred tax liabilities	(850)	(995)
Net deferred tax asset	$ 1,276	$ 1,658

</TABLE>

Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. Accordingly, for the years ended December 31, 1998 and 1997, no valuation allowance related to

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the deferred tax asset was considered necessary.

9. EMPLOYEE BENEFIT PLANS

STOCK OPTION PLAN - The Company has reserved 545,448 shares of its common stock for issuance under its amended 1990 stock option plan. Options granted under the plan may either be immediately exercisable for the full number of shares granted thereunder or may become exercisable in cumulative increments over a period of months or years as determined by the Compensation Committee of the Board of Directors but, in no event less than 20 percent of the shares subject to the option per year during the five years from the date of grant. All options are granted at prices not less than 100 percent of the fair value of the stock at the date of grant. The maximum term of shares granted is set by the Compensation Committee not to exceed ten years.

At December 31, 1998 and 1997, there were 124,495 and 190,994 additional shares available for grant under the Plan. The per share weighted-average fair value of stock options granted during 1998 was $2.96 on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions. 1998 - expected dividend yield 2.67 percent, risk-free interest rate of 5.71 percent, expected life of 9.6 years and a volatility assumption of 15 percent. There were no options granted in 1997. In 1996 the calculated fair value of options granted was $2.17 using the following assumptions; expected life, 36 to 120 months; volitility 20 percent, risk free interest rates, 6.10 percent to 6.50 percent; and expected dividend yield of 2.5 percent.

The Company applies APB Opinion No. 25 in accounting for its Plan, and accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 "Accounting for Stock-Based Compensation", the Company's net income would have been reduced to the pro forma amounts indicated below.

<TABLE>
<CAPTION>

<S>	<C>	1998 <C>	1997 <C>	1996 <C>
Net income (loss)	As reported	$3,673,000	$(1,274,000)	$1,008,000
	Pro forma	$3,584,000	$(1,330,000)	$ 959,000
Earnings (loss) per share				
Basic	As reported	$1.40	$(.68)	$.55
Diluted	As reported	$1.31	$(.68)	$.54
Basic	Pro forma	$1.37	$(.71)	$.53
Diluted	Pro forma	$1.28	$(.71)	$.51

</TABLE>

Pro forma net income reflects only options granted since December 31, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 5 years and compensation cost for options granted prior to January 1, 1996 is not considered.

Stock option activity during the periods indicated is as follows:

<TABLE>
<CAPTION>

<S>	NUMBER OF SHARES <C>	WEIGHTED AVERAGE EXERCISE PRICE <C>
OUTSTANDING, JANUARY 1, 1996	121,714	$ 4.31
Granted	167,000	9.23
Exercised	-	-
Forfeited	-	-
Expired	-	-

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OUTSTANDING, DECEMBER 31, 1996	288,714	7.15
Granted	-	-
Exercised	(17,387)	4.31
Forfeited	-	-
Expired	(12,500)	9.49
OUTSTANDING, DECEMBER 31, 1997	258,827	7.23
Granted	68,500	13.30
Exercised	(3,249)	8.94
Forfeited	(1,001)	8.94
Expired	(1,000)	8.94
OUTSTANDING, DECEMBER 31, 1998	322,077	$ 8.50

</TABLE>

Additional information regarding options outstanding as of December 31, 1998 is as follows:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVG. REMAINING CONTRACTUAL LIFE	WEIGHTED AVG. EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVG. EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$4.31	104,327	1.40 yrs.	$ 4.31	104,327	$ 4.31
$8.94	89,250	7.96 yrs.	$ 8.94	81,125	$ 8.94
$9.63	60,000	7.34 yrs.	$ 9.63	24,000	$ 9.63
$10.50 - $14.50	68,500	9.13 yrs.	$ 13.30	15,458	$ 14.46
$ 4.31 - $14.50	322,077	5.97 yrs	$ 8.50	224,910	$ 7.24

</TABLE>

EMPLOYEE STOCK OWNERSHIP PLAN - The Company has an employee stock ownership plan covering substantially all full-time employees meeting certain requirements. Contributions to the plan are discretionary as determined by the Board of Directors. The employee stock ownership plan expense was $200,000, $200,000 and $173,500 for the years ended December 31, 1998, 1997 and 1996, respectively. The plan owned 172,319 and 161,239 shares of the Company's common stock at December 31, 1998 and 1997, respectively.

OTHER PLANS - The Company has also established the Regency Bancorp Cash or Deferred Retirement Plan which qualifies under the Internal Revenue Code Section 401(k). Employee contributions to the

Plan may be matched by the Company at the discretion of the Board of Directors. Employee contributions to the Plan are immediately vested while any matching contributions made by the Bank vest at different percentages based on years of service. For the years ended December 31, 1998, 1997 and 1996, the Company contributed approximately $45,000, $47,000 and $27,100 respectively, to the Plan.

The Company has a nonqualified Deferred Compensation Plan providing directors with the opportunity to participate in an unfunded, deferred compensation program. Under the plan, directors may elect to defer some or all of their current compensation. At December 31, 1998 and 1997, the total net deferrals included in other liabilities was approximately $557,000 and $515,000, respectively. In addition, in 1994, the Company established a salary continuation plan for three of the Bank's key executives which provides that upon retirement the Bank will continue to provide compensation to these executives for a period of 15 years. Future compensation under the Plan is earned by the executives for services rendered through retirement and vests at a rate of 10 percent per year. The Company accrues for the compensation based on anticipated years of service and the vesting schedule provided in the Plan. At December 31, 1998 and 1997, $323,000 and $242,000, respectively, has been accrued. In connection with the implementation of the Deferred Compensation and Salary Continuation Plans, single premium universal life insurance

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policies on the life of each participant were purchased by the Bank, which is beneficiary and owner of the policies. The cash surrender value of the policies was $3,186,000 and $3,038,000 at December 31, 1998 and 1997. The current annual tax-free interest rates on these policies range from 5.50 percent to 5.70 percent. The assets of the Plan, under Internal Revenue Service regulations, are the property of the Company and are available to satisfy the Company's general creditors.

10. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The following table provides a reconciliation of the numerator and denominator of the basic EPS computation with the numerator and denominator of the diluted EPS computation (In thousands, except per share data):

	1998	1997	1996
BASIC EPS COMPUTATION			
Net income (loss)	$ 3,673	$(1,274)	$1,008
Average common shares outstanding	2,624	1,860	1,818
Basic EPS	$ 1.40	$(0.68)	$0.55
DILUTED EPS COMPUTATION			
Net income (loss)	$ 3,673	$ (1,274)	$1,008
Average common shares outstanding	2,624	1,860	1,818
Stock options (Anti dilutive in 1997)	126	-	54
Warrants (Anti dilutive in 1997)	50	-	-
	2,800	1,860	1,872
Diluted EPS	$ 1.31	$(0.68)	$0.54

On December 31, 1997, the Company completed a private placement offering of 750,000 new shares of its common stock. The net proceeds of $5,927,000 were used to contribute capital to the Bank. Warrants to purchase 26,211 shares of common stock at $9.90 and 150,000 shares of common stock at

$10.00 per share were outstanding at December 31, 1997 but were not included in the computation of diluted EPS because the warrants exercise price was greater than the average market price of the common shares. The warrants expire on January 1, 2003. Options to purchase 49,000, 60,000, and 167,000 shares of common stock at various prices per share were outstanding at December 31, 1998, 1997 and 1996, respectively but were not included in diluted EPS because the options exercise price was greater than the average market price of the common shares for the years then ended.

11. RELATED PARTY TRANSACTIONS

Certain officers and directors of the Company and affiliates are customers of and have had other transactions with the Bank in the ordinary course of business. In management's opinion, all loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than normal risk of collectibility or present other unfavorable features. Changes in loans outstanding to directors, officers and affiliates were as follows (In thousands):

	YEAR ENDED DECEMBER 31,	
	1998	1997
Balance, beginning of year	$ 509	$ 998
Additions	302	87
Reductions	(476)	(576)

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Balance, end of year	$ 335	$ 509

</TABLE>

Prior to 1998, the Company's Vice Chairman, David N. Price, provided administrative services for the Company's 401(k) and ESOP plans. In 1997 and 1996, the Company paid approximately $19,000 and $18,000, respectively, for these services.

12. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURE

The following summary disclosures are made in accordance with the provisions of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", which requires the disclosure of fair value information about both on- and off- balance sheet financial instruments where it is practical to estimate that value. Fair value is defined in SFAS No. 107 as the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. It is not the Company's intent to enter into such exchanges.

