SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

CASTLE BANCGROUP INC

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SIC: **6022** State commercial banks

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 1998 Commission File No. 0-25914

CASTLE BANCGROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-3238190
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

121 West Lincoln Highway
DeKalb, IL 60115
(Address including zip code, of principal executive offices)

Registrant's telephone number, including area code: (815) 758-7007

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
Par Value $.33 1/3 Per Share

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 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. /X/

Aggregate market value of voting stock held by non-affiliates of the registrant as of February 22, 1999, based upon average market price at that date: The registrant's Common Stock is not listed on an established exchange and is infrequently traded. The most recent known trading price is $30.00 per share. Based on this price the aggregate market value of voting shares held by non-affiliates of the registrant is $55,889,000.

The registrant had 2,175,394 shares of Common Stock outstanding as of March 18, 1999.

The following documents are incorporated by reference in this report:
1. Portions of the registrant's Proxy Statement for the 1999 Annual Meeting of Stockholders are incorporated by reference to Part III hereof.

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PART I

ITEM 1. BUSINESS

Castle BancGroup, Inc. (Company) is a registered bank holding company organized in 1984 under Delaware law. The operations of the Company and its subsidiaries consist primarily of those financial activities common to the commercial financial services industry, including trust, data processing, mortgage banking, and consumer finance services. Unless the context otherwise requires, the term "Company" as used herein includes the Company and its subsidiaries on a consolidated basis. Substantially all of the operating income of the Company is attributable to its subsidiaries.

The primary function of the Company is to coordinate the policies and operations of its subsidiaries in order to improve and expand their products and services and to effect operating economies of scale. The Company provides auditing, marketing, and data processing services to the subsidiaries. It also provides management services, training, human resources, and business development assistance.

The Company is also responsible for the identification and evaluation of potential financial industry acquisition targets within the strategic market area, generally defined as the corridor bounded by Chicago's western suburbs on the east, Interstate 39 on the west, southern Wisconsin on the north, and northwestern Indiana on the southeast.

Castle Bank, N.A. (CB) (formerly known as The Sandwich State Bank), First National Bank in DeKalb (FNB), Castle Bank Harvard, N.A. (CBH) (formerly known as First State Bank of Harvard) and The Bank of Yorkville (BOY) (collectively, Subsidiary Banks) are wholly owned banking subsidiaries of the Company. The Subsidiary Banks provide banking services common to the industry, including but not limited to, demand, savings and time deposits, loans, cash management, electronic banking services, trust services, and credit and debit cards. The Subsidiary Banks serve a diverse customer base including individuals, businesses, governmental units, and institutional customers. The Subsidiary Banks have banking offices in DeKalb, Sycamore, Sandwich, Plano, Sugar Grove, Harvard, and Yorkville, Illinois and a mortgage loan origination office in Sandwich, Illinois.

CasBanc Mortgage, Inc. (CMI), an Illinois corporation and wholly owned subsidiary of the Company, is a residential mortgage originator and broker that engages in the origination of residential mortgages which are subsequently sold in the secondary market. CMI is headquartered in Oak Brook, Illinois and has loan origination offices in Oak Brook, Rolling Meadows, Matteson, Chicago, Naperville, and Berwyn, Illinois, Merrillville, Indiana, and Chesterfield, Missouri. CMI also provides processing services and delivery in the secondary market for residential mortgage loans originated by the Subsidiary Banks.

Castle Finance Company (CFC), an Illinois corporation and wholly owned subsidiary of the Company, is a 100% owned consumer finance company that engages in making small consumer loans, as well as acting as an agent to sell insurance relating to those loans. CFC is headquartered in DeKalb, with loan origination offices in DeKalb and Plano, Illinois.

COMPETITION

Active competition exists in all principal areas where the Company and its subsidiaries operate, not only with other commercial banks, finance companies

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and mortgage bankers, but also with savings and loan associations, credit unions, and other financial service companies serving the Company's defined market area. The principal methods of competition between the Company and its competitors are price and service. Price competition, primarily in the form of interest rate competition, is a standard practice within the Company's market place as well as the financial services industry. Service and product quality are also significant factors in competing and allow for differentiation from competitors.

Deposits in Subsidiary Banks are well balanced, with a large customer base and no dominant segment of accounts. Each Subsidiary Bank's loan portfolio is also characterized by a large customer base, including loans to

commercial, agricultural and consumer customers, with no dominant relationships. There is no readily available source of information that delineates the market for financial services offered by non-bank competitors in the Company's market.

REGULATION AND SUPERVISION

Bank holding companies and banks are extensively regulated under both federal and state law. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutes and regulations. Any significant change in applicable law or regulation may have an effect on the business and prospects of the Company and its subsidiaries.

The Company is registered under and is subject to the provisions of the Bank Holding Company Act of 1956, as amended, and is regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Under the Bank Holding Company Act, the Company is required to file annual reports and such additional information as the Federal Reserve Board may require and is subject to examination by the Federal Reserve Board. The Federal Reserve Board has jurisdiction to regulate virtually all aspects of the Company's business. See "The Company's Subsidiaries" section of this report for discussion of regulators of the subsidiaries.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before merging with or consolidating into another bank holding company, acquiring substantially all the assets of any bank or acquiring directly or indirectly any ownership or control of more than 5% of the voting shares of any bank.

The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks, or furnishing services to banks and their subsidiaries. The Company, however, may engage in certain businesses determined by the Federal Reserve Board to be so closely related to banking or managing and controlling banks as to be a proper incident thereto. The Bank Holding Company Act does not place territorial restrictions on the activities of bank holding companies or their non-bank subsidiaries.

Deposits of all the Subsidiary Banks are insured by the Federal Deposit Insurance Corporation (FDIC) and are subject to the provisions of the Federal Deposit Insurance Act. Areas subject to regulation by federal and state authorities include capital adequacy, reserves, investments, loans, mergers, issuance of securities, payments of dividends by the banking affiliates, establishment of branches, and other aspects of banking operations.

The FDIC Board of Directors voted on December 11, 1996 to finalize a rule lowering the rates on assessments paid to the Savings Association Insurance Fund (SAIF), effective as of October 1, 1996. As a result of the special assessment required by the Deposit Insurance Funds Act of 1996 (Funds Act), the SAIF was capitalized at the target Designated Reserve Ratio (DRR) of 1.25% of estimated insured deposits on October 1, 1996. The Funds Act required the FDIC to set assessments in order to maintain target DRR. The Board has, therefore, lowered the rates on assessments paid to the SAIF, while simultaneously widening the spread between the lowest and highest rates to improve the effectiveness of the FDIC's risk-based premium system. The Board has also established a process, similar to that which was applied to the Bank Insurance Fund (BIF), adjusting the rate schedules for both the SAIF and the BIF within a limited range, without notice and comment to maintain each of the fund balances at the target DRR. Commencing in 1997 and continuing through 1999, annual premium rates for the healthiest banks (1A category) are 1.29 cents for every $100 of BIF-assessable deposits. All Subsidiary Banks paid the 1.29 cents rate during 1998.

Since September 29, 1995, adequately capitalized and adequately managed

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bank holding companies have been able to acquire banks across state lines, without regard to whether the transaction is prohibited by state law. Any state law relating to the minimum age of target banks (not to exceed five years) is applicable. The Federal Reserve Board is not permitted to approve any acquisition if, after the acquisition, the bank holding company would control

more than 10% of the deposits of insured depository institutions nationwide or 30% or more of the deposits in the state where the target bank is located. The Federal Reserve Board could approve an acquisition, notwithstanding the 30% limit, if the state waives the limit either by statute, regulation or order of the appropriate state official.

In addition, beginning June 1, 1997, banks were permitted to merge with one another across state lines and thereby create a main bank with branches in separate states. After establishing branches in a state through an interstate merger transaction, the bank could establish and acquire additional branches at any location in the state where any bank involved in the merger could have established or acquired branches under applicable federal or state law.

National banking regulations restrict the amount of dividends that a bank may pay to its stockholders. Generally, the regulations provide that dividends are limited to net earnings for the current and two preceding years, reduced by dividends paid and transfers to permanent capital. At December, 31, 1998, subject to minimum regulatory capital guidelines, FNB and CBH could, without prior approval of regulatory authorities, declare dividends of approximately $3,224,000 and $262,000 respectively. Assuming CB's conversion to a national bank charter was effective as of December 31, 1998, CB could, without prior approval of regulatory authorities, declare dividends of approximately $773,000.

BOY is subject to state banking regulations which provide that dividends can be paid up to the amount of available undivided profits (as defined), subject to total capital adequacy considerations.

THE COMPANY'S SUBSIDIARIES

BOY is a state chartered bank. It is therefore subject to regulation and examination by the Illinois Office of Banks and Real Estate. CBH converted to a nationally chartered bank effective April 1, 1997. CB converted to a nationally chartered bank effective January 1, 1999. CB, CBH, and FNB are nationally chartered banks and Federal Reserve members, and are therefore subject to regulation and examination by the Office of the Comptroller of the Currency, as well as the Federal Reserve Board. All of the Subsidiary Banks are subject to the provisions of the Federal Deposit Insurance Act and examination by the FDIC. The examinations by the various regulatory authorities are designed for the protection of bank depositors.

The federal and state laws and regulations generally applicable to banks regulate, among other things, the scope of their business, their investments, their reserve against deposits, the nature and amount of and collateral for loans, and the location of banking offices and types of activities which may be performed at such offices.

Subsidiary banks of a bank holding company are subject to certain restrictions under the Federal Reserve Act and the Federal Deposit Insurance Act on loans and extension of credit to the bank holding company or to its other subsidiaries, investments in the stock or other securities of the bank holding company or its other subsidiaries, or advances to any borrower collateralized by such stock or other securities.

CMI is a residential mortgage originator and broker and is therefore subject to licensing, regulation and examination by the Illinois Office of Banks and Real Estate, as well as the appropriate agencies in Indiana, Wisconsin and Missouri. Examinations by this regulator are designed for the protection of the consumer borrowers and not for the mortgage company shareholders.

CFC is a finance company and is therefore subject to licensing, regulation, and examination by the Department of Financial Institutions for the State of Illinois. Examinations by this regulator are designed for the protection of the consumer borrowers and not for the finance company shareholders.

CAPITAL REQUIREMENTS

All federal bank regulatory agencies have adopted risk-based capital guidelines. These guidelines establish required levels of capital that are monitored by certain ratios. Capital is divided into two components; Tier 1

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capital which includes common stock, additional paid-in capital, retained earnings and certain types of perpetual preferred stock less goodwill, and Tier 2 capital that includes among other things, limited life preferred stock, subordinated debt and the allowance for possible loan losses. These components of capital are compared to both total assets as reported on the balance sheet and assets that have been adjusted to compensate for associated risk to the organization. This allocation separates assets and specified off-balance sheet commitments into four categories that are risk-weighted from 0 percent to 100 percent according to predefined levels of average risk. The guidelines require a tangible leverage capital ratio (defined as Tier 1 capital to average assets) of 4.00%. The Company had a tangible leverage capital ratio of 6.38% as of December 31, 1998. The guidelines require a total capital ratio (defined as the total of both Tier 1 and Tier 2 capital to risk weighted assets) of 8.00%. The Company had a total capital to risk weighted assets ratio of 11.08% as of December 31, 1998. The guidelines also require a Tier 1 ratio (defined as Tier 1 capital to risk weighted assets) of 4.00%. The Company had a Tier 1 ratio of 9.83% as of December 31, 1998. The regulatory requirements are considered minimums and actual ratios should be commensurate with the level and nature of all risks of a company (as determined by the regulatory agencies). Regulators generally expect organizations that are experiencing internal growth or are making acquisitions to maintain capital levels substantially above the minimum supervisory levels and comparable to peer groups, without significant reliance on intangible assets. Management intends to continue its emphasis on a strong capital position.

MONETARY POLICY AND ECONOMIC CONDITIONS

The earnings of commercial banks, finance companies, mortgage bankers and bank holding companies are affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities. In particular, the Federal Reserve Board influences conditions in the money and capital markets, which affect interest rates and growth in bank credit and deposits. Federal Reserve Board monetary policies have had a significant effect on the operating results of commercial banks in the past and this is expected to continue in the future. The general effect, if any, of such policies on future business and earnings of the Company and its Subsidiary Banks cannot be predicted.

EMPLOYEES

As of December 31, 1998, the Company and its subsidiaries had a total of 364 full-time equivalent employees. None of these employees are subject to a collective bargaining agreement. Management believes it has excellent relations with its staff.

ITEM 2. PROPERTIES

The following table sets forth information related to the Company's properties. These properties are suitable and adequate for the Company's business needs.

<TABLE>
<CAPTION>

ENTITY	DESCRIPTION	ADDRESS	CITY/STATE	APPROXIMATE SQUARE FEET	OWNED/LEASED
<S>	<C>	<C>	<C>	<C>	<C>
FNB	Main bank	141 West Lincoln Highway	DeKalb, IL	19,600	Owned
FNB	Drive-in facility	141 West Lincoln Highway	DeKalb, IL	1,200	Owned
FNB	Branch facility	1007 North First Street	DeKalb, IL	1,800	Owned
FNB	Branch facility	511 West State Street	Sycamore, IL	9,400	Owned/Leased(1)
FNB	Branch facility	1602 East Sycamore Road	DeKalb, IL	2,300	Owned
FNB	Commercial building	121 West Lincoln Highway	DeKalb, IL	15,000	Owned(2)
CB	Main bank	100 West Church Street	Sandwich, IL	13,000	Owned
CB	Mortgage office	44 West Church Street	Sandwich, IL	1,200	Leased
CB	Branch facility	91 Sugar Lane, Suite C	Sugar Grove, IL	1,000	Leased
CB	Branch facility	505 West Route 34	Plano, IL	2,400	Leased
CBH	Main Bank	201 West Diggins Street	Harvard, IL	11,700	Owned
CBH	Branch facility	1265 South Division Street	Harvard, IL	3,500	Owned
BOY	Main bank	606 Countryside Center	Yorkville, IL	21,100	Owned
CMI	Main/Mortgage office	1315 West 22nd Street	OakBrook, IL	10,400	Leased
CMI	Mortgage office	5105 Tollview Drive	Rolling Meadows, IL	2,100	Leased
CMI	Mortgage office	6922 West Cermak	Berwyn, IL	1,800	Leased
CMI	Mortgage office	2549 North Racine	Chicago, IL	1,200	Leased
CMI	Mortgage office	2017 West Division	Chicago, IL	1,200	Leased
CMI	Mortgage office	600 Holiday Plaza Drive	Matteson, IL	3,900	Leased
CMI	Mortgage office	847 North Center Street	Naperville, IL	3,200	Owned
CMI	Mortgage office	101 West 79th Avenue	Merrillville, IN	3,140	Leased

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CMI	Mortgage office	13990 Olive Road	Chesterfield, MO	1,800	Leased
CFC	Main/Origination office	232 West Lincoln Highway	DeKalb, IL	2,000	Leased
CFC	Origination office	206 South Ben Street	Plano, IL	600	Leased

</TABLE>

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any subsidiary is a party to, and none of their property is subject to, any material legal proceedings at this time. However, the Company and its subsidiaries are from time to time parties to routine litigation incidental to their businesses.