In cases where quoted market prices were not available, fair values were estimated using present value of future cash flows or other valuation methods, as described below. The use of different assumptions (e.g., discount rates and cash flow estimates) and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Because SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Company.

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(IN THOUSANDS)		(IN THOUSANDS)	
Assets:				
Cash and cash equivalents	$ 25,220	$ 25,220	$ 19,893	$ 19,893
Investment securities	46,990	46,990	36,986	36,986
Non marketable equity securities	1,170	1,170	-	-
Loans, net	147,588	148,388	126,430	127,730
Servicing asset	245	245	507	507
Interest only strip	346	346	417	426
Liabilities:				
Deposits	206,637	210,189	176,279	176,190
Commitments to extend credit and standby letters of credit	-	195	-	-

</TABLE>

The following methods and assumptions were used in estimating the fair values of financial instruments:

CASH AND CASH EQUIVALENTS - The carrying amounts reported in the balance sheets for cash and cash equivalents approximate their estimated fair values.

INVESTMENT SECURITIES - Fair values for investment securities, including mortgage-backed securities, are based on quoted market prices.

NON MARKETABLE EQUITY SECURITIES - Fair values of non marketable equity securities are based on the quoted par value of capital stock of the Federal Reserve Bank and Federal Home Loan Bank.

LOANS - The fair value for loans, values both the principal and interest cash flows to the present using discounting techniques. Principal cash flows are defined in the maturity schedules. Income is calculated for each month using the basis, the remaining balance, and the repricing rate for that time period. If any portion of the account is scheduled to reprice,

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the projected offering rate for that time period is used as the repricing rate. The income is then multiplied by a discount factor to determine the discounted fair value income amount.

SERVICING ASSET AND INTEREST ONLY STRIP - Fair values for servicing assets and interest only strips are estimated based on the results of valuation techniques which include the initial price paid, discounted cash flows, prepayment statistics, and estimated expected lives of the underlying loans.

DEPOSITS - Fair values for transactions and savings accounts are equal to the respective amounts payable on demand at December 31, 1998 and 1997 (i.e., carrying amounts). Fair values of fixed-maturity certificates of deposit were estimated using discounted cash flows over their remaining maturities as discussed above.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT - Fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into

account the remaining terms of the agreements and the present creditworthiness of counterparties. The fair value of standby letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

13. REGULATORY MATTERS

CAPITAL GUIDELINES - The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material direct effect on the Company's financial statements. Capital adequacy guidelines for the Company and the Bank and the regulatory framework for prompt corrective action for the Bank require that the Company and Bank meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital classification as well as the Company's and the Bank's capital adequacy are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). As of December 31, 1998 and 1997, the Company and Bank meet all capital adequacy requirements to which they are subject and management believes that, under the current regulations, both will continue to meet their minimum capital requirements in the foreseeable future.

As of December 31, 1998 and 1997 respectively, the Bank's capital ratios are considered "Well Capitalized" under the regulatory framework for prompt corrective action. The Company and Bank's actual capital amounts (in thousands) and ratios are also presented in the following table:

<TABLE>
<CAPTION>

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES:		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS:	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AS OF DECEMBER 31, 1998						
Total Capital (to Risk Weighted Assets:)						
Company	$22,814	16.14%	>=$11,309	>=8.00%	N/A	
Regency Bank	$20,047	14.16%	>=$11,327	>=8.00%	>=$14,159	>=10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Company	$21,042	14.89%	>=$5,654	>=4.00%	N/A	
Regency Bank	$18,266	12.90%	>=$5,664	>=4.00%	>=$ 8,495	>=6.00%
Tier 1 Capital (to Average Assets):						
Company	$21,042	9.22%	>=$9,128	>=4.00%	N/A	
Regency Bank	$18,266	8.02%	>=$9,108	>=4.00%	>=$11,385	>=5.00%

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</TABLE>

<TABLE>
<CAPTION>

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES:		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS:	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
AS OF DECEMBER 31, 1997						
Total Capital (to Risk Weighted Assets:)						
Company	$18,779	13.87%	>=$10,828	>=8.00%	N/A	
Regency Bank	$16,003	11.79%	>=$10,860	>=8.00%	>=$ 13,576	>=10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Company	$17,081	12.62%	>= $5,414	>=4.00%	N/A	
Regency Bank	$14,300	10.53%	>= $5,430	>=4.00%	>=$ 8,145	>= 6.00%
Tier 1 Capital (to Average Assets):						
Company	$17,081	8.89%	>= $7,686	>=4.00%	N/A	
Regency Bank	$14,300	7.46%	>= $7,663	>=4.00%	>=$ 9,579	>= 5.00%

</TABLE>

DIVIDENDS - Under California law, shareholders of the Company may receive dividends when and as declared by its Board of Directors out of funds legally available. With certain exceptions, a California corporation may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend. California law further provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets the following two generally stated conditions: (i) the corporation's assets equal at least 1 1/4 times its liabilities; and (ii) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of the corporation's interest expense for such fiscal years, then the corporation's current assets must equal at least 1 1/4 times its current liabilities.

The Company expects to receive substantially all of its income initially from dividends from the Bank and/or RIA. Under California state banking law, the Bank may not pay cash dividends in an amount which exceeds the lesser of the retained earnings of the Bank or the Bank's net income for its last three fiscal years (less the amount of any distributions to shareholders made during that period). If the above test is not met, cash dividends may only be paid with the prior approval of the California State Department of Financial Institutions, in an amount not exceeding the Bank's net income for its last fiscal year or the amount of its net income for its current fiscal year. Accordingly, the future payment of cash dividends may depend on the Bank's earnings, its ability to meet capital requirements and/or the Company's ability to generate income from other sources.

CASH RESTRICTION - The FDIC requires banks to maintain average reserve balances on deposits, consisting of vault cash and actual balances held by the Federal Reserve Bank of San Francisco. The Bank's average FDIC reserve requirements were $2,601,000 and $1,683,000 in 1998 and 1997, respectively. The Bank maintained average balances of $2,801,000 and $1,815,000 in 1998 and 1997, respectively.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Following is a summary of amounts paid for interest and taxes and of non-cash transactions for the years ended December 31, 1998, 1997 and 1996 (In thousands):

<TABLE>
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31,

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	1998	1997	1996
<S>	<C>	<C>	<C>
Cash paid during the period for:			
Interest on deposits and other borrowings	$ 5,455	$ 5,328	$ 4,597
Income taxes	1,901	-	316
Noncash transactions:			
Transfer of loans to other real estate owned	813	390	218
Net assets acquired through acquisition of partnerships less cash received:			
Land and real estate under construction	-	-	6,272
Notes receivable	-	-	2,025
Other assets	-	-	227
Notes payable	-	-	8,614
Accrued interest and other liabilities	-	-	714

</TABLE>

15. PARENT COMPANY ONLY FINANCIAL STATEMENTS

Condensed balance sheets of Regency Bancorp at December 31, 1998, and 1997, and condensed statements of income and cash flows for the years ended December 31, 1998, 1997 and 1996, respectively. (In thousands):

CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and short-term investments	$ 2,662	$ 2,794
Investment in bank subsidiary	19,506	15,805
Investment in investment subsidiary	220	308
Other assets	61	107
	-	-
Total assets	$ 22,449	$19,014
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	$ -	$ 280
Total liabilities	-	280
SHAREHOLDERS' EQUITY:		
Common stock	15,229	15,203
Retained earnings	7,000	3,327
Unrealized gain on securities	220	204
Total shareholders' equity	22,449	18,734
Total liabilities and shareholders' equity	$ 22,449	$19,014

</TABLE>

<TABLE>
<CAPTION>

STATEMENTS OF INCOME
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>

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INCOME:			
Regency Bank income (loss)	$ 3,685	$(1,291)	$ 1,122
Regency Investment Advisors income	126	103	-
Total income	3,811	(1,188)	1,122
EXPENSES:			
Management fees to bank subsidiary	66	66	66
Other	150	79	133
Total expenses	216	145	199
NET INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	3,595	(1,333)	923
INCOME TAX (BENEFIT)	(78)	(59)	(85)
NET INCOME (LOSS)	$ 3,673	$(1,274)	$ 1,008