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

No matters, through the solicitation of proxies or otherwise, were submitted to a vote of security holders during the quarter ended December 31, 1998.

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(1) FNB owns the building and approximately 60% of the underlying land and has a long-term lease with option to buy the remaining land.

(2) FNB owns the building and leases the entire space to the Company. The facility houses all administrative and operational functions of the Company.

PART II

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

The Company's stock is traded over-the-counter and is quoted on the OTC Bulletin Board, under the symbol CTBG. During the period from January 1, 1997 through December 31, 1998, management of the Company believes that there were approximately 80 trades in the Company's common stock. Management of the Company does not have information with respect to the prices at which all such trades were effected but believes that the prices ranged from $20.50 to $31.00 per share on those transactions with respect to which it does have information.

The approximate number of beneficial owners of Common Stock of the Company on December 31, 1998 was 973.

Cash dividends on the above referenced common stock are paid semi-annually. Dividends for the years ended December 31, 1998 and 1997 were declared as follows:

<TABLE>

<S>	<C> 1998	<C> 1997
First semi-annual dividend	$0.12	$0.10
Second semi-annual dividend	$0.14	$0.12
Total	$0.26	$0.22

</TABLE>

The amount of dividends payable by the Company on its common stock is limited by the provisions of its long-term debt agreement. Dividends are limited to 50% of the net earnings, less dividends paid, in the previous eight quarters. As of December 31, 1998, the Company was limited to $2,628,000 for dividend purposes.

On December 31, 1997, the Company issued 66,311 shares of Common Stock to four preferred stockholders. These shares were issued in combination with a cash payment of $841,158 to redeem 2,300 shares of the Company's Perpetual Preferred Stock. This transaction was exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

Five Year Summary of Selected Consolidated Financial Data

<TABLE>

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<CAPTION>

FOR THE YEARS ENDED DECEMBER 31, (000'S OMITTED EXCEPT PER SHARE DATA)

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Interest income	$40,625	39,063	36,437	32,650	28,903
Interest expense	19,702	19,468	17,858	15,927	12,487
Net interest income before provision for possible loan losses	20,923	19,595	18,579	16,723	16,416
Provision for possible loan losses	737	1,128	1,113	488	323
Net interest income after provision for possible loan losses	20,186	18,467	17,466	16,235	16,093
Other operating income	14,960	9,553	8,339	7,931	3,366
Investment securities gains (losses)	154	210	41	(284)	(29)
Other operating expenses	27,978	23,749	23,076	19,061	14,702
Earnings before income taxes	7,322	4,481	2,770	4,821	4,728
Income tax expense	2,587	1,468	926	1,457	1,368
Net earnings	$4,735	3,013	1,844	3,364	3,360
Net earnings applicable to common stock	$4,712	2,811	1,643	3,026	2,885
Per share data - common stock					
Net earnings - basic	$2.18	1.35	.80	1.49	1.46
Net earnings - diluted	$2.16	1.34	.79	1.46	1.42
Cash dividends	$ .26	.22	.20	.18	.16
Financial position - year end					
Investment securities available for sale	$132,060	129,479	133,072	135,566	137,826
Mortgage loans held for sale	67,354	44,761	20,343	13,484	-
Net loans	322,034	308,542	285,394	251,291	232,557
Allowance for possible loan losses	4,775	4,646	3,775	3,309	3,475
Non-interest bearing deposits	50,371	42,589	43,233	40,524	37,517
Interest bearing deposits	401,794	381,094	360,876	345,646	317,436
Long-term debt	10,300	10,250	10,150	11,000	11,800
Preferred stock	0	300	2,600	2,600	5,350
Total stockholders' equity	41,545	36,862	34,962	34,347	30,671
Total assets	555,455	515,550	473,424	443,637	407,505

</TABLE>

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

The following discussion is management's analysis of the consolidated financial condition and results of operations of the Company, which may not otherwise be apparent from the consolidated financial statements included in this report at Item 8. Reference should be made to those statements, the notes thereto and the selected financial data presented elsewhere in this report for an understanding of the following discussion and analysis.

RESULTS OF OPERATIONS

The Company's net earnings in 1998 totaled $4,735,000, a 57.2% increase from 1997 earnings of $3,013,000. This represents an $.83 increase in basic earnings per share. Net earnings for 1996 were $1,844,000.

Two major factors contributed to the improvement in performance at the Company during 1998. First, net interest income after provision for possible loan losses was $20,186,000 for the year ended December 31, 1998 versus $18,467,000 for 1997, representing a 9.3% increase. Net interest income will be discussed in detail below. Second, a favorable interest rate environment during the year helped to increase net mortgage loan origination income to $11,490,000 for 1998 from $6,546,000 for 1997, or an increase of 75.5%. These increases were partially offset by an increase in salaries and employee benefits expense of 20.5%, from $15,336,000 in 1997 to $18,477,000 in 1998. This increase is largely due to the commission paid to mortgage loan originators related to net mortgage loan origination income.

Net earnings attributable to common stock increased to $4,712,000 in 1998 from $2,811,000 in 1997. Net earnings attributable to common stock for 1996 was $1,643,000. Dividends paid on preferred stock totaled $23,000 in 1998 as compared to $202,000 in 1997, and $201,000 in 1996. Basic earnings per share increased to $2.18 for 1998 as compared to $1.35 for 1997. Basic earnings per share for 1996 was $.80. The following table highlights significant factors that

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have contributed to these changes in earnings per share:

<TABLE>
<CAPTION>

<S>	Changes in Basic Earnings per Share 1997 to 1998 <C>	1996 to 1997 <C>
Prior period basic earnings per share	$ 1.35	$ .80
Changes due to:		
Net Interest income	0.25	0.43
Provision for possible loan losses	0.20	0.00
Net interest income after provision for possible loan losses	0.45	0.43
Other operating income		
Investment securities gains (losses), net	(.03)	0.08
Gain on sale of land and buildings	.00	(0.01)
Mortgage revenues	2.16	0.65
Other operating income items	.16	(0.08)
Total other operating income	2.29	0.64
Other operating expenses		
Salaries and employee benefits	(1.16)	(0.37)
Net occupancy and furniture expenses	(.03)	0.03
Outside services	(.17)	0.18
FDIC insurance assessment	0.00	(0.02)
Goodwill amortization	0.01	0.00
Other operating expense items	(0.16)	(0.08)
Total other operating expenses	(1.51)	(0.26)
Income tax expenses	(0.49)	(0.26)
Preferred stock dividends	0.09	0.00
Current period basic earnings per share	$ 2.18	$ 1.35

</TABLE>

The Company's return on average equity for 1998 was 11.95%, as compared to 8.43% in 1997 and 5.36% in 1996. Return on average assets was .93% in 1998 versus .62% in 1997 and .40% in 1996. The increase in these ratios for 1998 were primarily due to the increase in net interest income and the increase in net mortgage loan origination income as described above.

NET INTEREST INCOME

Net interest income before provision for possible loan losses, the Company's primary source of earnings, totaled $20,923,000 in 1998, a $1,328,000, or 6.8% increase over 1997. This increase can primarily be attributed to both an $840,000 increase in interest and fees on loans and an $837,000 increase in interest on mortgage loans held for sale. These changes were due to increases in average portfolio balances in 1998 versus 1997. These increases were partially off-set by a $234,000 increase in interest expense. Net interest income before provision for possible loan losses increased $1,016,000 in 1997 as compared to 1996, which represented a 5.5% increase.

Management believes that net interest margins will continue to narrow as competitive pressures in the market place expand. Competition from both financial institutions and non-traditional competitors, as well as general economic trends, will continue to impact future earnings. Earning asset mix, as well as the net interest margin, are monitored and evaluated by management to develop strategies to help maintain and improve earnings.

On a tax equivalent basis, net interest income increased to $21,517,000 in 1998 from $20,041,000 and $19,111,000 in 1997 and 1996, respectively. The tax equivalent net interest margin remained relatively constant in 1998, averaging 4.45% as compared to 4.40% in 1997 and 4.42% in 1996.

Total average earning assets in 1998 were $478,895,000 an increase of $27,779,000 or 6.2% over 1997. Average earning assets as a percentage of total average assets increased slightly to 93.6% during 1998 as compared to 93.3% in 1997 and 93.0% in 1996. The total average loan portfolio represented 65.0% of total average earning assets in 1998, a decrease from 66.8% in 1997 and an increase from 62.8% in 1996. Mortgage loans held for sale represented 7.3% of average earning assets in 1998, an increase from 4.7% in 1997. Mortgage loans

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held for sale represented 6.9% of average earning assets in 1996. In 1998, average total interest-bearing liabilities were $423,551,000, a $20,914,000 or 5.2% increase over 1997. This increase can be attributed to a $3,802,000 increase in average short-term borrowings as well as growth of $18,037,000 or 4.9% in interest-bearing deposit liabilities. The proportion of average interest-bearing liabilities to average earning assets in 1998 decreased to 88.4% as compared to 89.3% in 1997.

PROVISIONS FOR POSSIBLE LOAN LOSSES

The adequacy of each Subsidiary Bank's allowance for possible loan losses is determined by calculating the allocated and unallocated portions of the reserve using a combination of internal loan classifications, weighted historical charge-off experience, and an evaluation of estimated losses on existing problem credits. The allowance is maintained to cover the allocated requirement plus an unallocated portion, which considers economic conditions, industry concentrations, peer-group comparisons, lending staff experience, and other risk factors.

The coverage of the allowance for loan losses to non-performing loans and loans past due 90 days or more and still accruing was 158.4% at the end of 1998 versus 100.8% and 131.9% at the end of 1997 and 1996, respectively. This increase in coverage was due to a decrease in non-accrual loans from $3,968,000 at the end of 1997 to $2,262,000 at the end of 1998. The allowance for loan losses as a percentage of total outstanding loans decreased slightly to 1.46% at December 31, 1998 as compared to 1.48% at December 31, 1997. The allowance level was at 1.31% of total loans at December 31, 1996. Gross charge-offs increased $296,000 from 1997 to 1998, primarily due to real estate charge-offs which increased $275,000. The ratio of net charge-offs to average total loans outstanding increased during 1998 to .19% as compared to .10% in 1997. The net charge-off ratio during 1996 was .28%. The increase in this ratio was due to the increase in charge-offs as described above and a decrease in recoveries of $22,000 primarily due to commercial and agricultural recoveries.

The provision for possible loan losses is based on management's analysis of risk in the loan portfolio which takes into account portfolio growth and historical charge-offs, among many other factors. The provision totaled $737,000 in 1998 as compared to $1,128,000 in 1997, which represents a $391,000 decrease. The provision for possible loan losses increased $15,000 from 1996 to 1997. Management's analysis of the allowance for possible loan losses indicates that the current level of 1.46% of net outstanding loans appears to cover the risk of potential losses in the loan portfolio at December 31, 1998.

Non-performing assets (defined as loans 90 days or more past due but still accruing interest, loans in non-accrual status, restructured loans and other real estate owned) totaled $3,014,000, or .54% of total assets, at December 31, 1998. This represents a decrease from $4,607,000 or .89% of total assets at December 31, 1997. Non-performing assets at December 31, 1996 were $2,938,000 or .62% of total assets.

NON-INTEREST INCOME

Total other operating income is comprised of fee based revenues from mortgage and trust services, as well as deposit and other customer service charges. Excluding security gains and losses, other operating income totaled $14,960,000 for 1998, increasing from $9,553,000 in 1997 and $8,339,000 in 1996. This change represents a 57% increase from 1997 to 1998, most of which can be attributed to an increase in mortgage revenues during this period. Mortgage loan origination income represents the largest source of fee based revenue for the Company and includes income generated from processing and closing fees, commission income, servicing release premiums, and net gains (losses) on the sales of these loans. Net mortgage loan origination income increased $4,944,000 from 1997 to 1998. Net mortgage loan origination income increased $1,374,000 from 1996 to 1997. The increased mortgage loan activity was a result of the favorable low interest rate environment in effect for fifteen and thirty year mortgages on one-to-four-family residential properties. If interest rates for fifteen and thirty year mortgages increase, the subsidiaries may not be able to maintain origination volume at past levels and earnings may be adversely impacted.

Trust fee revenues increased 16.2% to $769,000 in 1998 as compared to $662,000 in 1997 and $644,000 in 1996. The Company continues to focus on growth of trust services in light of corporate goals to diversify revenue sources. The market value of assets managed by the Asset and Trust Management Group grew to $163.9 million at December 31, 1998 as compared to $155.7 million and $123.2 million at year end 1997 and 1996, respectively. Net security gains, on a pre-tax basis, totaled $154,000 in 1998 as compared to net gains of $210,000 in 1997 and $41,000 in 1996. The entire investment portfolio is classified as available-for-sale and all sales during the last three years were made from the

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available-for-sale classification. During 1998 several securities were sold at a gain to take advantage of market conditions at the time of the sale. The portfolio is recorded at current market value in the accompanying financial statements at Item 8. It is management's expectation to classify all investment securities purchased as available-for-sale for the foreseeable future. Changes in the market value of these securities are made by a charge to equity, net of applicable income taxes. The decision to purchase or sell a security is based on a number of factors including, but not limited to, the potential for increased yield, improved liquidity, asset mix adjustment, or improvement in the interest rate gap.

OTHER OPERATING EXPENSES

Other operating expenses totaled $27,978,000 in 1998 as compared to $23,749,000 and $23,076,000 in 1997 and 1996, respectively. As a percentage of average assets, total operating expenses increased to 5.47% in 1998 versus 4.91% in 1997. The total operating expenses as a percentage of total average assets was 5.01% for 1996. The efficiency ratio, which measures the level of non-interest expense to total net revenues, was 77.6% in 1998 as compared to 80.9% and 85.6% in 1997 and 1996, respectively. The decrease in the efficiency ratio is primarily due to the increase in net interest income and non-interest income as described previously.

Salaries and employee benefits expense represents the largest component of other operating expenses. This category increased $3,141,000, or 20.5% from 1997 to 1998. During 1997, this expense increased $871,000, or

6.0%, when compared to 1996. The increase for 1998 is largely attributable to an increase in commission paid to mortgage loan originators. The Company employed 364 full-time equivalent (FTE) employees at December 31, 1998 as compared to 317 and 334 at December 31, 1997 and 1996, respectively. The increase in FTEs during 1998 was primarily due to the significant increase in the CMI mortgage loan operation. The decrease during 1997 was primarily due to the significant reduction in the CBH mortgage loan operations.