</TABLE>

<TABLE>
<CAPTION>
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income (loss)	$ 3,673	$ (1,274)	$ 1,008
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in undistributed (income) loss of bank subsidiary	(3,684)	1,291	(1,122)
Equity in undistributed income of investment subsidiary	(126)	(103)	-
Decrease (increase) in other assets	45	22	(11)
(Decrease) increase in other liabilities	(281)	281	(10)
Net cash (used in) provided by operating activities	(373)	217	(135)
INVESTING ACTIVITIES:			
Capital contribution to subsidiary bank	-	(3,950)	-
Capital distribution from subsidiary bank	-	-	491
Capital distribution from investment subsidiary	215	-	-
Net cash provided by (used in) investing activities	215	(3,950)	491
FINANCING ACTIVITIES:			
Issuance of common stock	-	5,927	-
Cash dividends	-	-	(437)
Proceeds from the issuance of common stock under the employee stock option plan	26	75	-
Proceeds from the issuance of common stock to employee stock ownership plan	-	333	-
Net cash provided by (used in) financing activities	26	6,335	(437)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(132)	2,602	(81)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,794	192	273
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,662	$ 2,794	$ 192
SUPPLEMENTAL CASH FLOW INFORMATION:			
Transfer of Bank's equity in undistributed income in investment subsidiary to Regency Bancorp	$ -	$ 205	$ -

</TABLE>

16. QUARTERLY FINANCIAL DATA

Following is selected quarterly financial information for the years ended December 31, 1998 and 1997. (In thousands):

QUARTERLY FINANCIAL DATA (UNAUDITED)

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<TABLE>
<CAPTION>

(IN THOUSANDS)	1998 QUARTER ENDED				1997 QUARTER ENDED			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income	$ 4,957	$ 4,861	$ 4,694	$ 4,124	$ 4,148	$ 4,031	$3,659	$3,448
Interest expense	1,447	1,409	1,313	1,283	1,361	1,351	1,330	1,279
Net interest income	3,510	3,452	3,381	2,841	2,787	2,680	2,329	2,169
Provision for credit losses	-	100	150	125	58	460	835	-
Net interest income after provision	3,510	3,352	3,231	2,716	2,729	2,220	1,494	2,169
Non-interest income	1,028	771	676	487	563	724	619	781
Non-interest expense	2,076	2,260	2,815	2,304	2,635	2,420	5,806	2,545
Income (loss) before taxes	2,462	1,863	1,092	899	657	524	(3,693)	405
Income tax expense (benefit)	1,015	785	463	380	325	223	(1,551)	170
Net income (loss)	1,447	1,078	629	519	332	301	(2,142)	235
Basic earnings per share	.55	.41	.24	.20	.18	.16	(1.15)	.13
Diluted earnings per share	.52	.38	.22	.19	.17	.16	(1.15)	.12
Dividends paid per share	-	-	-	-	-	-	-	-
Price range, common stock								
High	14.8125	16.1250	14.6250	14.8750	11.0000	10.1250	10.000	10.6250
Low	$12.9375	$11.0000	$13.6250	$10.2500	$9.2500	$8.2500	$9.0000	$9.1250
Shares on which earnings (loss) per common share were based:								
Basic	2,624	2,624	2,624	2,621	1,879	1,871	1,859	1,831
Diluted	2,805	2,804	2,807	2,784	1,948	1,926	1,859	1,902

</TABLE>

* * * * * *

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

The registrant's Board of Director's approved the dismissal of Deloitte & Touche LLP as the registrant's independent accountant effective August 1, 1998. There were no disagreements with Deloitte & Touche LLP on any matter of accounting principals or practices, financial statement disclosure, or auditing scope or procedure. During the past two years the accountant's report contained no adverse opinion or disclaimer of opinion nor was it qualified as to uncertainty, audit scope or accounting principles. The decision to dismiss Deloitte & Touche LLP was a recommendation made by the registrant's Board Audit Committee to the registrant's Board of Directors. The registrant has engaged KPMG LLP as principal accountant to audit the registrant's financial statements effective August 1, 1998. Regency Bancorp received a letter from Deloitte and Touche LLP confirming their agreement with the above disclosure which was filed as Exhibit 99.1 on Form 8-K dated August 1, 1998 and filed on August 7, 1999.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 of Form 10-K is incorporated by reference to the information contained in the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated by reference to the information contained in the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 of Form 10-K is incorporated by

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reference to the information contained in the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 of Form 10-K is incorporated by reference to the information contained in the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A.

PART IV

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

(a)(1) Financial Statements. Listed and included in Part II, Item 8.

(2) Financial Statement Schedules. Not Applicable.

(3) Exhibits.

<TABLE>
<S> <C>

(2)	Plan of Reorganization and Merger Agreement dated July 21, 1994 by and among Regency Bank, Regency Merger Corporation and Regency Bancorp, incorporated by reference from exhibit 2 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
(3.1)	Articles of Incorporation dated June 9, 1994, incorporated by reference from exhibit 3.1 of registrant's Annual Report on Form 10-K for the year ended December 31, 1994, filed with the Commission on February 27, 1995.
(3.2)	Bylaws, as amended.
(4.1)	Specimen form of Regency Bancorp stock certificate incorporated by reference from exhibit 4.1 of registrant's Annual Report on Form 10-K for the year ended December 31, 1994, filed with the Commission on February 27, 1995.
*(10.1)	401(k) Pension and Profit Sharing Plan, incorporated by reference from exhibit 10.3 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
*(10.2)	Employee Stock Ownership Plan, incorporated by reference from exhibit 10.4 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
*(10.3)	Directors Deferred Fee Plan, incorporated by reference from exhibit 10.5 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
*(10.4)	Form of Directors Deferred Fees Agreement for Regency Bank, incorporated by reference from exhibit 10.6 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.

(10.5)	Lease agreement dated December 22, 1988 for premises located at 5240 N. Palm Avenue, Fresno, California, incorporated by reference from exhibit 10.10 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
(10.6)	Electronic Financial Services Agreement dated June 9, 1992, between Regency Bank and Fiserv, incorporated by reference from exhibit 10.12 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
(10.7)	Comprehensive Banking System License and Service Agreement dated April 13, 1992, between Regency Bank and Fiserv, incorporated by reference from exhibit 10.13 of registration statement number 33-82150 on Form S-4, filed with the Commission on July 27, 1994.
(10.8)	Lease agreement dated February 20, 1995 for premises located at 3501 Coffee Road, Suite 3, Modesto, California, incorporated by reference from exhibit 10.19 of registrant's Annual Report on Form 10-K for the year ended December 21, 1995, filed with the

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Commission on March 29, 1996.

(10.9) Lease agreement dated August 17, 1995 for premises located at 7060 N. Fresno Street, Fresno, California, incorporated by reference from exhibit 10.21 of registrant's Annual Report on Form 10-K for the year ended December 21, 1995, filed with the Commission on March 29, 1996.

(10.10) Form of Indemnification Agreement, incorporated by reference from exhibit 10.3 of registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, filed with the Commission on August 2, 1996.

(10.11) Lease agreement dated May 13, 1996 for premises located at 126 "D" Street, Madera, California, incorporated by reference from exhibit 10.4 of registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, filed with the Commission on August 2, 1996.

*(10.12) Employment Agreement made and entered into as of August 22, 1996 between Regency Bank, a California Corporation, and Steven F. Hertel, President/Chief Executive Officer, incorporated by reference from exhibit 10.2 of registrant's Quarterly Report on Form 10-Q/A-1 for the quarter ended September 31, 1996, filed with the Commission on November 16, 1996.

*(10.13) Employment Agreement made and entered into as of August 22, 1996 between Regency Bank, a California Corporation, and Steven R. Canfield, Executive Vice President/Chief Financial Officer incorporated by reference from exhibit 10.3 of registrant's Quarterly Report on Form 10-Q/A- 1 for the quarter ended September 31, 1996, filed with the Commission on November 16, 1996.

*(10.14) Employment Agreement made and entered into as of August 22, 1996 between Regency Bank, a California Corporation, and Robert J. Longatti,

Executive Vice President/Chief Credit Officer incorporated by reference from exhibit 10.4 of registrant's Quarterly Report on Form 10-Q/A-1 for the quarter ended September 31, 1996, filed with the Commission on November 16, 1996.

*(10.15) Employment Agreement made and entered into as of August 22, 1996 between Regency Bank, a California Corporation, and Regency Investment Advisors Incorporated, a California Corporation, and Alan R. Graas, President, incorporated by reference from exhibit 10.5 of registrant's Quarterly Report on Form 10-Q/A-1 for the quarter ended September 31, 1996, filed with the Commission on November 16, 1996.

*(10.16) Regency Bancorp 1990 Stock Option Plan, as amended, and Form of Nonstatutory Stock Option Agreement, Form of Incentive Stock Option Agreement and Form of Nonstatutory Stock Option Agreement for Outside Directors, under the Regency Bancorp 1990 Stock Option Plan, as amended, incorporated by reference on registration statement number 33-3848 on Form S-8, filed with the Commission on April 19, 1996.

*(10.17) Incentive Stock Option Agreement entered into with Steven F. Hertel, dated December 16, 1996 incorporated by reference from exhibit 10.29 of registrant's Annual Report on Form 10-K for the year ended December 31, 1996, filed with the Commission on March 31, 1997.

*(10.18) Incentive Stock Option Agreement entered into with Steven R. Canfield, dated December 16, 1996 incorporated by reference from exhibit 10.30 of registrant's Annual Report on Form 10-K for the year ended December 31, 1996, filed with the Commission on March 31, 1997.

*(10.19) Incentive Stock Option Agreement entered into with Robert J. Longatti, dated December 16, 1996 incorporated by reference from exhibit 10.31 of registrant's Annual Report on Form 10-K for the year ended December 31, 1996, filed with the Commission on March 31, 1997.

*(10.20) Form of Director Deferred Fees Agreement for Regency Bancorp incorporated by reference from exhibit 10.32 of registrant's Annual Report on Form 10-K for the year ended December 31, 1996, filed with the Commission on March 31, 1997.

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*(10.21) Form of Director Deferred Fees Agreement for Regency Service Corporation incorporated by reference from exhibit 10.33 of registrant's Annual Report on Form 10-K for the year ended December 31, 1996, filed with the Commission on March 31,1997.

*(10.22) Amended and Restated Executive Salary Continuation Agreement dated September 23, 1997, made by and between Regency Bank and Steven F. Hertel, incorporated by reference from exhibit 99.1 of registrant's current report on Form 8-K, filed with the Commission on October 9, 1997.

*(10.23) Amended and Restated Executive Salary Continuation Agreement dated September 26, 1997, made by and between Regency Bank and Robert J. Longatti, incorporated by reference from exhibit 99.2 of the Form 8-K, filed with the Commission on October 9, 1997.

*(10.24) Amended and Restated Executive Salary Continuation Agreement dated September 30, 1997, made by and between Regency Bank and Steven R. Canfield, incorporated by reference from exhibit 99.3 of the Form 8-K, filed with the Commission on October 9, 1997.

(10.25) Form of Warrant Agreement and Warrant Certificate, incorporated by reference from exhibit 10.29 of registrant's Annual Report on Form 10-K for the year ended December 31, 1997, filed with the Commission on March 27, 1997.

(10.26) Belle Plaine Financial LLC Agreement, dated July 23, 1998, incorporated by reference from exhibit 99.1 on Form 8-K, filed with the Commission on July 29, 1998.

(21.1) The Company has two subsidiaries, Regency Bank (the "Bank"), a California banking corporation and Regency Investment Advisors ("RIA"), which provides investment management and consulting services. The Bank has only one subsidiary, Regency Service Corporation, a California corporation ("RSC") which engages in the business of real estate development primarily in the Fresno/Clovis area.

(23.1) Consent of Deloitte & Touche LLP

(23.2) Consent of KPMG Peat Marwick LLP

(27.1) Financial Data Schedule

</TABLE>

* Denotes management contracts, compensatory plans or arrangements.

(b) Reports on Form 8-K

The Company filed a Form 8-K dated October 8, 1998, in which it reported its third quarter earnings, which states record net quarterly income of $1.08 million or $0.41 per share for the third quarter of 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.

REGENCY BANCORP

Date: March 19, 1999

By: /s/ STEVEN F. HERTEL

Steven F. Hertel
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 19, 1999

By: /s/ STEVEN R. CANFIELD

Steven R. Canfield
Executive Vice President and
Chief Financial Officer (Principal

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Financial and Accounting 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.

Name	Date	Title
/s/ STEVEN F. HERTEL Steven F. Hertel	March 19, 1999	Director, Chairman of the Board, President & CEO
/s/ DAVID N. PRICE David N. Price	March 19, 1999	Director and Vice Chairman
/s/ ROY JURA Roy Jura	March 19, 1999	Director and Secretary
/s/ JOSEPH L. CASTANOS Joseph L. Castanos	March 19, 1999	Director
/s/ WAYMON E. WATTS Waymon E. Watts	March 19, 1999	Director
/s/ DANIEL R. SUCHY Daniel R. Suchy	March 19, 1999	Director
/s/ BARBARA PALMQUIST Barbara Palmquist	March 19, 1999	Director
/s/ STEVE FREELAND Steve Freeland	March 19, 1999	Director
/s/ WILLIAM J. ALESSINI William J. Alessini	March 19, 1999	Director
/s/ WILLIAM J. RUH William J. Ruh	March19, 1999	Director

EXHIBIT INDEX

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BYLAWS

OF

REGENCY BANCORP

(a California Corporation)

ARTICLE I

OFFICES

1.1 PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the Corporation (the "Head Office") is hereby fixed and located at 7060 N. Fresno, Fresno, California 93720. The Board of Directors is hereby granted full power and authority to change said Head Office from one location to another within the State of California, subject to all necessary regulatory approvals.

1.2 OTHER OFFICES. Branch offices or other places of business may at any time be established by the Board of Directors at any place or places, subject to all necessary regulatory approvals.

ARTICLE II

MEETINGS OF SHAREHOLDERS

2.1 PLACE OF MEETINGS. All meetings of shareholders shall be held at the Head Office of the Corporation, or at any other place within the State of California which may be designated either by the Board of Directors or by the written consent of all persons entitled to vote thereat and not present at the meeting, given either before or after the meeting and filed with the Secretary of the Corporation.

2.2 ANNUAL MEETINGS

(a) TIME. The Annual Meeting of Shareholders shall be held each year on a date and at a time designated by the Board of Directors. The date so designated shall be within five (5) months after the end of the fiscal year of the Corporation, and within fifteen (15) months after the last Annual Meeting.

(b) BUSINESS TO BE TRANSACTED. At the Annual Meeting, directors shall be elected, reports of the affairs of the Corporation shall be considered, and any other business may

be transacted which is within the powers of the shareholders.

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(c) NOTICE, MEANS. Written notice of each Annual Meeting shall be given to each shareholder entitled to vote, either personally or by first-class mail or other means of written communication, charges prepaid, addressed to such shareholder at his address appearing on the books of the Corporation or given by him to the Corporation for the purpose of notice. If any notice or report addressed to the shareholder at the address of such shareholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice or report to the shareholder at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available for the shareholder upon written demand of the shareholder at the Head Office of the Corporation for a period of one year from the date of the giving of the notice or report to all other shareholders. If a shareholder gives no address, notice shall be deemed to have been given him if sent by mail or other means of written communication addressed to the place where the Head Office of the Corporation is situated, or if published at least once in some newspaper of general circulation in the county in which said Head Office is located. An affidavit of the mailing or other means of giving any notice of any Annual meeting shall be executed by the Secretary, Assistant Secretary, or any transfer agent of the Corporation giving the notice, and shall be filed and maintained in the minute book of the Corporation.

(d) NOTICE, TIME AND CONTENT. All notices referred to in subsection (c) above shall be given to each shareholder entitled thereto not less than ten (10) days nor more than sixty (60) days before each Annual Meeting. Any such notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

Such notices shall specify:

(i) The place, the date, and the hour of such meeting;

(ii) Those matters which the Board of Directors, at the time of the mailing of the notice, intends to present for action by the shareholders;

(iii) If directors are to be elected, the names of nominees intended at the time of the notice to be presented by the Board of Directors for election;

(iv) The general nature of a proposal, if any to take action with respect to approval of, (a) a contract or other transaction with an interested director, (b) amendment of the articles of

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incorporation, (c) a reorganization of the Corporation as defined in Section 181 of the General Corporation Law, (d) voluntary dissolution of the Corporation, or (e) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, if any; and,

(v) Such other matters, if any, as may be expressly required by statute.

2.3 NOMINATIONS FOR DIRECTOR. Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of voting stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations, other than by the Board of Directors, shall be made in writing and shall be received by the President of the Corporation no more than sixty (60) days prior to any meeting of shareholders called for the election of directors, no more than ten (10) days after the date the notice of such meeting is sent to shareholders pursuant to Section 2.2 of these bylaws, and not later than the time fixed in the notice of the meeting for the opening of the meeting. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of voting stock of the Corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of voting stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may be disregarded by the then chairman of the meeting, and the inspectors of election shall then disregard all votes cast for each nominee.