Occupancy and furniture and fixtures expenses totaled $3,322,000 in 1998, an increase of $172,000, or 5.5%, from 1997. During 1997, occupancy and furniture and fixture expenses decreased $38,000 as compared to 1996. Outside services and other expense increased 13.6% to $3,761,000 during 1998 as compared to $3,312,000 in the prior year. Advertising expense increased 27.3% in 1998 to $629,000 versus $494,000 in 1997. Subsidiary management continues to control overhead expenses by emphasizing cost containment and by taking advantage of available economies of scale at the holding company level. However, management's cost containment measures are tempered by the need to maintain consistently high levels of customer service and the need to attract and retain qualified staff.

FINANCIAL CONDITION

Total assets at December 31, 1998 were $555,455,000, a $39,905,000 or 7.7% increase over December 31, 1997 total assets of $515,550,000. Growth of $13,492,000, or 4.4% in the net loan portfolio and $22,593,000, or 50.5%, for mortgage loans held-for-sale accounted for the increase in total assets. Cash and cash equivalents are continually monitored and maintained at operational minimums to utilize resources in historically higher yielding assets such as loans and mortgage loans held for sale. Average assets for 1998 grew by $28,052,000 or 5.8% to $511,602,000 as compared to $483,550,000 for 1997.

The Company's asset growth has been funded primarily by growth in deposit accounts and short-term borrowings. Management continues to view "core" deposits (individual, partnership and corporate deposits) as the primary long term funding source for internal growth of the Company. Average deposits increased $20,260,000, or 5.0%, during 1998, while average short-term borrowings increased $3,802,000, or 15.8%. Brokered deposits totaled $693,000 at December 31, 1998, with interest rates ranging from 6.20% to 6.75% and maturities ranging from August 2000 through October 2002.

CAPITAL

The Company is committed to maintaining strong capital positions in both the Subsidiary Banks as well as on a consolidated basis. Management monitors, analyzes and forecasts capital positions for each entity to ensure that adequate capital is available to support growth and maintain financial soundness. During 1998, stockholders' equity increased $4,683,000 over December 31, 1997, after a $357,000 increase in unrealized gains on investment securities available-for-sale. The Company issued 17,773 shares of stock through its Employee Stock Purchase Plan during 1998, which generated $459,000 of new shareholders' equity. The Company's Tier 1 Leverage ratio at December 31, 1998 was 6.31%, which decreased from 6.38% as of December 31, 1997. This ratio exceeds the regulatory capital minimum and management believes the Company is

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maintaining a strong capital position. The Company's Total Risk Weighted Capital ratio increased to 11.08% as of December 31, 1998 from 10.67% as of December 31, 1997. The Tier 1 Capital ratio increased to 9.83% at December 31, 1998 from 9.42% at December 31, 1997. For further discussion of the regulatory capital requirements, see note 14 to the Financial Statements included in Item 8.

LIQUIDITY

The Company ensures the Subsidiary Banks maintain appropriate liquidity and provides access to secondary sources of liquidity in case of unusual or unanticipated demand for funds. Primary bank sources of liquidity are repayment of loans, high-quality marketable investment securities available for sale, and the bank's federal funds position which, together, are more than sufficient to satisfy liquidity needs arising in the normal course of business.

The Company is a secondary source of liquidity for its Subsidiary Banks through its discretionary access to short-term funding sources in case of unanticipated demand for funds.

As presented in the Consolidated Statement of Cash Flows included in Item 8, the Company has experienced significant changes in its cash flows from operating, investing, and financing activities during 1998 as compared to prior years. These fluctuations primarily related to increases in the loan portfolio and mortgage loans held-for-sale at year-end which have primarily been funded by increases in short-term borrowings and deposit accounts.

INTEREST RATE SENSITIVITY

The Company's overall success is dependent upon its ability to manage interest rate risk. Interest rate risk can be defined as the exposure of the Company's net interest income to adverse movements in interest rates. Because the Company has no trading portfolio, the Company is not exposed to significant market risk from trading activities. Other types of market risk, such as foreign currency exchange and commodity price risk, do not arise in the normal course of the Company's business activities. The Company does not currently use derivatives to manage market and interest rate risks. A derivative financial instrument includes futures, forwards, interest rate swaps, option contracts, and other financial instruments with similar characteristics.

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit (see note 14 included in Item 8). These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the Company. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Company until the instrument is exercised.

The Subsidiary Bank's interest rate exposure is reviewed on a regular basis by the Asset/Liability Committee (ALCO) for each bank. The principal objective of the Company's interest rate risk management function is to evaluate the interest rate risk included in certain balance sheet accounts, determine the level of risk appropriate given the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with the funds management policy of the Company. Through such management, the Company seeks to monitor the vulnerability of its operations to changes in interest rates. The extent of the movement of interest rates is an uncertainty that could have a negative effect on the earnings of the Company.

Interest rate exposure is reviewed and managed, to the extent possible, by matching maturities of interest bearing assets and interest bearing liabilities. The difference between the amount of interest earning assets that are scheduled to mature or reprice during a period and the amount of interest bearing liabilities maturing or repricing in the same period significantly affects the Company's interest rate risk. This difference is generally referred to as the interest sensitivity gap. A positive gap, or asset sensitive position, indicates there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specified time frames, which generally has a favorable impact on net interest income in periods of rising interest rates. Conversely, a negative gap, or liability sensitive position, would generally imply a favorable impact on net interest income in periods of declining interest rates. In periods of changing interest rates, net interest margin is not only impacted by the

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amounts of repricing assets and liabilities, but also by the rate at which repricings occur. Earnings may also be impacted by variances in repayment of loans and securities.

The following table indicates the Company's interest sensitive assets and liabilities over specific time horizons as well as its interest sensitivity gap at December 31, 1998:

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS	Balances Subject to Repricing Within				
	90 DAYS	180 DAYS	1 YEAR	OVER 1 YEAR	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Interest earning cash and due from banks	$ 0	0	0	0	0
Excess funds sold	0	0	0	0	0
Investment securities available for sale	7,615	4,479	22,427	97,539	132,060
Mortgage loans held for sale	67,354	0	0	0	67,354
Gross Loans	100,254	28,079	39,552	161,312	329,197
Total earning assets	175,223	32,558	61,979	258,851	528,611
NOW and Savings deposits	100,766	0	0	0	100,766
Cds and other interest-bearing deposits	123,615	28,479	35,283	113,651	301,028
Short-term borrowings	44,197	0	0	0	44,197
Long-term borrowings	9,300	0	0	1,000	10,300
Total interest-bearing liabilities	277,878	28,479	35,283	114,651	456,291
Net asset (liability) repricing difference	(102,655)	4,079	26,696	144,200	72,320
Cumulative asset (liability) repricing difference	$(102,655)	(98,576)	(71,880)	72,320	
Cumulative earnings assets to cumulative interest-bearing liabilities	.63	.68	.79	1.16	
Cumulative asset (liability) repricing difference as a percent of total earning assets	-19.42%	-18.65%	-13.60%	13.68%	

</TABLE>

The entire mortgage held for sale portfolio is included in the 90 day category as the vast majority of these loans will be sold to investors within 90 days. The interest rates on lines-of-credit included in short-term borrowings, as well as the interest rate on the majority of the Company's long-term debt, reprice every 90 days or are priced at LIBOR. As a result, these liabilities are also included in the 90 day category in the above table. Non-maturing interest bearing NOW and savings accounts and certain other interest-bearing deposit accounts are contractually subject to repricing within 90 days and therefore are included in the 90 day category in the above table. Using historical analysis, management believes that these deposits are less interest rate sensitive and are less likely to reprice, regardless of the contractual ability to do so. As a result, management believes that the interest rate gap is overstated in the short-term as it relates to these deposits.

The table below presents in tabular form contractual balances of the Company's on balance sheet financial instruments in U.S. dollars at the expected maturity dates as well as the fair value of those on balance sheet financial instruments for the period ended December 31, 1998. The expected maturity categories take into consideration the repricing ability of loans, and the callable feature of certain investments. The Company's liabilities that do not have a stated maturity date are considered to be long term in nature by the Company and are reported in the thereafter column. The Company does not consider these financial instruments materially sensitive to interest rate fluctuations and historically the balances have remained fairly constant over various economic conditions. The weighted average interest rates for the various assets and liabilities presented are actual as of December 31, 1998. The fair value of loans takes into consideration discounted cash flows through the estimated

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maturity or repricing dates using estimated market discount rates that reflect credit risk. The fair value of checking, savings and interest-bearing checking accounts is the amount payable upon demand. The fair value of time deposits is based upon the discounted value of contractual cash flows, which is estimated using current rates offered for deposits of similar remaining terms. The fair value of other borrowings approximates the carrying value due to the borrowings interest rate approximating market rates.

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value 12/31/98
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
RATE SENSITIVE ASSETS:								
Mortgage Loans held for Sale	$67,354	-	-	-	-	-	$ 67,354	$ 67,663
Average interest rate	6.74%	-	-	-	-	-	6.74%	
Fixed interest rate loans	$76,950	$26,935	$19,384	$ 12,808	$ 3,673	$ 25,199	$164,949	$166,878
Average interest rate	8.46%	9.98%	10.22%	10.14%	8.94%	9.08%	9.15%	
Variable interest rate loans	$90,935	$30,005	$22,804	$ 12,545	$ 1,309	$ 6,650	$164,248	$165,609
Average interest rate	8.42%	7.45%	7.45%	7.40%	7.10%	7.02%	7.96%	
Fixed interest rate securities	$34,521	$29,685	$21,040	$ 5,230	$ 4,578	$ 37,006	$132,060	$132,060
Average interest rate	6.74%	6.55%	6.33%	6.41%	6.04%	6.04%	6.42%	
Variable interest rate securities	-	-	-	-	-	-	-	-
Average interest rate	-	-	-	-	-	-	-	-
Other interest-bearing assets	-	-	-	-	-	-	-	-
Average interest rate	-	-	-	-	-	-	-	-
RATE SENSITIVE LIABILITIES:								
Non interest-bearing checking (with no stated maturity)	-	-	-	-	-	$ 50,371	$ 50,371	$ 50,371
Average interest rate	-	-	-	-	-	-	-	-
Savings and interest bearing checking (with no stated maturity)	-	-	-	-	-	$175,025	$175,025	$175,025
Average interest rate	-	-	-	-	-	2.73%	2.73%	
Time deposits	$110,290	$25,880	$13,324	$64,156	$13,119	-	$226,769	$231,307
Average interest rate	5.15%	6.03%	5.61%	6.12%	5.76%	-	5.59%	
Short term borrowings	$ 44,197	-	-	-	-	-	$ 44,197	$ 44,197
Average interest rate	5.54%	-	-	-	-	-	5.54%	
Long term debt	-	$9,300	$1,000	-	-	-	$ 10,300	$ 10,300
Average interest rate	-	6.63%	4.95%	-	-	-	6.47%	

</TABLE>

The computations in the above table are based on numerous assumptions, including relative levels of market interest rates, discount rates, loan prepayments, investment call options, and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the ALCO could undertake in response to changes in interest rates. Certain shortcomings are inherent in the method of analysis presented in the computation of the change in the market value of equity. Actual values may differ from those projections presented, should market conditions vary from assumption used.

There have been no material changes in the market risks faced by the Company since December 31, 1997.

YEAR 2000

Like other businesses dependent upon computerized information processing, the Company must deal with "Year 2000" issues, which stem from using two digits to reflect the year in many computer programs and data. Computer programmers and other designers of equipment that use microprocessors have long abbreviated dates by eliminating the first two digits of the year. As the year 2000 approaches, many systems may be unable to distinguish years beginning with 20 from years beginning 19, and so may not accurately process certain date-based information, which could cause a variety of operational problems for businesses.

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The Year 2000 project has been a top priority for the Company. Failure of a mission critical system used by the Company could have a materially adverse effect on the Company's operations and financial performance, as could Year 2000 problems experienced by others with whom the Company does business. Because of the range of possible issues and the large number of variables involved, it is impossible to quantify the potential cost of problems should the Company's Year 2000 efforts or the efforts of those with whom it does business not be successful.

The Company began its Year 2000 efforts in May 1997. A dedicated Year 2000 Project Team was formed and the team meets on a monthly basis. Each major operational area of the Company is represented on the team, including internal audit. The status of the project is reported to the Board of Directors at each meeting. Results of all exams performed by all external agencies are reported to the Board at the next available meeting. Status reports

are also presented to the Internal Audit Committee by the Internal Auditor. The Company partnered with a major consulting firm beginning in February 1998 to assist the Company in testing core mission critical systems (i.e. the loan and deposit systems). The Company performs no programming in house and controls no source codes. All software used by the Company is purchased from third parties including core applications. The core application software is provided by a highly recognized bank software provider with well over 1,000 banks using their software country wide.

The Company completed the assessment phase of the project by June 1997. The Company completed the inventory phases of the project by September 1997. Testing and remediation efforts have been underway on mission critical applications since early 1998. Some mission critical applications have been discovered to be non-compliant. These systems were replaced with new compliant systems by December 31, 1998. The Company's goal is to have all mission critical applications tested by March 31, 1999. Testing was completed by December 31, 1998 for all mission critical applications, except that the Company is participating in proxy testing with one vendor where the testing is on target to be completed by the first quarter of 1999. Also, the Company has purchased new compliant processing software for CMI which was installed in December 1998 and the testing is scheduled to take place in March 1999. The Company performed extensive core application testing in July 1998 which was overseen by a major consulting firm. The project team has had extensive contact with all mission critical vendors and continues to monitor their progress as diligently as possible. Although the Company is attempting to monitor and validate the efforts of other parties, it cannot control the success of these efforts. Contingency plans have been developed where practical to provide the Company with alternatives in situations where an entity furnishing a critical product or service experiences significant Year 2000 difficulties that will effect the Company. With respect to non-mission critical applications, the Company's target for completion of Year 2000 work is September 1999.

The Year 2000 project team has also been working on issues that are not directly related to data processing systems. The team is reviewing various infrastructure issues, such as checking elevators and heating, ventilation and air-conditioning equipment, some of which include embedded systems, to verify that they will function in the Year 2000. The team is also reviewing the status of power and telecommunications providers. Possible problems in these area are continuing to be addressed by the Company.

As part of the Company's credit analysis process, it has developed a plan for assessing the Year 2000 readiness of its major credit customers. Year 2000 issues have also been included in the loan review process and in the adequacy of the reserve analysis. In addition, as part of the Company's fiduciary responsibilities in the asset and trust management area, the Company has been working very closely with the Company's third-party servicer to verify that their product is Year 2000 compliant. The Company will be participating in proxy testing of this servicer in the first quarter of 1999. The proxy testing is being coordinated by a major public accounting firm. The Company has also sent FDIC prepared statement stuffers to all checking and savings account customers which describes the Year 2000 problem in detail and provides guidance regarding FDIC insurance.

The Company estimates the cost of the Year 2000 project to be $411,000. This estimate does not include the cost of internal staff time; $280,000 of costs have been incurred to date, $215,000 of which will be capitalized as a few new systems were purchased to replace non-compliant mission critical systems. It is expected that the remaining $131,000 will be incurred by September 30, 1999. It is anticipated that there may be various miscellaneous contingency plan expenditures made in the fourth quarter of 1999 which cannot be estimated at this time.

The discussion above incorporates the Company's best estimates of the costs

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and completion date of the Year 2000 project. The Company derived these estimates using numerous assumptions of future events, including the continued availability of certain resources and other factors. There can be no guarantee that the Company will achieve these estimates. Therefore, actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

ACCOUNTING STANDARDS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income, be reported in a financial statement that is displayed with the same prominence as other financial statements. The statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company adopted this statement in the first quarter of 1998. The adoption of SFAS No. 130 did not have a significant impact on the Company's financial statements.

In June, 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The statement establishes standards for the way that public business enterprises report information about operating segments and certain other information in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. The statement is effective for financial statements for periods beginning after December 15, 1997. The Company adopted SFAS No. 131 for the fiscal year ended December 31, 1998. The adoption of this statement did not have a significant impact on the Company's financial statements.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The statement standardizes the disclosure requirements of SFAS No. 87 and 106 to the extent practicable and recommends a parallel format for presenting information about pensions and other postretirement benefits. SFAS No. 132 only addresses disclosure and does not change any current measurement or recognition provisions. The statement is effective for fiscal years beginning after December 15, 1997. The Company has adopted this statement and provided the proper disclosure within the consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivatives instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that any entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The statement is effective for fiscal quarters of fiscal years beginning after June 15, 1999, and is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In October 1998, the FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This statement amends SFAS No. 65, "Accounting for Certain Mortgage Banking Activities" to conform the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by a non-mortgage banking enterprise. The statement is effectively for the first quarter beginning after December 15, 1998 and enterprises may reclassify mortgage-backed securities and other beneficial interests retained after the securitization of mortgage loans held for sale from the trading category, except for those with sales commitments in place. The reclassification is to be done when the statement is initially applied. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

The following supplementary financial information of the registrant for each of the last three years (unless otherwise stated) is included on pages 20

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through 26 of this Report:

Table 1 Comparison of Average Balance Sheets
Table 2 Analysis of Net Interest Income - Tax Equivalent Basis
Table 3 Maturity Of Investment Securities
Table 4 Analysis of Loan Portfolio and Loss Experience (for last five years)
Table 5 Allocation of Allowance for Loan Losses (for last five years)
Table 6 Maturity and Interest Sensitivity of Loans
Table 7 Average Deposits (for last five years)
Table 8 Short-term Borrowings
Table 9 Return on Equity and Assets (for last five years)

TABLE 1
COMPARISON OF AVERAGE BALANCE SHEETS
(DOLLARS IN THOUSANDS)

The following table sets forth the registrant's consolidated average daily condensed balance sheet for each of the last three years:

<TABLE>
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	Years ended December 31,					
	1998		1997		1996	
ASSETS:	Amount	% of Total	Amount	% of Total	Amount	% of Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cash and due from banks	$10,800	2.1%	$10,070	2.1	$9,757	2.1
Interest-bearing deposits in banks	0	0.0	0	0	376	0.1
Excess funds sold	2,907	0.6	547	0.1	10,426	2.3
Total cash and cash equivalents	$13,707	2.7	10,617	2.2	20,559	4.5
Taxable securities	$121,784	23.8	122,190	25.3	$110,313	23.9
Tax-exempt securities	12,508	2.4	9,710	2.0	12,165	2.6
Mortgage loans held for sale	35,094	6.9	21,372	4.4	29,651	6.4
Loans and leases, net of unearned income	311,196	60.8	301,419	62.3	269,091	58.5
Less: Allowance for loan losses	4,594	0.9	4,122	0.8	3.469	0.8
Loans, net	306,602	59.9	297,297	61.5	265,622	57.7
Premises and Equipment	11,206	2.2	10,694	2.2	10,217	2.2
Goodwill, net of amortization	4,230	0.8	4,779	1.0	5,328	1.2
Other Assets	6,471	1.3	6,891	1.4	6,821	1.5
TOTAL ASSETS	511,602	100.0%	$483,550	100.0%	$460,676	100.0%
LIABILITIES AND STOCKHOLDERS' EQUITY:						
LIABILITIES:						
Non-interest bearing deposits	$42,812	8.4%	$40,589	8.4	39,300	8.5
Interest bearing deposits	386,692	75.6	368,655	76.2	350,918	76.2
Total Deposits	429,504	84.0	409,244	84.6	390,218	84.7
Short-term borrowings	27,863	5.4	24,061	5.0	19,887	4.3
Long-term borrowings	8,996	1.8	9.921	2.1	10,782	2.3
Other liabilities	5,605	1.1	4,598	0.9	5,375	1.2
TOTAL LIABILITIES	$471,968	92.3	$447,824	92.6	$426,262	92.5
STOCKHOLDERS' EQUITY:						
Preferred Stock	298	0.1	2,591	0.5	2,600	0.6
Common Stock	721	0.1	693	0.1	689	0.1
Additional paid-in capital	6,954	1.4	5,100	1.1	4,875	1.1
Accumulated other comprehensive earnings	781	0.2	198	0.0	475	0.1
			198	0.0	475	0.1
Retained earnings	30,880	5.9	27,144	5.7	25,775	5.6

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TOTAL STOCKHOLDERS' EQUITY	$39,634	7.7	$35,726	7.4	$34,414	7.5
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$511,602	100.0%	$483,550	100.0%	$460,676	100.0%

</TABLE>

TABLE 2
ANALYSIS OF NET INTEREST INCOME - TAX EQUIVALENT BASIS
(DOLLARS IN THOUSANDS)

THE TABLE BELOW SHOWS THE CHANGES IN INTEREST INCOME (TAX EQUIVALENT) AND INTEREST EXPENSE ATTRIBUTABLE TO VOLUME AND RATE VARIANCES. THE CHANGE IN INTEREST INCOME (TAX EQUIVALENT) DUE TO BOTH VOLUME AND RATE HAS BEEN ALLOCATED TO VOLUME AND RATE CHANGES IN PROPORTION TO THE RELATIONSHIP OF THE ABSOLUTE DOLLAR AMOUNTS OF THE CHANGE IN EACH.

<TABLE>
<CAPTION>

	AVERAGE BALANCE			AVERAGE RATE		
INTEREST EARNINGS ASSETS:	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Taxable securities	$121,784	$122,190	$110,313	6.65%	6.81%	6.30%
Tax-exempt securities(1)	12,508	9,710	12,165	8.58%	9.78%	10.03%
Total Securities	$134,292	$131,900	$122,478	6.83%	7.03%	6.67%
Time deposits	0	0	376	N/A	N/A	2.39%
Excess funds sold	2,907	547	10,426	2.51%	6.03%	2.91%
Mortgage loans held for sale(2)	35,094	21,372	29,651	6.82%	7.29%	7.37%
Loans, net(1),(3)	306,602	297,297	265,622	9.51%	9.50%	9.78%
Total Earning Assets (FTE)	$478,895	$451,116	$428,553	8.53%	8.68%	8.56%
INTEREST BEARING LIABILITIES:						
Interest bearing deposits	$386,692	$368,655	$350,918	4.53%	4.67%	4.59%
Short-term borrowings	27,863	24,061	19,887	5.37%	6.21%	4.91%
Long-term borrowings	8,996	9,921	10,782	7.45%	7.53%	7.35%
Total Interest Bearing Liabilities	$423,551	$402,637	$381,587	4.65%	4.83%	4.68%
Interest Rate Spread (FTE)				3.87%	3.85%	3.88%
Net interest margin (FTE)				4.45%	4.40%	4.42%

</TABLE>

<TABLE>
<CAPTION>

	INTEREST EARNED OR PAID			1998/97 CHANGE DUE TO		1997/96 CHANGE DUE TO	
INTEREST EARNING ASSETS:	1998	1997	1996	VOLUME	RATE	VOLUME	RATE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Taxable securities	$8,095	$8,325	$6,945	(28)	(202)	783	597
Tax-exempt securities(1)	1,073	950	1,220	250	(127)	(241)	(29)
Total securities:	$9,168	$9,275	$8,165	$222	($329)	$542	$568
Time deposits	0	0	9	-	-	(5)	(4)
Excess funds sold	73	33	303	69	(29)	(432)	162
Mortgage loans held for sale(2)	2,394	1,557	2,185	942	(105)	(603)	(25)

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Net loans (1),(3)	29,584	28,644	26,307	929	11	3,089	(752)
Total Earnings Asset (FTE)	$41,219	$39,509	$36,969	$2,162	($452)	$2,591	($51)
INTEREST BEARING LIABILITIES:							
Interest bearing deposits	$17,535	$17,228	$16,090	827	(520)	826	312
Short-term borrowings	1,497	1,493	976	219	(215)	229	288
Long-term borrowings	670	747	792	(69)	(8)	(64)	19
Total Interest Bearing Liabilities	$19,702	$19,468	$17,858	$977	($743)	$991	$619
Net interest income (FTE)	$21,517	$20,041	$19,111	$1,185	$291	$1,600	($670)

</TABLE>

----

(1) The interest on tax-exempt investment securities and tax-exempt loans is calculated on a tax equivalent basis assuming a blended federal and state tax rate of 38.75%.
(2) The yield-related fees recognized from the origination of mortgage loans held for sale are in addition to the interest earned on the loans during the period in which they are warehoused for sale as shown above.
(3) The balances of nonaccrual loans are included in average loans outstanding. Interest on loans includes yield-related loan fees.

TABLE 3
MATURITY OF INVESTMENT SECURITIES
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SETS FORTH THE MATURITY OF THE REGISTRANT'S INVESTMENT PORTFOLIO:

<TABLE>
<CAPTION>

	AS OF DECEMBER 31, 1998						
	U.S. TREASURY		U.S. GOVERNMENT AGENCIES		STATES AND POLITICAL SUBDIVISIONS(1)		CORPORATE OBLIGATIONS AND OTHER
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
SECURITIES AVAILABLE FOR SALE(2):							
One year or less	$11,161	6.68%	-	N/A	$1,181	8.89%	
After one through five years	7,292	5.62%	7,067	6.00%	5,049	9.26%	
After five through ten years	2,877	6.45%	26,883	6.64%	5,234	7.02%	
After ten years			11,793	7.46%	4,106	7.74%	
Mortgage backed securities(3)			47,301	6.54%			
Total debt securities	$21,330	6.29%	$93,044	6.64%	$15,570	8.07%	$0
Federal Home Loan Bank stock							$1,673
Other equity securities							443
Total securities available for sale	$21,330	6.29%	$93,044	6.64%	$15,570	8.07%	$2,116

</TABLE>

----

(1) Yields were calculated on a tax equivalent basis assuming a blended federal and state tax rate of 38.75%.
(2) At December 31, 1998, the Company did not own any investment securities from a single issuer other than the U.S. Federal Government, that represents greater than 10% of total equity capital.
(3) Mortgage-backed security maturities may differ from contractual maturities because the underlying mortgages may be called or prepaid without any penalties. Therefore, these securities are not included

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within the maturity categories above.

TABLE 4
ANALYSIS OF LOAN PORTFOLIO AND LOSS EXPERIENCE
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SETS FORTH THE REGISTRANT'S LOAN PORTFOLIO BY MAJOR CATEGORY FOR EACH OF THE LAST FIVE YEARS.

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Commercial, financial and agricultural	$85,790	$ 73,908	$ 69,594	$ 63,197	$ 59,131
Real estate mortgages	213,761	208,502	186,613	159,928	141,651
Consumer	29,168	32,606	35,242	33,094	32,040
Leases	478	524	892	1,455	711
Student loans held for sale	0	0	0	0	5,450
Gross Loans	$329,197	$315,540	$292,341	$257,674	$238,983
Less:					
Unearned discount and deferred loan fees	2,388	2,352	3,172	3,074	2,951
Allowance for possible loan losses	4,775	4,646	3,775	3,309	3,475
Net Loans	$322,034	$308,542	$285,394	$251,291	$232,557
SUMMARY OF LOAN LOSS EXPERIENCE:					
Allowance for loan and lease losses, beginning	$4,646	$3,775	$3,309	$3,475	$3,940
Amounts charged-off:					
Commercial, financial and agricultural	11	60	270	268	570
Real estate mortgages	275	0	53	175	0
Consumer	748	678	783	547	398
Total Charge-Offs	$1,034	$ 738	$1,106	$ 990	$ 968
Recoveries on amounts previously charged-off:					
Commercial, financial and agricultural	230	274	236	133	90
Real estate mortgages	18	0	17	0	14
Consumer	178	174	88	151	75
Leases	0	0	0	0	0
Total Recoveries	$426	$ 448	$ 341	$ 284	$ 179
Net Charges-Offs	$608	$ 290	$ 765	$ 706	$ 789
Provision charged to expense	737	1,128	1,113	488	323
Addition to dealer reserve	0	33	118	51	1
Addition due to purchase of subsidiary	0	0	0	1	0
Allowance for Loan and Lease Losses, Ending	$4,775	$4,646	$3,775	$3,309	$3,475
Non-performing loans at year-end:					
Non-accrual	$2,262	$3,968	$2,348	$2,064	$2,699
Restructured	208	139	314	270	630
Total Non-Performing Loans	$2,470	$4,107	$2,662	$2,334	$3,329
Past due 90 days or more, not included above	544	500	201	16	256
Other real estate, not included above	0	0	75	0	0
RATIOS:					
Allowance to year-end loans, net of unearned	1.46%	1.48%	1.31%	1.30%	1.47%
Allowance to non-performing loans	193.32	113.12	141.81	141.77	104.39
Net charge-offs to average loans (gross)	0.19	0.10	0.28	0.29	0.34
Recoveries to charge-offs	41.20	60.70	30.83	28.69	18.49
Non-performing loans to loans, net of unearned					

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discount and deferred loan fees	0.76	1.31	0.92	0.92	1.41

</TABLE>

TABLE 5
ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SHOWS THE REGISTRANT'S ALLOWANCE FOR LOAN LOSSES FOR THE LAST FIVE YEARS.

	COMMERCIAL, FINANCIAL & AGRICULTURAL	REAL ESTATE MORTGAGE	CONSUMER	LEASES	UNALLOCATED	TOTAL
December 31, 1998	$1,811	$1,173	$1,586	$5	$200	$4,775
% of loans in category to total loans	26.90%	64.20%	8.81%	0.10%	N/A	100.00%
December 31, 1997	$1,779	$1,407	$1,247	$13	$200	$4,646
% of loans in category to total loans	23.42%	66.08%	10.33%	0.17%	N/A	100.00%
December 31, 1996	$1,376	$1,130	$1,054	$15	$200	$3,775
% of loans in category to total loans	23.81%	63.83%	12.06%	0.30%	N/A	100.00%
December 31, 1995	$1,420	$1,144	$519	$26	$200	$3,309
% of loans in category to total loans	24.53%	62.07%	12.84%	0.56%	N/A	100.00%
December 31, 1994	$1,655	$1,030	$464	$26	$300	$3,475
% of loans in category to total loans	24.74%	59.27%	15.69%	0.30%	N/A	100.00%

TABLE 6
MATURITY AND INTEREST SENSITIVITY OF LOANS
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SHOWS THE MATURITY OF THE REGISTRANT'S LOAN PORTFOLIO.