The first paragraph of this Section 2.3 shall be set forth in any notice of a shareholders' meeting, whether pursuant to Section 2.2 or Section 2.4 of these Bylaws, at which meeting the election of directors is to be considered.

2.4 SPECIAL MEETINGS

(a) CALLING OF. Special meetings of the shareholders, for the purpose of taking any action permitted by the shareholders under the General Corporation Law and the articles of incorporation of this Corporation, may be called at any time by the Chairman of this Corporation, the President, the Board of Directors, or by one or more shareholders holding not less than ten percent (10 percent) of the outstanding shares entitled to vote.

(b) TIME AND NOTICE OF. Upon receipt of a request in writing that a special meeting of shareholders be called for any proper purpose, directed to the Chairman of the Board, President, Vice President or Secretary by any person (other than the Board) entitled to call a special meeting of shareholders, then such officer shall forthwith cause notice to be given to

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shareholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after receipt of the request. If such notice is not given within twenty (20) days after receipt of such request, the persons calling for the meeting may give notice thereof in the manner provided by these bylaws or apply to the Superior Court as provided in the General Corporation Law, Section 601(c). Except in special cases where other express provisions is made by statute, notice of such special meetings shall be given in the same manner as for Annual Meetings of Shareholders. In addition to the matters required by item (i) and, if applicable, item (iii) of Section 2.2 of these Bylaws, notice of any special meeting shall specify the general nature of the business to be transacted at such meeting.

2.5 QUORUM. A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

2.6 ADJOURNED MEETING AND NOTICE THEREOF. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum no other business may be transacted at such meeting,

except as provided in Section 2.5 above. When any shareholders' meeting, either annual or special, is adjourned for forty-five (45) days or more, or if after adjournment, a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given as in the case of an original meeting. Except as provided above, it shall not be necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted thereat, other than by announcement of the time and place thereof at the meeting at which such adjournment is taken.

2.7 VOTING

(a) RECORD DATE. Unless a record date for voting purposes is fixed as provided in Section 5.1 of Article V of these Bylaws then, subject to the provisions of Sections 702 through 704 of the General Corporation Law (relating to voting of shares held by a fiduciary, in the name of a corporation, or in joint ownership), only persons in whose names shares entitled to vote stand on the stock records of the Corporation at the close of business on the business day next preceding the day on which notice of the meeting is given or if such notice is waived, at the close of business

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on the business day next preceding the day on which the meeting of shareholders is held, shall be entitled to vote at such meeting, and such day shall be the record date for such meeting.

(b) BALLOT. All voting shall be by written ballot; provided, however, that voting with respect to procedural matters may be oral unless any shareholder demands voting by ballot. If a quorum is present, except with respect to election of directors, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the shareholders, unless the vote of greater number or voting by classes is required by the General Corporation Law or the articles of incorporation.

(c) CUMULATIVE VOTING FOR ELECTION OF DIRECTORS. Subject to the requirements contained in this subsection, every shareholder entitled to vote at any election for directors shall have the right to cumulate his votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which his shares are entitled, or to distribute his votes on the same principle among as many candidates as he shall think fit. No shareholder shall be entitled to cumulate his votes for any candidate unless the name of such candidate or candidates for whom such votes would be cast has been placed in nomination in accordance with the provisions of these bylaws and any shareholder has given notice at the meeting

prior to the voting of such shareholder's intent to cumulate his votes. The candidates receiving the highest number of votes of shares entitled to be voted for them, up to the number of directors to be elected, shall be elected.

2.8 VALIDATION OF DEFECTIVELY CALLED OR NOTICED MEETINGS. The transactions of any meeting of shareholders, either Annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any Annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in Section 2.2(d)(iv) of Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents or approvals shall be filed with corporate records or made a part of minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of

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the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by The General Corporation Law to be included in the notice of the meeting but not so included if that objection is expressly made at the meeting.

2.9 ACTION WITHOUT MEETING

(a) ELECTION OF DIRECTORS. Except as provided in Article III, Section 3.4(d), directors may be elected without a meeting by a consent in writing, setting forth the action so taken signed by all of the persons who would be entitled to vote for the election of directors, provided that, without notice except as hereinafter set forth, a director may be elected at any time to fill a vacancy not filled by the directors by the written consent of persons holding a majority of the outstanding shares entitled to vote for the election of directors.

(b) OTHER ACTION. Unless otherwise provided for in the articles, any action which, under any provisions of the General Corporation Law may be taken at a meeting of the shareholders, may be taken without a meeting, and without notice except as hereinafter set forth, if a consent in

writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Unless the consents of all shareholders entitled to vote have been solicited in writing: (i) notice of any proposed shareholder approval of (a) a contract or other transaction with an interested director, (b) indemnification of an agent of the Corporation as authorized by Section 3.17 of Article III of these bylaws, (c) a reorganization of the Corporation as defined in Section 181 of the General Corporation Law, or (d) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, if any, without a meeting by less than unanimous written consent, shall be given at least ten (10) days before the consummation of the action authorized by such approval; and, (ii) prompt notice shall be given of the taking of any other corporate action approved by shareholders without a meeting by less than unanimous written consent, to those shareholders entitled to vote who have not consented in writing. Such notices shall be given in the manner and with the effect provided in Section 2.2 of Article II of these bylaws.

Unless, as provided in Section 5.1 of Article V of these bylaws, the Board of Directors has fixed a record date for the determination of shareholders entitled to notice of and to give such written consent, the record date for such determination shall be the day on which the first written consent is given. All such written consents shall be filed with the

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Secretary of the Corporation.

Any shareholder giving a written consent, or the shareholder's proxyholders, or a transferee of the shares or a personal representative of the shareholder or their respective proxyholders, may revoke the consent by a writing received by the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary of the Corporation, but may not do so thereafter. Such revocation is effective upon its receipt by the Secretary of the Corporation.

2.10 PROXIES. Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary of the Corporation. Any proxy duly executed is not revoked and continues in full force and effect until (i) an instrument revoking it or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation prior to the vote pursuant thereto, (ii) the person executing the proxy attends the

meeting and votes in person, or (iii) written notice of the death or incapacity of the maker of such proxy is received by the Corporation before said proxy is voted and counted; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution, unless the person executing it specifies therein the length of time for which such proxy is to continue in force.

2.11 INSPECTORS OF ELECTION.

(a) APPOINTMENT, NUMBER. In advance of any meeting of shareholders, the Board of Directors may appoint any persons, other than nominees for office, as inspectors of election to act at such meeting or any adjournment thereof. If inspectors of election are not so appointed, or if any person so appointed fails to appear or refuses to act, the chairman of any such meeting may, and on the request of any shareholder or his proxy shall, make such appointment at the meeting as provided in Section 707 of the General Corporation Law. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one or more shareholders or proxies, the majority of shares represented in person or by proxy shall determine whether one (1) or three (3) inspectors are to be appointed.

(b) DUTIES. The duties of such inspectors shall be as prescribed by Section 707 of the General Corporation Law and shall include: determining the number of shares outstanding and the voting power of each; the shares represented at the meeting; the existence of a quorum; the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or

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consents; determining when the polls shall close; determining the result; and such acts as may be proper to conduct the election or vote with fairness to all shareholders. In the determination of the validity and effect of proxies, the dates contained on the forms of proxy shall presumptively determine the order of execution of the proxies, regardless of the postmark dates on the envelopes in which they are mailed. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, or act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is PRIMA FACIE evidence of the facts stated therein.

ARTICLE III

DIRECTORS

3.1 POWERS. Subject to any limitations of the articles of incorporation and of the General Corporation Law to action to be authorized or approved by the shareholders and subject to the duties of directors as prescribed by these bylaws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be controlled by, the Board of Directors. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the following powers, to wit:

FIRST - To select and remove all the officers, agents and employees of the Corporation, prescribe such powers and duties for them as may not be inconsistent with law, with the articles of incorporation or these bylaws, fix their compensation and require from them security for faithful service.

SECOND - To conduct, manage and control the affairs and business of the Corporation, and to make such rules and regulations therefor not inconsistent with law, or with the articles of incorporation or the bylaws, as they may deem best.