	AS OF DECEMBER 31, 1998					
	TIME REMAINING TO MATURITY				LOANS DUE AFTER ONE YEAR	
	DUE WITHIN ONE YEAR	ONE TO FIVE YEARS	AFTER FIVE YEARS	TOTAL	FIXED INTEREST RATE	FLOATING INTEREST RATE
Commercial, financial & agricultural	62,300	14,206	9,284	85,790	14,676	8,814
Real estate mortgages	93,231	100,970	19,560	213,761	71,665	48,865
Consumer	12,032	14,131	3,005	29,168	17,097	39
Leases	322	156	-	478	-	156
Total	$167,885	$129,463	$31,849	$329,197	$103,438	$57,874

</TABLE>

TABLE 7
AVERAGE DEPOSITS
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SETS FORTH THE REGISTRANT'S AVERAGE DAILY DEPOSITS AND

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AVERAGE RATE PAID ON THE INTEREST BEARING DEPOSITS FOR EACH OF THE LAST FIVE YEARS:

	DECEMBER 31,				
	NON-INTEREST BEARING DEMAND DEPOSITS	INTEREST BEARING DEMAND DEPOSITS	SAVINGS ACCOUNTS	TIME DEPOSITS	TOTAL DEPOSITS
1998 AVERAGE					
Balance	$42,811	$76,210	$78,725	$231,758	$429,504
Rate	--	2.61%	2.82%	5.75%	4.53%
1997 AVERAGE					
Balance	$40,589	$70,454	$72,899	$225,302	$409,244
Rate	---	2.74%	3.10%	5.79%	4.67%
1996 AVERAGE					
Balance	$39,300	$67,583	$76,087	$207,248	$390,218
Rate	---	2.52%	3.14%	5.79%	4.59%
1995 AVERAGE					
Balance	$36,732	$65,951	$75,884	$181,746	$360,313
Rate	---	2.51%	3.39%	5.67%	4.49%
1994 AVERAGE					
Balance	$36,360	$79,208	$81,105	$155,481	$352,154
Rate	---	2.46%	2.96%	4.69%	3.69%

THE FOLLOWING TABLE SETS FORTH THE REGISTRANT'S MATURITY DISTRIBUTION FOR ALL TIME DEPOSITS OF $100,000 OR MORE AS OF DECEMBER 31, 1998.

MATURITY DISTRIBUTION FOR ALL TIME DEPOSITS OF $100,000 OR MORE
(DOLLARS IN THOUSANDS)

	DECEMBER 31, 1998				
	3 MONTHS OR LESS	3 THROUGH 6 MONTHS	6 THROUGH 12 MONTHS	OVER 12 MONTHS	TOTAL
Time Deposits of $100,000 or more	$21,977	$14,250	$7,007	$13,378	$56,612

TABLE 8
SHORT-TERM BORROWINGS
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE SETS FORTH A SUMMARY OF THE REGISTRANT'S SHORT-TERM BORROWINGS FOR EACH OF THE LAST THREE YEARS.

	DECEMBER 31,		
	1998	1997	1996
Repurchase agreements	$313	$ 4,268	$ 2,756
Federal funds purchased	33,900	21,850	10,000
Federal Home Loan Bank Borrowings	5,700	7,932	0
Other short-term borrowings	4,284	5,007	6,832
Total	$44,197	$39,057	$19,588

TABLE 9
RETURN ON EQUITY AND ASSETS

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THE FOLLOWING TABLE SETS FORTH THE REGISTRANT'S RETURN ON AVERAGE ASSETS, RETURN ON AVERAGE EQUITY, DIVIDEND PAYOUT RATIO, AND AVERAGE EQUITY TO AVERAGE ASSET RATIO FOR THE LAST FIVE YEARS:

	DECEMBER 31,				
	1998	1997	1996	1995	1994
Return on average assets	0.93%	0.62%	0.40%	0.80%	0.84%
Return on average equity	11.95%	8.43%	5.36%	9.94%	11.22%
Common stock dividend payout ratio	11.91%	15.20%	22.44%	10.97%	9.43%
Average equity to average asset ratio	7.75%	7.39%	7.47%	8.04%	7.44%

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7, above.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets

December 31, 1998 and 1997
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	1998	1997
Cash and due from banks (note 2)	$ 12,270	11,377
Investment securities available for sale (note 3)	132,060	129,479
Mortgage loans held for sale, lower of cost or market	67,354	44,761
Loans (note 4)	329,197	315,540
Less:		
Allowance for possible loan losses (note 4)	4,775	4,646
Unearned income and deferred loan fees	2,388	2,352
Net loans	322,034	308,542
Premises and equipment (note 5)	11,554	10,854
Goodwill, net of amortization	3,967	4,495
Other assets	6,216	6,042
	$ 555,455	515,550
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	50,371	42,589
Interest-bearing (note 6)	401,794	381,094
Total deposits	452,165	423,683
Short-term borrowings (note 7)	44,197	39,057
Long-term debt (note 8)	10,300	10,250
Other liabilities	7,248	5,698
Total liabilities	513,910	478,688
Stockholders' equity:		
Preferred stock, no par value; authorized 100,000 shares: 7.75% cumulative 0 and 300 shares issued and outstanding in 1998 1997, respectively (note 11)	0	300
Common stock, $.33 1/3 par value; 5,000,000 shares authorized, 2,171,855 and 2,152,593 shares issued and outstanding in 1998 and 1997, respectively	724	718

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Additional paid-in capital	7,163	6,691
Accumulated other comprehensive earnings (note 9)	934	577
RETAINED EARNINGS (NOTES 12 AND 13)	32,724	28,576
Total stockholders' equity	41,545	36,862
Commitments and contingent liabilities (notes 14 and 15)		
	$ 555,455	515,550

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLDIATED FINANCIAL STATEMENTS.

Consolidated Statements of Earnings

<TABLE>
<CAPTION>

Years Ended December 31, 1998, 1997, and 1996
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income:			
Interest and fees on loans	$ 29,406	28,566	26,248
Interest and dividends on investment securities:			
Taxable	8,095	8,325	6,945
Nontaxable	657	582	747
Interest on excess funds sold	73	33	312
Interest on mortgage loans held for sale	2,394	1,557	2,185
TOTAL INTEREST INCOME	40,625	39,063	36,437
Interest expense:			
Interest on deposits	17,535	17,228	16,090
Interest on short-term borrowings	1,497	1,493	976
INTEREST ON LONG-TERM DEBT	670	747	792
Total interest expense	19,702	19,468	17,858
Net interest income before provision for possible loan losses	20,923	19,595	18,579
PROVISION FOR POSSIBLE LOAN LOSSES (NOTE 4)	737	1,128	1,113
Net interest income after provision for possible loan losses	20,186	18,467	17,466
Other operating income:			
Trust fees	769	662	644
Deposit service charges	347	373	397
Other service charges	1,224	1,178	1,153
Investment securities gains, net (note 3)	154	210	41
Mortgage loan origination income, net	11,490	6,546	5,172
OTHER INCOME	1,130	794	973
Total other operating income	15,114	9,763	8,380
Other operating expenses:			
Salaries and employee benefits (note 10)	18,477	15,336	14,465
Net occupancy expense of premises	1,784	1,630	1,508
Furniture and fixtures	1,538	1,520	1,680
Office supplies	590	436	474
Outside services	1,169	760	1,142
Advertising expense	629	494	632
FDIC insurance assessment	51	49	8
Postage and courier expense	629	453	450
Amortization expense-goodwill	519	519	523
OTHER EXPENSES	2,592	2,552	2,194
Total other operating expenses	27,978	23,749	23,076
Earnings before income taxes	7,322	4,481	2,770
INCOME TAX EXPENSE (NOTE 9)	2,587	1,468	926
NET EARNINGS	$ 4,735	3,013	1,844
Net earnings applicable to common stock	$ 4,712	2,811	1,643

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Basic earnings per common share	$	2.18	1.35	.80
Diluted earnings per common share	$	2.16	1.34	.79

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Changes in Stockholders' Equity

<TABLE>
<CAPTION>

Years Ended December 31, 1998, 1997, and 1996

(Dollars in thousands, except share data)

	PREFERRED STOCK	COMMON STOCK	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE EARNINGS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance as of January 1, 1996	$ 2,600	686	4,695	24,994	1,372	34,347
Comprehensive Earnings						
Net Earnings	-	-	-	1,844	-	1,844
Unrealized gain on investment securities	-	-	-	-	(1,445)	(1,445)
Reclassification adjustments for gains included in net earnings	-	-	-	-	(41)	(41)
Income tax effect	-	-	-	-	561	561
Total comprehensive earnings	-	-	-	-	-	919
Issuance of 15,488 shares of common stock	-	5	306	-	-	311
Cash dividends on preferred stock	-	-	-	(201)	-	(201)
Cash dividends on common stock (.20 per share)	-	-	-	(414)	-	(414)
Balance at December 31, 1996	2,600	691	5,001	26,223	447	34,962
Comprehensive Earnings						
Net Earnings	-	-	-	3,013	-	3,013
Unrealized gain on investment securities	-	-	-	-	425	425
Reclassification adjustments for gains included in net earnings	-	-	-	-	(210)	(210)
Income tax effect	-	-	-	-	(85)	(85)
Total comprehensive earnings	-	-	-	-	-	3,143
Issuance of 79,974 shares of common stock	-	27	1,690	-	-	1,717
Redemption of preferred stock	(2,300)	-	-	-	-	(2,300)
Cash dividends on preferred stock	-	-	-	(202)	-	(202)
Cash dividends on common stock (.22 per share)	-	-	-	(458)	-	(458)
Balance at December 31, 1997	300	718	6,691	28,576	577	36,862
Comprehensive Earnings						
Net Earnings	-	-	-	4,735	-	4,735
Unrealized gain on investment securities	-	-	-	-	727	727
Reclassification adjustments for gains included in net earnings	-	-	-	-	(154)	(154)
Income tax effect	-	-	-	-	(216)	(216)
Total comprehensive earnings	-	-	-	-	-	5,092
Issuance of 19,262 shares of common stock	-	6	472	-	-	478
Redemption of preferred stock	(300)	-	-	-	-	(300)
Cash dividends on preferred stock	-	-	-	(23)	-	(23)
Cash dividends on common stock (.26 per share)	-	-	-	(564)	-	(564)

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Balance at December 31, 1998	$0	724	7,163	32,724	934	41,545

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

<TABLE>
<CAPTION>
Consolidated Statements of Cash Flows

Years Ended December 31, 1998, 1997, and 1996
(Dollars in thousands)

<S>	1998 <C>	1997 <C>	1996 <C>
Cash flows from operating activities:			
Interest received	$ 40,077	38,535	35,721
Fees received	15,055	9,807	9,332
Net increase in mortgage loans held for sale	(22,593)	(24,418)	(6,859)
Interest paid	(19,706)	(19,041)	(17,872)
Cash paid to suppliers and employees	(24,538)	(20,542)	(21,544)
Income taxes paid	(2,695)	(1,784)	(1,178)
Net cash used in operating activities	(14,400)	(17,443)	(2,400)
Cash flows from investing activities:			
Proceeds from:			
Maturities of investment securities available for sale	40,235	30,060	46,554
Sales of investment securities available for sale	38,406	59,152	23,162
Purchases of investment securities available for sale	(80,197)	(85,310)	(68,622)
Net increase in loans	(14,330)	(23,519)	(35,378)
Proceeds from sale of land and building	-	-	45
Premises and equipment expenditures	(2,085)	(2,029)	(1,626)
Net cash used in investing activities	(17,971)	(21,646)	(35,865)
Cash flows from financing activities:			
Net increase (decrease) in demand deposits, NOW accounts, and savings accounts	33,691	(1,841)	5,030
Net (decrease) increase in certificates of deposit	(5,210)	21,415	12,909
Dividends paid on preferred stock	(23)	(202)	(201)
Dividends paid on common stock	(564)	(458)	(414)
Net proceeds from short-term debt	5,141	19,468	12,997
Issuance of long term debt	1,000	1,000	-
Repayment of long-term debt	(950)	(900)	(850)
Redemption of preferred stock	(300)	(2,300)	-
Issuance of common stock	479	1,717	311
Net cash provided by financing activities	33,264	37,899	29,782
Net change in cash and due from banks	893	(1,190)	(8,483)
Cash and due from banks at beginning of year	11,377	12,567	21,050
Cash and due from banks at end of year	$ 12,270	11,377	12,567

</TABLE>

Consolidated Statement of Cash Flows (continued)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Reconciliation of net earnings to net cash provided by operating activities:			
Net earnings	$ 4,735	3,013	1,844
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,066	2,065	2,122
Provision for possible loan losses	737	1,128	1,113
Gains on sale of investment securities	(154)	(210)	(41)

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Gain on sale of land and building	-	-	(23)
Increase (decrease) in:			
Income taxes payable	(108)	(316)	(252)
Interest payable	(5)	426	51
Unearned income	36	(821)	98
Other liabilities	1,375	1,142	167
Decrease (increase) in:			
Interest receivable	(358)	363	(373)
Other assets	94	254	194
Increase in mortgage loans held for sale	(22,593)	(24,418)	(6,859)
Discount accretion recorded as income	(485)	(380)	(794)
Premium amortization charged against income	260	311	353
	$ (14,400)	(17,443)	(2,400)

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Years Ended December 31, 1998, 1997, and 1996

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Castle BancGroup, Inc. and subsidiaries (Company) are prepared in conformity with generally accepted accounting principles and prevailing practices of the financial services industry which require management to make estimates that affect the reported financial position and results of operations. Actual results could differ from those estimates. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

(A) BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and the Company's wholly owned subsidiaries, Castle Bank, N.A. (CB), First National Bank in DeKalb (FNB), Castle Finance Company (CFC), CasBanc Mortgage, Inc. (CMI), and SBI Illinois, Inc., which owns 100% of Castle Bank Harvard, N.A. (CBH) and The Bank of Yorkville (BOY) (Subsidiaries). Significant intercompany transactions and accounts have been eliminated in consolidation.

(B) INVESTMENT SECURITIES AVAILABLE FOR SALE

Investments in debt and equity securities have been classified as available-for-sale and reported at fair value. The amortized valued is adjusted for amortization of premiums and accretion of discounts using a method that approximates level yield. Unrealized gains and losses, net of related deferred income taxes, are reported in stockholders' equity.

Gains and losses from the sale of investment securities prior to maturity are computed under the specific identification method and are included in investment securities gains, net, in the consolidated statement of earnings.

(C) MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are valued at the lower of cost or market value as determined by outstanding commitments from investors or current investor yield requirements on an aggregate basis. Holding costs are treated as period costs.

(D) MORTGAGE LOAN ORIGINATION INCOME

Gains or losses on sales and service release premiums of mortgage loans held for sale are recognized at the time the loans are purchased by the permanent investor and are based upon the difference between the selling price and the carrying value of the related mortgage loan sold. All mortgage loans are sold servicing released, and the related premiums are recognized at the time loans are sold. Points, application and other origination fees, net of appraisal, credit report and inspection costs, are recognized at closing on mortgage loans held for sale.

(E) LOANS

Loans are carried at the principal balance outstanding. Interest on loans is computed on the principal balance outstanding, except that interest on certain consumer loans is recognized using the sum-of-the-months-digit method which is not materially different than the level yield method. No interest income on non-accrual and impaired loans is recognized until the principal is collected. Loans are

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generally placed on non-accrual status when they are past due 90 days as to either interest or principal. However, loans well secured and in the process of collection may remain on accrual status, at the judgment of senior credit management. A non-accrual loan may be restored to accrual basis when interest and principal payments are current and prospects for future payments are no longer in doubt.

Loans are considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured based on the present value of expected future cash flows, or alternatively, the observable market price of the loans or the fair value of the collateral. However, for those

loans that are collateral dependent, and for which management has determined foreclosure is probable, the measure of impairment is based on the fair value of the collateral less estimated disposal costs.

(F) LOAN FEES

The Subsidiaries defer all material fees and costs associated with the origination of loans and leases. Such fees and costs are amortized, using a level yield method, over the period to maturity or sale date of the loans and leases.

(G) ALLOWANCE FOR POSSIBLE LOAN LOSSES

An allowance for possible loan losses is maintained at a level deemed adequate by management to provide for known and inherent risks in the loan portfolio. The allowance is based upon a continuing review of specific loans, past loan loss experience, current economic conditions which may affect the borrowers' ability to pay, and the underlying collateral value of the loans. Loans deemed to be uncollectible are charged off and deducted from the allowance. The provision for possible loan losses and recoveries on loans previously charged off are added to the allowance.

(H) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense on a straight-line or accelerated basis over the estimated useful lives of the respective assets, as follows: building and improvements, 15 to 40 years; and furniture, fixtures, and equipment, 3 to 10 years.

(I) GOODWILL

The total cost of the Company's acquisitions of various subsidiaries exceeded their fair value of net assets acquired by approximately $7,814,000. This amount, net of accumulated amortization of $3,847,000 and $3,319,000 at December 31, 1998 and 1997, respectively, is shown as goodwill in the accompanying consolidated balance sheets and is being amortized on a straight line basis over 15 years. Goodwill and other valuation intangibles are reviewed for impairment when events or future assessments of profitability indicate that the carrying value may not be recoverable.

(J) OTHER REAL ESTATE OWNED

Other real estate owned includes foreclosures and property acquired in forgiveness of debt, and is included in other assets in the accompanying consolidated balance sheets. These properties are carried at the lower of cost or fair market value, less the estimated costs of disposal. Losses arising from the acquisition of property in full or partial satisfaction of loans are treated as loan losses. Any subsequent losses are charged to other expenses.

(K) INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss (NOL) and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company and Subsidiaries file a consolidated Federal income tax return.

(L) EARNINGS PER SHARE

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" retroactively

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for all years presented. Income for basic earnings per share (EPS) is based on the weighted average number of common shares outstanding. Diluted EPS

is based on the weighted average number common shares outstanding, increased by the assumed conversion of the convertible preferred stock and exercise of the Company's stock options.

The components of basic and diluted EPS for the years ended December 31, 1998, 1997, and 1996 were as follows: (DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	1998	1997	1996
Basic EPS:			
Net Income	$ 4,735	3,013	1,844
Less: preferred stock dividends:	(23)	(202)	(201)
Income available to common stockholders	$ 4,712	2,811	1,643
Average common shares	2,163,644	2,079,251	2,066,213
Basic EPS $	2.18	1.35	.80
Diluted EPS:			
Income available to common stockholders	$ 4,712	2,811	1,643
Assumed conversion of preferred stock (anti-dilutive in 1997 and 1996)	23	N/A	N/A
Income available to common stockholders after assumed conversion	$ 4,735	2,811	1,643
Average common shares	2,163,644	2,079,251	2,066,213
Assumed conversion of preferred stock (anti-dilutive in 1997 and 1996)	10,909	N/A	N/A
Assumed exercise of stock options	18,719	22,188	19,359
Average common shares after assumed conversions	2,193,272	2,101,439	2,085,572
Diluted EPS	$ 2.16	1.34	.79

(M) REPORTING COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." The statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income, be reported in a financial statement that is displayed with the same prominence as other financial statements. The statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company adopted this statement in the first quarter of 1998. The adoption of SFAS No. 130 did not have a significant impact on the Company's financial statements.

(N) DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION

In June, 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The statement establishes standards for the way that public business enterprises report information about operating segments and certain other information in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. The statement is effective for financial statements for periods beginning after December 15, 1997. The Company

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adopted SFAS No. 131 for the fiscal year ended December 31, 1998. The adoption of this statement did not have a significant impact on the Company's financial statements.

(2) CASH AND DUE FROM BANKS

Certain of the Company's subsidiary banks, which are members of the Federal Reserve System, are required to maintain certain daily reserve balances in accordance with Federal Reserve Board requirements. The reserves required to be maintained at the Federal Reserve Bank averaged $1,060,000 and $1,005,000 in 1998 and 1997, respectively. Cash and due from banks include cash on hand and in banks with original maturities of three months or less.

(3) INVESTMENT SECURITIES

A comparison of amortized cost and fair value of investment securities available for sale at December 31, 1998 and 1997 follows: (DOLLARS IN THOUSANDS)

DECEMBER 31, 1998

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury and agency obligations	$ 66,082	1,008	(17)	67,073
Obligations of state and political subdivisions	15,329	277	(36)	15,570
Mortgage-backed securities	47,050	381	(130)	47,301
Total debt securities	$ 128,461	1,666	(183)	129,944
Federal Home Loan Bank stock	$ 1,673	-	-	1,673
Other equity securities	443	-	-	443
Total securities	$ 130,577	1,666	(183)	132,060

DECEMBER 31, 1997

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury and agency obligations	$ 101,495	657	(173)	101,979
Obligations of state and political subdivisions	9,873	253	(2)	10,124
Mortgage-backed securities	15,397	218	(45)	15,570
Total debt securities	$ 126,765	1,128	(220)	127,673
Federal Home Loan Bank stock	$ 1,472	-	-	1,472
Other equity securities	334	-	-	334
Total securities	$ 128,571	1,128	(220)	129,479

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

<TABLE>
<CAPTION>

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	DECEMBER 31, 1998	
	Amortized cost	Fair value
Due in one year or less	$ 12,176	12,342
Due after one year through five years	19,072	19,408
Due after five years through ten years	34,540	34,995
Due after ten years	15,623	15,898
	81,411	82,643
Mortgage-backed securities	47,050	47,301
Total debt securities	128,461	129,944
Federal Home Loan Bank stock	1,673	1,673
Other equity securities	443	443
Total securities	$ 130,577	132,060

Gross gains of approximately $167,000, $409,000, and $162,000 occurred from security activity during 1998, 1997, and 1996, respectively. Gross losses of approximately $13,000, $199,000, and $121,000 occurred from security activity during 1998, 1997, and 1996, respectively. All security gains and losses were as a result of transactions involving available-for-sale securities.

Investment securities carried at approximately $83,062,000 and $66,445,000 at December 31, 1998 and 1997, respectively, were pledged to secure deposits and for other purposes permitted or required by law.

(4) LOANS

The composition of the loan portfolio at December 31 is as follows: (DOLLARS IN THOUSANDS)

	1998	1997
Commercial, financial, and agricultural	$ 85,790	73,908
Real estate mortgage	213,761	208,502
Consumer	29,168	32,606
Lease financing receivables	478	524
Total	$329,197	315,540

The Company provides several types of loans to customers, including residential, construction, commercial and installment loans. The largest component of the loan portfolio is secured by residential and commercial real estate, or other interests in real property. Lending activities are conducted with customers in a wide variety of industries as well as with individuals with varying credit requirements. The Company does not have a concentration of loans in any specific industry. Credit risk, as it relates to the Company's business activities, tends to be geographically concentrated in that the majority of the customer base lies within the cities and surrounding communities served by the Company's Subsidiaries.

The components of non-performing loans and leases are as follows at December 31: (DOLLARS IN THOUSANDS)

	1998	1997
Non-accrual loans and leases	$ 2,262	3,968
Restructured loans	208	139
Total non-performing loans and leases	$ 2,470	4,107

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Loans past due 90 days or more and still accruing interest are not included above and totaled $544,000 and $500,000 at December 31, 1998 and 1997, respectively.

Non-accrual and restructured loans and leases had the following effect on interest income for the years ended December 31: (DOLLARS IN THOUSANDS)

	1998	1997	1996
Income recognized	$ 65	27	138
Income which would have been recognized under original terms	175	344	357

Impaired loan information at December 31, 1998 and 1997 is as follows: (DOLLARS IN THOUSANDS)

	1998	1997	1996
Impaired loans for which a related allowance has been allocated	$ 54	821	1,376
Impaired loans for which no allowance has been allocated	864	1,841	267
Total loans determined to be impaired	$ 918	2,662	1,643
Allowance allocated to impaired loans, included in the allowance			
for possible loan losses	$ 10	260	401

Impaired loans averaged $1,790,000, $2,152,000, and $1,429,000 for the years ended December 31, 1998, 1997, and 1996, respectively. No interest was either recognized or received on these impaired loans during 1998, 1997 and 1996. The entire balance of impaired loans at December 31, 1998 and 1997 is classified as non-accrual and is included in the non-accrual loan and lease total presented above.

At various times throughout the year, certain officers and directors of the Company and its affiliates have borrowed money from the subsidiary banks. These loans were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other bank customers.

The following summarizes activity on loans, including renewals, made to related parties during 1998 and 1997: (DOLLARS IN THOUSANDS)

	1998	1997
Loans outstanding, beginning of year	$ 4,168	3,445
New loans, renewals, and advances	3,450	4,375
Loan payments	(1,560)	(3,652)
Loans outstanding, end of year	$ 6,058	4,168

The following is a summary of activity in the allowance for possible loan losses: (DOLLARS IN THOUSANDS)

	1998	1997	1996
Balance, beginning of year	$ 4,646	3,775	3,309
Provision charged to expense	737	1,128	1,113
Additions to dealer reserves	0	33	118
Recoveries on loans previously charged off	426	448	341
	5,809	5,384	4,881

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Less loans charged off	1,034	738	1,106
Balance, end of year	$ 4,775	4,646	3,775

</TABLE>

(5) PREMISES AND EQUIPMENT
The components of premises and equipment at December 31 were as follows:
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	1998	1997
Land and land improvements	$ 1,721	1,806
Building and improvements	11,457	10,861
Furniture, fixtures, and equipment	8,211	7,786
	21,389	20,453
Less accumulated depreciation	9,835	9,599
Total	$ 11,554	10,854

</TABLE>

(6) DEPOSITS
The aggregate amount of jumbo time deposits, each with a minimum denomination of $100,000, was $56,612,000 and $59,555,000 at December 31, 1998 and 1997, respectively. Included in these totals were $693,000 and $4,059,000 of brokered deposits at December 31, 1998 and 1997, respectively, with interest rates ranging from 6.20% to 6.75% in 1998 and 6.10% to 6.75% in 1997.

(7) SHORT-TERM BORROWINGS
The components of short-term borrowings at December 31 are as follows:
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	1998	1997
Repurchase agreements	$ 313	4,268
Federal funds purchased	33,900	21,850
Federal Home Loan Bank borrowings	5,700	7,932
Other short-term borrowings	4,284	5,007
Total	$ 44,197	39,057

</TABLE>

The weighted average interest rate on short-term borrowings was 5.54% and 6.41% at December 31, 1998 and 1997, respectively.

Other short-term borrowings (excluding treasury, tax, and loan borrowings) consists of the following line-of-credit agreements at December 31:

<TABLE>
<CAPTION>

<S>	1998 Outstanding Principal	Rate
$7,500,000 maturing February 28, 1999	3,825,000	6.63%
$3,000,000 payable on demand	-	7.75%

	1997 Outstanding Principal	Rate
$5,000,000 maturing January 27, 1998	3,250,000	7.59%
$3,000,000 payable on demand	857,000	8.50%

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$2,000,000 payable on May 31, 1998	-	8.50%

</TABLE>

The $7,500,000 line of credit is secured by outstanding stock of the Subsidiaries, which are 100% owned by the Company.

Federal Home Loan Bank borrowings are collateralized by Federal Home Loan Bank stock and first mortgage real estate loans. As of December 31, 1998, the notes mature from 1999 through 2004 and have variable interest rates with an average of 5.02%. Certain Federal Home Loan Bank borrowings with call features have been classified as short-term borrowings by the Company. CB, FNB, and BOY

have collateral pledge agreements whereby they have agreed to keep on hand at all times, free of all other pledges, loans, and encumbrances, whole first mortgages on improved residential property with unpaid principal balances aggregating no less than 167% of the outstanding advances from the Federal Home Loan Bank.

(8) LONG-TERM DEBT
Long-term debt at December 31, 1998 and 1997 consists of the following: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Amendment to the secured term loan dated May 1, 1992 with interest at the 60 day LIBOR rate plus 1.625% (6.85% at December 31, 1998), principal payable in 4 semi-annual payments remaining from June 30, 1999 through December 31, 2000	$ 8,300	9,250
Federal Home Loan Bank Borrowing (6.10% payable on December 22, 2000 and 4.95% payable on January 16, 2001)	$ 2,000	1,000
	$ 10,300	10,250

</TABLE>

<TABLE>
<CAPTION>

Scheduled principal payments on long-term debt, through maturity, are: (DOLLARS IN THOUSANDS)

Year ended December 31	Amount
<S>	<C>
2000	$ 1,000
2001	9,300

</TABLE>

The long-term debt agreement with a balance outstanding of $8,300,000 at December 31, 1998, is secured by the stock of the subsidiaries and contains certain restrictive covenants, including restrictions on dividends to stockholders, maintenance of various capital adequacy levels, maintenance of allowance for loan losses, restrictions on non-performing assets, attainment of a minimum return on average assets, and certain restrictions with regard to other indebtedness. The restriction on dividends to stockholders is described further in Note 12.