THIRD - To change the Head Office of the Corporation from one location to another as provided in Section 1.1 of Article 1 of these bylaws; to fix and locate from time to time one or more branch offices of other places of business of the Corporation, as provided in Section 1.2 of Article 1 of these bylaws; to designate any place within the State of California for the holding of any shareholders' meeting or meetings; and to adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time, as in their judgment they may deem best, provided such seal and such certificates shall at all times comply with the provisions of law.

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FOURTH - To authorize the issue of shares of stock for the Corporation from time to time, upon such terms as may be lawful.

FIFTH - To borrow money and incur indebtedness for the purposes of the Corporation, and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, capital notes, debentures, deeds of trust, mortgages,

pledges, hypothecations or other evidences of debt and securities therefor, to the extent permitted by law.

SIXTH - By resolution adopted by a majority of the authorized number of directors, the Board may designate an executive and other committees, each consisting of two or more directors, to serve at the pleasure of the Board, and to prescribe the manner in which proceedings of such committee shall be conducted. Unless the Board of Directors shall otherwise prescribe the manner of proceedings of any such committee, meetings of such committee may be regularly scheduled in advance and may be called at any time by any two members thereof; otherwise, the provisions of these bylaws with respect to notice and conduct of meetings of the Board shall govern. Any such committee, to the extent provided in a resolution of the Board, shall have all of the authority of the Board, except with respect to:

(i) the approval of any action for which the General Corporation Law or the articles of incorporation also require shareholder approval;

(ii) the filling of vacancies on the Board or on any committee;

(iii) the fixing of compensation of the directors for serving on the Board or on any committee;

(iv) the adoption, amendment or repeal of bylaws;

(v) the amendment or repeal of any resolution of the Board;

(vi) any distribution to the shareholders, except at a rate or in a periodic amount or within a price range determined by the Board;

(vii) the appointment of other committees of the Board or the members thereof; or

(viii) the approval of any action which applicable law requires be approved by a greater number of affirmative votes of directors than were obtained or are obtainable on such committee.

SEVENTH- The Board may appoint a Stock Option Committee or Committees composed of not less than two (2) directors, one of whom shall serve as

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chairman. The duties of this committee shall be to manage this Corporation's stock option plan(s), to make periodic reports to the Board as to the status of the Plan, and, in addition to the power of the

Board to grant options, to grant qualified and nonqualified options pursuant to the Corporation's stock option plan(s).

3.2 NUMBER AND QUALIFICATION OF DIRECTORS. The number of directors of the Corporation shall not be less than (8) nor more than fifteen (15) until changed by amendment of the articles of incorporation or by a bylaw amending this Section 3.2 duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. The exact number of directors shall be fixed from time to time, within the limits specified in the articles of incorporation or in this Section 3.2, by a resolution duly adopted by a vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of a majority of the outstanding shares entitled to vote, or by the Board of Directors.

Subject to the foregoing provisions for changing the number of directors, the number of directors of this Corporation has been fixed at ten (10).

3.3 ELECTION AND TERM OF OFFICE. The directors shall be elected at each Annual Meeting of Shareholders but, in any such Annual Meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. All directors shall hold office until the next Annual Meeting of Shareholders and until their respective successors are elected and qualified, subject to the General Corporation Law and the provisions of these bylaws with respect to vacancies on the Board.

3.4 VACANCIES.

(a) WHEN A VACANCY EXISTS. A vacancy in the Board of Directors shall be deemed to exist in case of the death, resignation or removal of any director, if a director has been declared of unsound mind by order of court, or if a director is convicted of a felony, if the authorized number of directors be increased, of if the shareholders fail, at any Annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting.

(b) FILLING OF VACANCIES BY DIRECTORS. Vacancies in the Board of Directors, except for a vacancy created by the removal of director (see subsection (d) below) may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected

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at an Annual or a special meeting of shareholders. If the

Board of Directors accepts the resignation of a director tendered to take effect at a future time, the Board of Directors (or the shareholders) may elect a successor to take office when the resignation becomes effective.

(c) FILLING OF VACANCIES BY SHAREHOLDERS. The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors. Any such election by written consent shall require the consent of shareholders of a majority of the outstanding shares entitled to vote.

(d) VACANCY DUE TO REMOVAL OF DIRECTOR. A vacancy in the Board of Directors created by the removal of a director may only be filled by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of the holders of all the outstanding shares.

(e) WHEN REDUCTION IN NUMBER EFFECTIVE. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

3.5 PLACE OF MEETING. Regular meetings of the Board of Directors shall be held at any place within the State of California which has been designated from time to time by resolution of the Board. In the absence of such designation, regular meetings shall be held at the Head Office of the Corporation. Special meetings of the Board may be held either at a place so designated or at the Head Office.

3.6 ORGANIZATION MEETING. Immediately following each Annual Meeting of Shareholders the Board of Directors shall hold a regular meeting at the place of said Annual Meeting or at such other place as shall be fixed by the Board of Directors, for the purpose of organization, election of officers, and the transaction of other business. Call and notice of such meetings are hereby dispensed with.

3.7 OTHER REGULAR MEETINGS. Other regular meetings of the Board of Directors shall be held not less than once each calendar quarter on the third Thursday of the month at 11:00 a.m. at 7060 N. Fresno, Fresno, California or at such other day, hour and place as shall be fixed from time to time by the Board of Directors by resolution or in the bylaws. If such day falls upon a legal holiday, then said meeting shall be held at the same time on the next day thereafter ensuing which is a full business day. Notice of all such regular meetings of the Board of Directors is hereby dispensed with.

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3.8 SPECIAL MEETINGS. Special meetings of the Board of Directors for any purpose or purposes shall be called at any time by the Chairman of the Board, the President, the Secretary or by any two directors. Written notice of the time and place of special meetings shall be delivered personally to each director or communicated to each director by telephone, or by telegraph or mail, charges prepaid, addressed to him at his address as it is shown upon the records of the Corporation or, if it is not so shown on such records or it not readily ascertainable, at the place at which the meetings of the directors are regularly held. In case such notice is mailed or telegraphed, it shall be deposited in the United States mail or delivered to the telegraph company in the place in which the Head Office of the Corporation is located at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered, personally or by telephone, as above provided, it shall be so delivered at least twenty-four (24) hours prior to the time of the holding of the meeting. Such mailing, telegraphing or delivery, personally or by telephone, as above provided, shall be due, legal and personal notice to such director. Any notice shall state the date, place and hour of the meeting and the general nature of the business to be transacted, and no other business may be transacted at the meeting.

3.9 ACTION WITHOUT MEETING. Any action by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors.

3.10 ACTION AT A MEETING; QUORUM AND REQUIRED VOTE. Presence of a majority of the authorized number of directors at a meeting of the Board of Directors constitutes a quorum for the transaction of business, except as hereinafter provided. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting as permitted in the preceding sentence constitutes presence in person at such meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors, unless a greater number, or the same number after disqualifying one or more directors from voting, is required by law, by the articles of incorporation, or by these bylaws. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of a director, provided that any action taken is approved by at least a majority of the required quorum for such meeting.

3.11 WHEN NOTICE NOT REQUIRED. Notice of a meeting need not be given to any director who signs a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof, whether before or after the meeting. All such waivers, consents or approvals shall be filed with the

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corporate records or made a part of the minutes of the meeting.

3.12 WAIVER OF NOTICE BY ATTENDANCE. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, unless a director attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called, noticed, or convened; provided, however, if after stating his objection, the objecting director continues to attend and by his attendance participates in any matter other than those to which he objected, he shall be deemed to have waived notice of such meeting and withdrawn his objections.

3.13 ADJOURNMENT. A quorum of the directors may adjourn any directors' meeting to meet again at a stated day and hour; provided, however, that in the absence of a quorum a majority of the directors present and any directors' meeting, either regular or special, may adjourn from time to time until the time fixed for the next regular meeting of the Board.

3.14 NOTICE OF ADJOURNMENT. If the meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment. Otherwise notice of the time and place of holding any adjourned meeting need not be given to absent directors if the time and place be fixed at the meeting adjourned.

3.15 FEES AND COMPENSATION. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by resolution of the Board.

3.16 INDEMNIFICATION OF CORPORATE AGENTS. The Corporation may indemnify each or its agents against expenses, judgments, fines, settlements and other amounts, actually and reasonably incurred by such person having been made or having been threatened to be made a party to a proceeding to the fullest extent possible by the provisions of Section 317 of the General Corporation Law and the Corporation may advance the expenses reasonably expected to be incurred by such agent in defending any such proceeding upon receipt of the undertaking required by Section 317(f). The terms "agent," "proceeding" and "expense" made in this Section 3.16 shall have the same meaning as such terms in said Section 317 of the General Corporation Law.

3.17 TRANSACTIONS BETWEEN THE CORPORATION AND ITS DIRECTORS.

(a) CORPORATION AND DIRECTORS. No contract or other transaction between the Corporation and one or more of its directors, or between the Corporation and any corporation, firm or association in which one or more of its directors has a material financial interest (a mere common directorship shall not constitute a material financial interest), is either void or voidable because such director or directors or such other corporation, firm or association are parties or because such director or

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directors are present at the meeting of the board or a committee thereof which authorizes, approves or ratifies the contract or transaction, if

(1) the material facts as to the transaction and as to such director's interest are fully disclosed or known to the shareholders and such contract or transaction is approved in good faith by the affirmative vote of a majority of shares entitled to vote represented at a duly held meeting at which a quorum is present or by the written consent of shareholders, with the shares owned by the interested director or directors not being entitled to vote thereon;

(2) the material facts as to the transaction and as to such director's interest are fully disclosed or known to the Board or Committee, and the Board or committee authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient without counting the vote of the interested director or directors and the contract or transaction is just and reasonable as to the Corporation at the time it is authorized, approved or ratified; or

(3) as to contracts or transactions not approved as provided in paragraph (ax or (b) of this subdivision, the person asserting the validity of the contract or transaction sustains the burden of proving that the contract or transaction was just and reasonable as to the Corporation at the time it was authorized, approved or ratified.

(b) CORPORATIONS HAVING INTERRELATED DIRECTORS. No contract of other transaction between the Corporation and any corporation or association of which one or more of its directors are directors is either void or voidable because such director or directors are present at the meeting of the

Board or a committee thereof which authorizes, approves or ratifies the contract or transaction, if

(1) the material facts as to the transaction and as to such director's other directorship are fully disclosed or known to the Board or committee, and the Board or committee authorizes, approves or ratifies the contract or transaction in good faith by a vote sufficient without counting the vote of the common director or directors or the contract or transaction is approved by the shareholders (Section 153 of the General Corporation Law) in good faith, or

(2) As to contracts or other transactions not approved as provided in paragraph (1) of this subdivision, the contract or transaction is just and reasonable as to the Corporation at the time it is authorized, approved or ratified.

This subsection (b) does not apply to contracts or transaction covered by

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subsection (a).

(c) INTERESTED DIRECTORS. Interested or common directors may be counted in determining the presence of a quorum at a meeting of the Board or a committee thereof which authorizes, approves or ratifies a contract or transaction.

(d) LOANS AND EXTENSIONS OF CREDIT. For purposes of this Section 3.17, the term "transaction" does not include loans or extensions of credit in the ordinary course of business.

ARTICLE IV

OFFICERS

4.1 OFFICERS. The officers of the Corporation shall be a Chairman of the Board, a President, a Secretary and a Chief Financial Officer. The Corporation may also have, at the discretion of the Board of Directors, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as may be appointed in accordance with the provisions of Section 4.3.

4.2 ELECTION. The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 4.3 or Section 4.5, shall be chosen annually by the Board of Directors, and each shall hold his office until he shall

resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

4.3 SUBORDINATE OFFICERS, ETC. The Board of Directors may appoint, and may empower the President to appoint, such other officers as the business of the Corporation may require, each of whom shall hold office, for such period, have such authority and perform such duties as are provided in the bylaws or as the Board of Directors may from time to time determine.

4.4 REMOVAL AND RESIGNATION. Any officer may be removed, either with or without cause, by the Board of Directors, at any regular or special meeting thereof, or, except in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors (subject, in each case, to the rights, if any, of the officer under any contract of employment).

Any officer may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary of the Corporation, without prejudice, however, to the rights, if any, of the Corporation under any contract t which such officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time

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specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.5 VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

4.6 CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the directors and the shareholders and shall exercise such supervisory powers as may be given by the Board of Directors.

4.7 PRESIDENT. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, the President shall be the chief executive officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Corporation. He shall preside at all meetings of the shareholders and all meetings of the Board of Directors in the absence of the Chairman of the Board. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the bylaws.

4.8 VICE PRESIDENTS. In the event of the absence or disability of the President, the Executive Vice Presidents, in order of their rank as fixed by the Board of Directors or, if not ranked, the Executive Vice President designated by the Board of Directors and in the event or the absence or disability of all Executive Vice Presidents the other Vice Presidents, in order of their rank as fixed by the Board of Directors or, if not ranked, the Vice President designated by the Board of Directors, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors or these bylaws.

4.9 SECRETARY.

(a) BOOK OF MINUTES. The Secretary shall record or cause to be recorded, and shall keep or cause to be kept, at the Head Office and such other place as the Board of Directors may order, a book of minutes of actions taken at all meetings of directors and shareholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the name of those present at directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof.

(b) SHARE REGISTER. The Secretary shall keep, or cause to be kept, at the Head Office or at the office of the Corporation's transfer agent, a

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share register, or a duplicate share register, showing the names of the shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

(c) OTHER DUTIES. The Secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the Board of Directors required by the bylaws or by law to be given, and the Secretary shall keep the seal of the Corporation, if any, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the bylaws.

4.10 CHIEF FINANCIAL OFFICER.

(a) BOOKS OF ACCOUNT. The Chief Financial Officer of the Corporation shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the

properties and business transactions of the Corporation, and shall send or cause to be sent to the shareholders of the Corporation such financial statements and reports as are by law or these bylaws required to be sent to them. The books of account shall at all reasonable times be open to inspection by any director.

(b) OTHER DUTIES. The Chief Financial Officer shall deposit or cause to be deposited all moneys and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. The Chief Financial Officer shall disburse or cause to be disbursed the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or the bylaws.

ARTICLE V

GENERAL CORPORATE MATTERS

5.1 RECORD DATE. The Board of Directors may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any meeting of shareholders or entitled to give consent to corporate action in writing without a meeting, to receive any report, to receive any dividend or distribution, or any allotment of rights, or to exercise rights in respect to any change, conversion, or exchange of shares. The record date so fixed shall be not more than sixty (60) days nor less than ten (10) days prior to the date of any meeting, nor more than sixty (60) days prior to any other

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event for the purposes of which it is fixed. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at any such meeting, to give consent without a meeting, to receive any report, to receive a dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date, except as otherwise provided in the articles of incorporation or these bylaws.

5.2 INSPECTION OF CORPORATE RECORDS.

(a) BY SHAREHOLDERS. The accounting books and records, the record of shareholders, and minutes of proceedings of the shareholders and the Board and committees of the Board of this Corporation and any subsidiary of this

Corporation shall be open to inspection upon the written demand on the Corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as the holder of such voting trust certificate. Such inspection by a shareholder or holder of a voting trust certificate may be made in person or by agent or attorney, and the right of inspection includes the right to copy and make extracts.

A shareholder or shareholders holding at least five percent (5 percent) in the aggregate of the outstanding voting shares of the Corporation, or in the event the Corporation is subject to the reporting requirements of the Securities Exchange Act of 1934, a shareholder or shareholders who hold at least one percent (1 percent) of such voting shares and have filed applicable forms with the Securities and Exchange Commission relating to the election of directors of the Corporation, shall have (in person or by agent or attorney) the absolute right: (1) to inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours upon five (5) business days' prior written demand upon the Corporation and; (2) to obtain from the transfer agent for the Corporation, upon written demand and upon the tender of its usual charges, a list of the shareholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand. The list shall be made available on or before the later of five (5) business days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

(b) BY DIRECTORS. Every director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of the Corporation. Such inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

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5.3 MAINTENANCE AND INSPECTION OF BYLAWS. The Corporation shall keep at its Head Office the original or a copy of the bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours.

5.4 ANNUAL AND OTHER REPORTS. The Board of Directors of the Corporation shall cause an annual report to be sent to the shareholders at least fifteen (15) days prior to the Annual Meeting of shareholders but not later than one hundred twenty

(120) days after the close of the fiscal year in accordance with the provisions of Section 1501 of the General Corporation law.