(9) INCOME TAXES
The components of Federal income tax expense (benefit) for 1998, 1997, and 1996 were as follows: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Current	$ 2,715	2,088	1,290

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Deferred	(128)	(620)	(364)
Total	$ 2,587	1,468	926

</TABLE>

The reasons for the difference between income taxes in the statements of earnings and the amount computed by applying the statutory Federal income tax rate of 34% in 1998, 1997 and 1996 are as follows: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Tax expense at statutory rate	$ 2,489	1,523	942
Tax-exempt interest, net of premium amortization	(253)	(211)	(250)
Nondeductible amortization	158	156	169
Other, net	193	-	65
Total income tax expense	$ 2,587	1,468	926

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are as follows: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Deferred tax assets:		
Deferred loan fees	$ 40	85
Allowance for loan losses	1,266	1,127
Other	13	13
Deferred compensation	281	257
State net operating loss carryforwards	-	83
Total gross deferred tax assets	1,600	1,565
Less valuation allowance	0	(33)
Net deferred tax assets	1,600	1,532
Deferred tax liabilities:		
Purchase accounting adjustments	(464)	(554)
Accretion on investments	(45)	(57)
Depreciation	(257)	(258)
Unrealized gains on investment securities	(504)	(330)
Net lease adjustment	(52)	(63)
Other, net	(97)	(43)
Total gross deferred tax liabilities	(1,419)	(1,305)
Net deferred tax assets (liabilities)	$ 181	227

</TABLE>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the capacity to carry back net operating losses, scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on 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, net of the valuation allowance at December 31, 1998 and 1997. The valuation allowance for December 31, 1997 consisted of Illinois NOL carryforwards related to the acquisition of The Bank of Yorkville and were available for use only at that subsidiary.

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(10) EMPLOYEE BENEFIT PLANS

The Company maintains a profit-sharing plan which was amended in 1990. The amended plan covers substantially all officers and employees of the Company. Under provisions of the plan, the Company is required to make minimum annual contributions of 7.5% of net operating profits, as defined in the plan. Contributions by the Company to the plan totaled $908,000, $672,000, and $620,000 in 1998, 1997, and 1996, respectively.

In 1995, the Company instituted a non-qualified supplemental employee profit sharing plan. The supplemental plan covers all officers and employees of the Company whose contributions under the qualified profit sharing plan were limited by the Internal Revenue Code of 1986 (the Code), as amended. Under the non-qualified plan, the Company is required to accrue a liability for the contribution that was limited by the Code. Contributions paid by the Company to the plan totaled approximately $14,000, $15,000, and $53,000 in 1998, 1997, and 1996, respectively.

In 1992, the Company instituted an Employee Stock Purchase Plan (Plan) covering substantially all officers and employees of the Company. The Company incurs no costs associated with the Plan except for nominal administration expenses. The employees may purchase original issue Company stock at market prices up to a maximum limit established within the Plan.

On December 23, 1994, the Company adopted a Stock Benefit Plan covering key managerial employees and non-employee directors of the Company and its Subsidiaries. The Stock Benefit Plan provides for the grant of incentive stock options, non-qualified stock options, limited rights, stock appreciation rights, and restricted stock. The Company may award options to acquire up to 7.5% of its issued and outstanding common stock, with no options being granted after October 31, 2004. The exercise price on outstanding non-qualified stock options ranges from $14.00 to $31.00 per share at December 31, 1998. Non-qualified stock options issued are exercisable at not less than the current common stock market value at the date of grant. The outstanding options vest ratably over a four year term. The following table presents certain information pursuant to the Stock Benefit Plan, at December 31:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	Shares	Average Price	Shares	Average Price
<S>	<C>	<C>	<C>	<C>
Options outstanding at beginning of year	109,250	$15.55	113,100	$14.39
Options granted	25,000	$29.28	17,750	$22.00
Options exercised	(1,575)	$14.05	(9,275)	$14.42
Options forfeited	(875)	$25.29	(12,325)	$15.06
Options outstanding at end of year	131,800	$18.10	109,250	$15.55
Options exercisable at end of year	73,463	$14.70	47,800	$14.20
Options available to grant under plan at end of year	20,239		42,919	

</TABLE>

The Company applies APB opinion No. 25 and related interpretations in accounting for the Stock Benefit Plan. Had compensation cost for the plan been determined consistent with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below: (DOLLARS IN THOUSAND, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

			1998	1997
<S>	<C>	<C>		<C>
Net Income	As reported	$	4,735	3,013
	Pro forma		4,605	2,944

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Basic earnings per share	As reported	$	2.18	1.35
	Pro forma		2.12	1.32

</TABLE>

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model.

(11) PREFERRED STOCK

In 1993, the Company issued 2,600 shares of Perpetual Preferred Stock. On December 31, 1997, the Company redeemed 2,300 shares of its outstanding Perpetual Preferred Stock. Of the 2,300 shares, 841 shares were redeemed for cash, and 1,459 shares were exchanged into 66,311 shares of the Company's common stock. On December 31, 1998, the remaining 300 shares were redeemed for cash.

(12) DIVIDEND LIMITATIONS

The amendment to the secured term loan agreement contains several restrictive covenants, including restrictions on dividends to stockholders, and other restrictions as described in Note 8. Future cash dividends, in addition to dividends on preferred stock are limited to 50% of the Company's net after-tax earnings for the immediately preceding eight fiscal quarters of the Company. As of December 31, 1998, the Company had $2,628,000 of unrestricted earnings available for additional cash dividends.

National banking regulations restrict the amount of dividends that a bank may pay to its stockholders. Generally, the regulations provide that dividends are limited to net earnings for the current and two preceding years, reduced by dividends paid and transfers to permanent capital. At December 31, 1998, subject to minimum regulatory capital guidelines, FNB could, without prior approval of regulatory authorities, declare dividends of approximately $3,244,000 CBH could, without prior approval of regulatory authorities, declare dividends of approximately $262,000, and assuming CB's conversion to a national bank charter was effective as of December 31, 1998, CB could, without prior approval of regulatory authorities, declare dividends of approximately $733,000.

BOY is subject to state banking regulations which provide that dividends can be paid up to the amount of available undivided profits (as defined), subject to total capital adequacy considerations.

(13) REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulations to ensure capital adequacy require the Company and subsidiaries to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as defined in the regulations. Management believes, as of December 31, 1998 and 1997, that the Company and subsidiaries meet all capital adequacy requirements to which they are subject.

As of December 31, 1998, the most recent notification from the federal banking agencies categorized each of the Company and subsidiaries as well capitalized at December 31, 1998 and 1997 under the regulatory capital framework for prompt corrective action. There are no conditions or events since notification that management believes have changed the Company and subsidiaries' status. Minimum capital requirements and actual capital amounts and ratios as of December 31, 1998 and 1997 are as follows: (DOLLARS IN THOUSANDS)

<TABLE>

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<CAPTION>

	December 31, 1998			
	Actual Amount	Ratio	Regulatory Amount	Minimum Ratio
<S>	<C>	<C>	<C>	<C>
Total risk-based capital to risk-weighted assets:				
Castle BancGroup, Inc.	$ 41,284	11.08%	$ 29,817	8.00%
First National Bank in DeKalb	20,341	11.22%	14,503	8.00%
The Sandwich State Bank(1)	9,959	11.37%	7,007	8.00%
Castle Bank Harvard, N.A.	7,020	13.15%	4,271	8.00%
The Bank of Yorkville	5,720	12.00%	3,813	8.00%
Tier I capital to risk-weighted assets:				
Castle BancGroup, Inc.	$ 36,625	9.83%	$ 14,909	4.00%
First National Bank In DeKalb	18,496	10.20%	7,251	4.00%
The Sandwich State Bank(1)	8,865	10.12%	3,503	4.00%
Castle Bank Harvard, N.A.	6,353	11.90%	2,136	4.00%
The Bank of Yorkville	5,311	11.14%	1,906	4.00%
Tier I capital to average assets:				
Castle BancGroup, Inc.	$ 36,625	6.31%	$ 23,200	4.00%
First National Bank in DeKalb	18,496	6.74%	10,972	4.00%
The Sandwich State Bank(1)	8,865	7.09%	5,001	4.00%
Castle Bank Harvard, N.A.	6,353	8.58%	2,962	4.00%
The Bank of Yorkville	5,311	6.98%	3,042	4.00%

</TABLE>

<TABLE>
<CAPTION>

	December 31, 1997			
	Actual Amount	Ratio	Regulatory Amount	Minimum Ratio
<S>	<C>	<C>	<C>	<C>
Total risk-based capital to risk-weighted assets:				
Castle BancGroup, Inc.	$ 35,988	10.67%	$ 26,994	8.00%
First National Bank in DeKalb	18,669	11.03%	13,539	8.00%
The Sandwich State Bank(1)	9,498	12.93%	5,878	8.00%
Castle Bank Harvard, N.A.	6,679	13.28%	4,024	8.00%
The Bank of Yorkville	5,248	13.05%	3,218	8.00%
Tier I capital to risk-weighted assets:				
Castle BancGroup, Inc.	$ 31,770	9.42%	$ 13,497	4.00%
First National Bank in DeKalb	17,033	10.06%	6,769	4.00%
The Sandwich State Bank(1)	8,558	11.65%	2,939	4.00%
Castle Bank Harvard, N.A.	6,045	12.02%	2,012	4.00%
The Bank of Yorkville	4,817	11.98%	1,609	4.00%
Tier I capital to average assets:				
Castle BancGroup, Inc.	$ 31,770	6.38%	$ 19,919	4.00%
First National Bank in DeKalb	17,033	6.93%	9,839	4.00%
The Sandwich State Bank(1)	8,558	7.65%	4,476	4.00%
Castle Bank Harvard, N.A.	6,045	8.11%	2,983	4.00%
The Bank of Yorkville	4,817	7.49%	2,572	4.00%

</TABLE>

(1) Effective January 1, 1999 The Sandwich State Bank converted to a national charter and changed its name to Castle Bank, N.A.

(14) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meeting the financing needs of its customers and to effectively manage its exposure to interest rate risk.

Credit risk is the possibility that the Company will incur a loss due to the other party's failure to perform under its contractual obligations. The Company's exposure to credit loss in the event of non-performance by the other party with regard to commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for actual extensions of credit.

Financial instruments representing potential credit risk at December 31, 1998 and 1997 are as follows: (DOLLARS IN THOUSANDS)

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	1998	1997
Standby letters of credit	$ 3,695	$ 3,943
Commitments to extend credit	132,771	138,647
	$136,466	$142,590

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established by the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit risk involved for commitments to extend credit and in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

The commitments to extend credit presented above included $77,902,000 and $81,250,000 at December 31, 1998 and 1997, respectively, relating to approved mortgage loan applications at CMI.

At December 31, 1998 and 1997, the Company had commitments to sell approximately $91,450,000 and $68,131,000 of first mortgage loans. At December 31, 1997, commitments to sell consisted of loan-by-loan commitments with investors.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

Because of the nature of their activities, the Company and Subsidiaries are subject to pending and threatened legal actions which arise in the normal course of business. In the opinion of management, based on the advice of legal counsel, the disposition of any known pending legal actions will not have a material adverse effect on the financial position of the Company.

(16) FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

Statement of Accounting Standards No 107, "Disclosures about Fair Value of Financial Instruments" (Statement 107), requires that the Company disclose estimated fair value for its financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

(A) CASH AND DUE FROM BANKS

The carrying amount of cash and due from banks approximate fair value because they mature daily and do not represent unanticipated credit risks.

(B) INVESTMENT SECURITIES AVAILABLE FOR SALE

The fair value of investment securities available for sale, with the exception of certain state and municipal securities, is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market values of similar instruments, adjusted for differences between the quoted instruments, and the instruments being valued.

(C) MORTGAGE LOANS HELD FOR SALE

As of December 31, 1998 and 1997, the carrying value of the Company's mortgage loans held for sale was $67,354,000 and $44,761,000, respectively. The estimated fair value of these loans was $67,663,000 and $44,940,000 at December 31, 1998 and 1997, based on commitments to purchase from the end investors.

(D) LOANS

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial real estate, residential real estate, and consumer. Each loan category is further segmented into fixed and variable rate interest terms.

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The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan.

(E) DEPOSIT LIABILITIES
Under Statement 107, the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, and money market and checking accounts, is equal to the amounts payable on demand as of December 31, 1998 and 1997. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discounted rate is estimated using the rates currently offered for deposits of similar maturities.

(F) SHORT-TERM BORROWINGS
For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

(G) LONG-TERM BORROWINGS
Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing borrowings.

(H) LOAN COMMITMENTS AND LETTERS OF CREDIT
The subsidiary banks' letters of credit, lines of credit, and loan commitments are financial instruments as defined by Statement 107. The fair value of these financial instruments is based on the present value of the fees received for these services, which are not significant at December 31, 1998 and 1997.

The estimated fair values of the Company's financial instruments at December 31 are as follows: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Cash and due from banks	$ 12,270	$ 12,270	$ 11,377	$ 11,377
Investment securities available for sale	132,060	132,060	129,479	129,479
Mortgage loans held for sale	67,354	67,663	44,761	44,940
Loans	329,197	332,487	315,540	315,814
Financial Liabilities				
Non-interest-bearing deposits	50,371	50,371	42,589	42,589
Interest-bearing deposits	401,794	406,322	381,094	383,279
Short-term borrowings	44,197	44,197	39,057	39,057
Long-term borrowings	10,300	10,300	10,250	10,249

</TABLE>

LIMITATIONS
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has a substantial trust department that annually contributes net fee income. The trust department is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities that are not considered financial assets or liabilities include the mortgage banking operation, deferred tax liabilities, property, plant, equipment, and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have

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not been considered in many of the estimates.

(17) OPERATING SEGMENTS

The Company's operations include two primary segments: banking and mortgage banking. Through its banking subsidiaries' network of 11 retail banking facilities in Northern Illinois, the Company provides traditional community banking services such as accepting deposits and making loans. Mortgage banking activities conducted through the Company's subsidiary, CMI, include the origination and brokerage of primarily residential mortgage loans for sale to various investors. The Company's two reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. Smaller operating segments are combined and consist of consumer finance and holding company operations. Assets and results of operations are based on generally accepted accounting principals, with profit and losses of equity method investees excluded. Inter-segment revenues and expenses are eliminated in reporting consolidated results of operations.

Operating segment information is as follows:
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	<C> Banking	<C> Mortgage Banking	<C> Other	<C> Consolidated Total
1998				
Interest income	$ 39,206	282	1,137	40,625
Interest expense	19,448	2	252	19,702
Net interest income before provision for possible loan losses	19,758	280	885	20,923
Provision for possible loan losses	288	24	425	737
Net interest income after provision for possible loan losses	19,470	255	460	20,186
Other operating income	5,351	9,915	(151)	15,114
Other operating expenses	15,282	9,020	3,677	27,978
Earnings before income taxes	9,539	1,151	(3,368)	7,322
Income tax expense	3,325	445	(1,183)	2,587
Net earnings	$ 6,214	706	(2,185)	4,735
Assets	$ 581,431	5,686	(31,662)	555,455
1997				
Interest income	$ 37,205	155	1,702	39,063
Interest expense	18,604	6	858	19,468
Net interest income before provision for possible loan losses	18,602	149	845	19,595
Provision for possible loan losses	478	0	650	1,128
Net interest income after provision for possible loan losses	18,124	149	195	18,467
Other operating income	4,393	5,578	(208)	9,763
Other operating expenses	14,276	5,632	3,841	23,749
Earnings before income taxes	8,241	95	(3,855)	4,481
Income tax expense	2,847	7	(1,386)	1,468
Net earnings	$ 5,394	88	(2,469)	3,013
Assets	$ 511,143	4,451	(44)	515,550
1996				
Interest income	$ 34,725	262	1,450	36,437
Interest expense	17,134	78	647	17,858
Net interest income before provision for possible loan losses	17,591	184	804	18,579
Provision for possible loan losses	534	0	579	1,113

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Net interest income after provision for possible loan losses		17,057	184	225	17,466
Other operating income		4,036	4,221	122	8,380
Other operating expenses		13,828	5,466	3,782	23,076
Earnings before income taxes		7,266	(1,061)	(3,435)	2,770
Income tax expense		2,508	(361)	(1,221)	926
Net earnings	$	4,758	(700)	(2,214)	1,844
Assets	$	467,097	3,749	2,578	473,424

</TABLE>

(18) CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)
The following is a summary of condensed financial information for the Parent Company only: (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

CONDENSED BALANCE SHEETS	December 31, 1998	1997
<S>	<C>	<C>
Assets:		
Investments in subsidiaries	$ 46,384	43,453
Other assets	7,965	6,412
Total assets	$ 54,349	49,865
Liabilities and stockholders' equity:		
Liabilities	12,804	13,003
Stockholders' equity	41,545	36,862
Total liabilities and stockholders' equity	$ 54,349	49,865

</TABLE>

<TABLE>
<CAPTION>

CONDENSED STATEMENTS OF EARNINGS		Years ended December 31, 1998	1997	1996
Income - primarily subsidiary dividends	$	6,334	5,405	5,611
<S>	<C>		<C>	<C>
Expenses:				
Interest		944	1,081	1,082
Other		4,365	4,420	3,867
Total expense		5,309	5,501	4,949
Earnings (loss) before income tax benefit and equity in undistributed earnings of subsidiaries		1,025	(96)	662
Income tax benefit		1,135	1,248	1,128
Earnings before equity in undistributed earnings of subsidiaries		2,160	1,152	1,790
Equity in undistributed earnings of subsidiaries		2,575	1,861	54
Net earnings	$	4,735	3,013	1,844
Net earnings applicable to common stock	$	4,712	2,811	1,643

</TABLE>

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CONDENSED STATEMENTS OF CASH FLOWS		Years ended December 31, 1998	1997	1996
<S>	<C>		<C>	<C>
Reconciliation of net earnings to net cash provided by operating activities:				
Net earnings	$	4,735	3,013	1,844
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Equity in undistributed earnings of subsidiaries		(2,575)	(1,861)	(54)
Depreciation and amortization		495	514	595
Loss / (gain) loss on sale of fixed assets		-	1	(22)
Increase (decrease) in:				
Income taxes payable		(248)	141	(234)
Other liabilities		379	353	87
(Increase) decrease in other assets		(21)	22	262
Cash flows provided by operating activities	$	2,765	2,183	2,478
Cash flows from investing activities:				
Capital contribution to subsidiary		-	-	(700)
Loans to subsidiary		-	-	(5,000)
Other		(1,695)	(340)	(154)
Net cash used in investing activities		(1,695)	(340)	(5,854)
Cash flows from financing activities:				
Issuance of short-term debt		575	-	5,000
Repayment of short-term debt		-	(1,750)	-
Redemption of preferred stock		(300)	(2,300)	-
Issuance of common stock		479	1,717	311
Repayment of long-term debt		(950)	(900)	(850)
Dividends paid		(587)	(660)	(615)
Net cash (used in) provided by financing activities		(783)	(3,893)	3,846
Increase (decrease) in cash and cash equivalents		287	(2,050)	470
Cash and cash equivalents at beginning of year		0	2,050	1,580
Cash and cash equivalents at end of year	$	287	(0)	2,050
Supplemented disclosure:				
Interest received	$	393	334	290
Interest paid		(944)	(1,081)	(1,082)
Income taxes received from subsidiaries		3,336	2,794	2,248
Income taxes paid by Parent Company		(2,695)	(1,784)	(1,370)
Net income taxes received from subsidiaries		641	1,010	878

</TABLE>

INDEPENDENT AUDITORS' REPORT

Board of Directors

Castle BancGroup, Inc.:

We have audited the accompanying consolidated balance sheets of Castle BancGroup, Inc. and subsidiaries (Company) as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. 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 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.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

January 29, 1999
Chicago, Illinois

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

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors and executive officers of the Company is included in the Company's Definitive Proxy Statement for the Annual Meeting of Stockholders to be held April 28, 1999 (Proxy Statement) under the captions "Proposal No. 1 - Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" which information is incorporated herein by reference.

ITEM 11: EXECUTIVE COMPENSATION

The information contained under the captions "Directors' Compensation," "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the caption "Transactions with Management" in the Proxy Statement is incorporated herein by reference.

PART IV

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

(a) FINANCIAL STATEMENTS:

The following financial statements are submitted herewith in response to Part II Item 8:

Consolidated Balance Sheets as of December 31, 1998 and 1997.

Consolidated Statements of Earnings for the years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996.

(b) REPORTS ON FORM 8-K

The registrant has not filed any reports on Form 8-K for the quarter

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ended December 31, 1998.

(c) EXHIBITS:

3.1 Certificate of Incorporation of registrant as amended is incorporated herein by reference to Exhibit 3.1 of the registrant's Form 10-Q for the quarter ended March 31, 1997.

3.2 By-laws of the registrant as amended are incorporated herein by reference to Exhibit 3.2 of the registrant's Form 10-K for the fiscal year ended December 31, 1997.

10.1 Castle BancGroup, Inc. Stock Benefit Plan is incorporated herein by reference to Exhibit 4.1 of the registrant's Form S-8, Registration Statement, filed on December 22, 1994, Registration No. 33-87658.

10.2 Agreement for Services by and between Ronald L. Hovermale and Castle BancGroup, Inc., dated September 26, 1997, and amendment dated March 12, 1999.

21.1 Subsidiaries of Registrant

23.1 Consent of KPMG LLP

27.1 Financial Data Schedule

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.

CASTLE BANCGROUP, INC.
(REGISTRANT)

/S/ JOHN W. CASTLE

BY: John W. Castle, Chairman of the Board, Chief Executive Officer and Director
Date: March 18, 1999

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

/S/ JOHN W. CASTLE

By: John W. Castle
Chairman of the Board, Chief Executive Officer (Principal Executive Officer) and Director
Date: March 18, 1999

/S/ BRUCE P. BICKNER

By: Bruce P. Bickner
Director
Date: March 18, 1999

/S/ MICAH R. BARTLETT

By: Micah R. Bartlett
Vice President and Controller
(Principal Financial Officer and Principal Accounting Officer)
Date: March 18, 1999

/S/ PETER H. HENNING

By: Peter H. Henning
Director
Date: March 18, 1999

/S/ ROBERT T. BOEY

By: Robert T. Boey
Director
Date: March 18, 1999

/S/ KATHLEEN L. HALLORAN

By: Kathleen L. Halloran
Director
Date: March 18, 1999

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/S/ DONALD E. KIESO	/S/ RICHARD C. MCGINITY
By: Donald E. Kieso Director	By: Richard C. McGinity Director
Date: March 18, 1999	Date: March 18, 1999

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of registrant as amended is incorporated herein by reference to Exhibit 3.1 of the registrant's Form 10-Q for the quarter ended March 31, 1997.
3.2	By-laws of the registrant as amended are incorporated herein by reference to Exhibit 3.2 of the registrant's Form 10-K for the fiscal year ended December 31, 1997.
10.1	Castle BancGroup, Inc. Stock Benefit Plan is incorporated here by reference to Exhibit 4.1 of the registrant's Form S-8, Registration Statement, filed on December 22, 1994, Registration No. 33-87658.
10.2	Agreement for Services by and between Ronald L. Hovermale and Castle BancGroup, Inc., dated September 26, 1997, and amendment dated March 12, 1999.
21.1	Subsidiaries of Registrant
23.1	Consent of KPMG LLP
27.1	Financial Data Schedule

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Exhibit 10.2

AGREEMENT FOR SERVICES

IT IS AGREED, by and between RONALD L HOVERMALE ("RLH"), and CASTLE BANCGROUP, INC. ("CBI") as follows:

CBI hereby engages RLH, and RLH hereby accepts such engagement, to perform the duties of CBI corporate Vice President for Information Services and Operations and Administration which duties shall be specified from time to time by CBI senior management upon the following terms and conditions,

TERM

1. The term of this Agreement shall be from October 25, 1997 to December 31, 1999 unless terminated earlier by mutual written consent or terminated with cause by either party to this Agreement upon thirty (30) days written notice to the other party.

2. The terms of this Agreement may be modified or extended at any time by mutual written consent of the parties.

CONSIDERATION

1. CBI shall pay RLH for his services the sum of $233,077 and employer's FICA contributions in 57 equal or nearly equal bi-weekly installments during the term of this Agreement. In addition, CBI shall reimburse RLH for business expenses incurred by him in the performance of his services during the term of this Agreement.

2. In the event this Agreement is terminated prior to December 31, 1999, the requirement for payment to RLH of the consideration stated herein shall be deemed to be fulfilled and CBI shall not be obligated to make any further payments to RLH other than any bi-weekly payments and reimbursable expenses which became due to RLH prior to the date of termination and are unpaid at the date of termination.

3. CBI shall pay RLH $10,000 for relocation expense incurred in moving his residence from Springfield, Illinois to DeKalb, Illinois or its environs in two installments: $5,000 shall be paid upon execution of this Agreement and the balance of $5,000 shall be paid upon relocation.

4. CBI shall award RLH as additional consideration grants of CBI common shares as follow:

   800 shares on December 1, 1997
   800 shares on December 1, 1998

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800 shares on December 1, 1999

The foregoing grants of CBI common shares are contingent upon written determination by CBI on the due date of each grant that this Agreement is in full force and effect and that RLH has performed the services required of him pursuant to this Agreement in a satisfactory manner.

5. In the event RLH sells the DeKalb residence acquired by him upon his relocation from Springfield, Illinois due to termination of this Agreement for any reason CBI will reimburse RLH for any loss in value realized by RLH.

The term "Loss in value" means the difference between the cost basis for federal income tax purposes of the DeKalb residence acquired by RLH upon relocation and a lower price received by RLH upon the sale of such residence in an arm's length transaction which is closed within twelve (12) months of the date of termination of this Agreement.

BENEFITS, VACATIONS, PROFIT SHARING

1. It is understood and agreed by CBI and RLH may not devote his full time to the performance of the services required by this Agreement and that from time to time RLH may accept other engagements which are not in direct conflict with his engagement by CBI, may be out of state, and may provide certain of his services from outside the CBI office.

   Notwithstanding the above, it is agreed by CBI and RLH that RLH will not absent himself from CBI for more than thirty (30) consecutive days in any year or for more than a total of six (6) weeks in 1998 or more than a total of eight (8) weeks in 1999.

2. RLH waives any right(s) which may have to participate in the benefit, profit sharing, and bonus programs of CBI during the term of this Agreement.

EXECUTED at DeKalb, Illinois this 26 day of September, 1997.

/S/ RONALD L. HOVERMALE	/S/ JOHN W. CASTLE
	John W. Castle Chairman and Chief Executive Officer

AMENDMENT TO AGREEMENT FOR SERVICES
BETWEEN RONALD L. HOVERMALE AND CASTLE BANCGROUP, INC.

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DATED SEPTEMBER 26, 1997

Ronald L. Hovermale ("RLH") and Castle BancGroup, Inc. ("CBI"), in consideration of the premises, hereby agree to amend the written agreement heretofore entered into by them dated September 26, 1997 for the services of RLH as Vice President for Information Services and Operations ("Agreement for Services") as follows:

1. The term of the Agreement for Services shall be extended for twelve months from December 31, 1999 to January 15, 2001.

2. The consideration to be paid RLH for his services during the extended term shall be $112,500 plus employer's FICA contributions which shall be paid in equal or nearly equal bi-weekly installments.

3. RLH shall spend a minimum of 8 1/2 months at the CBI corporate office in DeKalb, Illinois in the performance of his duties during the extended term. RLH shall be allowed 3 1/2 months for vacation. The required office time is not required to be in consecutive days.

4. CBI shall purchase the RLH DeKalb residence on or about September 30, 2000 at a purchase price equal to the cost basis of the property less customary expenses paid by the seller of DeKalb real estate. The purchase price shall be paid in cash at closing and RLH shall have the right to continue to occupy the premises until January 15, 2001 or until the property is resold by CBI, whichever event occurs earlier. RLH shall pay all utility costs and other charges, if there are any, related to his occupancy of the premises after purchased by CBI.

5. RLH shall be responsible during the extended term of the Agreement for Services to recruit from within or from outside the CBI organization a person who is acceptable to CBI senior management to be his successor as Vice President for Information Services and Operations. RLH shall be paid 800 shares of CBI common stock during January, 2001 if he successfully completes the recruitment effort required by this paragraph 5.

6. All of the terms and conditions of the Agreement for Services which are not amended by this Agreement or are not otherwise in conflict with this agreement shall remain in full force and effect during the extended term of the Agreement for Services.

Executed at DeKalb, Illinois this 12th day of March, 1999.

/S/ RONALD L. HOVERMALE

/S/ JOHN W. CASTLE

John W. Castle
Chairman and Chief Executive Officer

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EXHIBIT 21.1
SUBSIDIARIES OF REGISTRANT

First National Bank in DeKalb (a national banking association)

Castle Bank Harvard, N.A. (a national banking association)

The Bank of Yorkville (an Illinois banking corporation)

Castle Bank, N.A. (a national banking corporation)

Castle Finance Company (an Illinois corporation)

CasBanc Mortgage, Inc. (an Illinois corporation)

Mortgage Junction, Inc. (an Illinois corporation -- inactive)

SBI Illinois, Inc. (an Illinois corporation)

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EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Castle BancGroup, Inc.

We consent to incorporation by reference in the registration statement (No. 333-70867) on Form S-3 of Castle BancGroup, Inc., in the registration statement (No. 333-70825) on Form S-8 of Castle BancGroup, Inc., and in the registration statement (No. 33-87658) on Form S-8 of Castle BancGroup, Inc. of our report dated January 29, 1999, relating to the consolidated balance sheets of Castle BancGroup, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Castle BancGroup, Inc.

/s/ KPMG LLP

Chicago, Illinois
March 18, 1999

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