5.5 CHECKS AND DRAFTS, HOW SIGNED. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

5.6 CONTRACTS, HOW EXECUTED. The Board of Directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the Board of Directors or within the agency power of any officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

5.7 CERTIFICATES FOR SHARES. Every holder of shares in the Corporation shall be entitled to have a certificate signed in the name of the Corporation by the Chairman of the Board or the President or a Vice President and by the Chief Financial Officer or an Assistant Treasurer or the Secretary or any Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

5.8 STATEMENTS ON CERTIFICATE FOR SHARES. Any such certificate shall also contain such legend or other statement as may he required by law, by these bylaws or by an agreement between the Corporation and the issuee thereof.

5.9 LOST, STOLEN OR DESTROYED CERTIFICATES. No new certificates for

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shares shall be issued to replace an old certificate unless the latter is surrendered and canceled at the same time; provided, however, that a new certificate will be issued by order of the Board of Directors without the surrender and cancellation of the old certificate if (i) the old certificate is lost, apparently destroyed or wrongfully taken; (ii) the request for the issuance of the new certificate is made within a reasonable time after the owner of the old certificate

has notice of its loss, destruction, or theft; (iii) the request for the issuance of a new certificate is made prior to the receipt of notice by the Corporation that the old certificate has been acquired by a bona fide purchaser; (iv) the owner of the old certificate files a sufficient indemnity bond with or provides other adequate security to the Corporation; and (v) the owner satisfies any other reasonable requirements imposed by the Corporation. In the event of the issuance of a new certificate, the rights and liabilities of the Corporation, and of the holders of the old and new certificates, shall be governed by the provisions of Sections 8104 and 8405 of the California Commercial Code.

5.10 REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The Chairman of the Board, President or any Vice President, or any other person authorized by resolution of the Board of Directors or by any of the foregoing designated officers, are authorized to vote, represent and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted to said officers to vote or represent on behalf of this Corporation any and all shares held by this Corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized so to do by proxy or power or attorney duly executed by these officers.

5.11 CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of the foregoing, the masculine gender includes the feminine and neuter, the singular number includes the plural and the plural number includes the singular, and the term "person" includes a corporation as well as a natural person.

5.12 CORPORATE SEAL. The Board of Directors shall adopt, use and at will alter a corporate seal. Any corporate seal shall be circular in form and shall have inscribed thereon the name of the Corporation, the date of its incorporation and the word "California."

ARTICLE VI

AMENDMENTS

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6.1 POWER OF SHAREHOLDERS. New bylaws may be adopted or these bylaws may be amended or repealed by the affirmative vote of a majority of the outstanding shares entitled to vote, or by the written assent of shareholders entitled to vote such shares,

except as otherwise provided by law or by the articles of incorporation.

6.2 POWER OF DIRECTORS. Subject to the right of shareholders as provided in Section 6.1 to adopt, amend or repeal bylaws, bylaws may be adopted, amended or repealed by the Board of Directors provided, however, that the Board of Directors may adopt a bylaw or amendment thereof changing the authorized number of directors only for the purpose of fixing the exact number of directors within the limits specified in Section 3.2 of Article III of these bylaws.

CERTIFICATE OF SECRETARY

I, the undersigned, certify that:

1. I am the duly elected and acting Secretary of Regency Bancorp, a California corporation; and

2. The foregoing By-Laws, consisting of twenty-two (22) pages, are the By-Laws of this corporation as duly adopted by a Resolution of the Board of Directors.

IN WITNESS WHEREOF, I have subscribed my name and affixed the seal of this corporation on July 21, 1994.

/s/ [Illegible]

Secretary

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[SEAL]

RBC
RESOLUTION 95-13
(Regency Bancorp Bylaw Amendment)

WHEREAS, Article II, Section 2.3 of the Bylaws of Regency Bancorp (the "Corporation"), which relates to the procedures for the nomination of directors of the Corporation, currently provides as follows:

> "2.3 NOMINATIONS FOR DIRECTOR. Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of voting stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations, other than by the Board of Directors, shall be made in writing and shall be received by the President of the Corporation no more than sixty (60) days prior to any meeting of shareholders called for the election of directors, no more than ten (10) days after the date the notice of such meeting is sent to shareholders pursuant to Section 2.2 of these bylaws, and not later than the time fixed in the notice of the meeting for the opening of the meeting. Such notification shall contain the following information to the extend known of the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of voting stock of the Corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of voting stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may be disregarded by the then chairman of the meeting, and the inspectors of election shall then disregard all votes cast for each nominee.
>
> The first paragraph of this Section 2.3 shall be set forth in any notice of a shareholders' meeting, whether pursuant to Section 2.2 or Section 2.4 of these Bylaws, at which meeting the election of directors is to be considered."

WHEREAS, it is deemed to be in the best interests of the Corporation and its shareholders to amend the procedures described above by replacing Article II, Section 2.3 of the Bylaws, with the nomination procedures described

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below;

NOW, THEREFORE, BE IT RESOLVED, that Article II Section 2.3 of the Bylaws of the Corporation be, and it hereby is, amended to read in its entirety as follows:

"2.3 NOMINATION FOR DIRECTORS.

Nominations for election of directors may be made by the Board of Directors or by any holder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations shall be made in writing and shall be delivered or mailed to the President of the Corporation not less than twenty-one (21) days nor more than sixty (60) days prior to any meeting of shareholders called for the election of directors; provided, however, that if less than twenty-one (21) days' notice of the meting is given to shareholders, such notice of intention to nominate shall be mailed or delivered to the President of the Corporation not later than the close of business on the tenth (10th) day following the day on which the notice of meeting was mailed; provided further, that if notice of such meeting is sent by third class mail (if permitted by law), no notice of intention to make nominations shall be required. Such notification shall contain the following information to the extend known to the notifying shareholder:

(a) the name and address of each proposed nominee;

(b) the principal occupation of each proposed nominee;

(c) the number of shares of capital stock of the Corporation owned by each proposed nominee;

(d) the name and residence address of the notifying shareholder; and

(e) the number of shares of capital stock of the Corporation owned by the notifying shareholder.

Nominations not made in accordance herewith may, in the discretion of the Chairman of the meeting, be disregarded and upon the Chairman's instructions, the inspectors of election can disregard all votes cast for each such nominee. A copy of this paragraph shall be set forth in a notice to shareholders of any meeting at which directors are to be elected."

RESOLVED FURTHER, that the officers of the Corporation be, and each of them hereby is, authorized, empowered and directed to take any action and

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execute, deliver and/or file any documents as may, by the officer or officers so acting, be deemed necessary or advisable to implement the foregoing resolutions in a manner which will carry out the intent of the Board.

ADOPTED THIS 20TH DAY OF APRIL, 1995.

REGENCY BANCORP 99-01
RESOLUTION TO AMEND BYLAWS

RESOLVED, that Article II, Section 2.2 of the Bylaws of the Corporation be, and it hereby is amended to include the following:

(e) SHAREHOLDER PROPOSALS. Notice of proposals which shareholders intend to present at any annual meeting of shareholders and wish to be included in the proxy statement of management of the corporation distributed in connection with such annual meeting must be received at the principal executive offices of the corporation not less than 120 days prior to the date on which, during the previous year, management's proxy statement for the previous year's annual meeting was first distributed to shareholders. Any such proposal, and the proponent shareholder, must comply with the eligibility requirements set forth in Rule 14a-8 of the Securities and Exchange Commission.

BE IT FURTHER RESOLVED, that Article II, Section 2.10 of the Bylaws of the Corporation be, and it hereby is amended to include the following:

The proxy solicited by management for any annual meeting of shareholders shall confer discretionary authority upon management's proxy holders to vote with respect to any shareholder proposal offered at such meeting, the proponent of which has not notified the corporation, within the time period specified by Section 2.2 (e) of these Bylaws, of his or her intention to present such proposal at the annual meeting. Specific reference to such voting authority shall be made in management's proxy statement for each annual meeting.

ADOPTED THIS 28TH DAY OF JANUARY, 1999

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EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-3848 of Regency Bancorp on Form S-8 of our report dated February 4, 1998, appearing in this Annual Report on Form 10-K of Regency Bancorp for the year ended December 31, 1997.

/s/ Deloitte & Touche

Fresno, California
March 22, 1999

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EXHIBIT 23.2

The Board of Directors
Regency Bancorp:

We consent to incorporation by reference in the registration statement on Form S-8 of Regency Bancorp of our report dated February 5, 1999, relating to the consolidated balance sheet of Regency Bancorp and subsidiaries as of December 31, 1998 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended, which report appears in the December 31, 1998, annual report on Form 10-K of Regency Bancorp.

KPMG LLP

Sacramento, California
March 25, 1999

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