FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

FIRST REGIONAL BANCORP

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SIC: **6022** State commercial banks

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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. 0-10232

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

California	95-3582843
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1801 Century Park East Los Angeles, California	90067
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 552-1776

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

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

Common Stock, no par value
(Title of class)

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_____

Aggregate market value of Common Stock held by non-affiliates as of March 19, 1999: $25,175,593

Number of shares of Common Stock outstanding at March 19, 1999: 3,051,587.

Documents incorporated by reference and parts of Form 10-K into which incorporated:

Portions of Proxy Statement for 1999 Annual Meeting of Shareholders (to be filed within 120 days of fiscal year end)	PART III
Annual Report on Form 10-K for the Years Ended December 31, 1982, 1987, 1988, 1991, and 1993	PART IV
Registration Statement on Form 10 as Filed with the Commission in March, 1982	PART IV
Registration Statement on Form S-14 Filed with the Commission on December 2, 1981 (File Number 2-75140)	PART IV

FORM 10-K

TABLE OF CONTENTS AND
CROSS REFERENCE SHEET

<TABLE>
<CAPTION>

</TABLE>

PART IV

<TABLE>

</TABLE>

PART I

Item 1. Business

Business of First Regional Bancorp

First Regional Bancorp (the Company) maintains its principal executive offices at 1801 Century Park East, Los Angeles, California 90067. The Company was incorporated in California as Great American Bancorp on February 18, 1981 for the purpose of becoming a bank holding company and acquiring all of the outstanding common stock of First Regional Bank (the Bank), formerly Great American Bank, a state-chartered bank headquartered in Los Angeles (Century City), California. The reorganization of the Bank was accomplished on March 8, 1982, under the terms of a Plan of Reorganization and Merger Agreement dated October 15, 1981, providing for the merger of a Company subsidiary with the Bank, with the Bank being the surviving entity in the merger. As a result of the Bank's reorganization, the Bank's outstanding shares were exchanged on a one-for-one basis for shares of the Company's Common Stock, and the Company became the sole shareholder of the Bank. Prior to acquiring the Bank, the Company did not conduct any ongoing business activities. The Company's principal asset is the stock of the Bank and the Company's primary function is to coordinate the general policies and activities of the Bank, as well as to consider from time to time, other legally available investment opportunities. Both the Company and the Bank changed their names from Great American to First Regional in 1987 as part of an agreement with another financial institution.

Certain matters discussed in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act") and as such may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which the Company and the Bank operate, projections of future performance, perceived opportunities in the market, and statements regarding the Company's and/or the Bank's mission and vision. The Company's and/or the Bank's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expressed or implied in such forward-looking statements. The following discusses certain factors which may affect the Company's and/or the Bank's financial results and operations and should be considered in evaluating the Company and/or the Bank.

The Company does not anticipate that its operations will be materially affected as a result of compliance with Federal, State and local environmental laws and regulations.

Business of First Regional Bank

The Bank was incorporated under the laws of the State of California on July 10, 1979, and has authorized capital of 5,000,000 shares of no par value Common Stock. The Bank commenced operations as a California-chartered bank on December 31, 1979. The Bank conducts a business-oriented wholesale banking operation, with services tailored to the needs of businesses and professionals in its service area. The Bank's main office is located in the Century City office complex in Los Angeles, California. The Bank also has

Regional Offices located in the California cities of Irvine, Glendale, Santa Monica and Gardena. The Irvine office is a full branch office and the other offices are presently established as loan production offices, but it is the intent of the Bank to convert these facilities to full branch offices as soon as sufficient business has been obtained to make this conversion advisable. The Bank also has a Merchant Services division located in Agoura Hills, California. The Bank's customers include professionals working in the primary service areas as well as many business accounts located throughout Los Angeles County. In distinction from many other independent banks in California, the Bank's deposit business is generated by a relatively small number of accounts, although most accounts have a very high average balance.

The Bank offers a full range of lending services including commercial, real estate, and real estate construction loans. The Bank has developed a substantial portfolio of short and medium-term "mini-perm" first trust deed loans for income properties as well as specializing in construction lending for moderate-size commercial and residential projects. The Bank also offers commercial loans for commercial and industrial borrowers, which includes equipment financing as well as short-term loans. The Bank also offers standard banking services for its customers, including telephone transfers, wire transfers, and travelers checks. The Bank accepts all types of demand, savings, and time certificates of deposit. The Bank's Merchant Services division offers credit card deposit and clearing services for retailers and other businesses that accept credit cards. The Bank does not currently offer trust services, but it does make trust services available to its customers through a correspondent bank. At March 20, 1999 the Bank had 65 equivalent full-time employees.

Competition

The banking business in California generally, and in the Los Angeles County area where the Bank is located, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks which have many offices operating over wide geographic areas. The Bank competes for deposits and loans principally with these major banks, but also with small independent banks located in its service areas. Among the advantages which the major banks have over the Bank are their ability to finance extensive advertising campaigns and to allocate their investment assets to regions of highest yield and demand. Many of the major commercial banks operating in the Bank's service area offer certain services (such as trust and cash management services) which are not offered directly by the Bank and, by virtue of their greater total capitalization, such banks have substantially higher lending limits than the Bank.

Moreover, banks generally, and the Bank in particular, face increasing competition for loans and deposits from non-bank financial intermediaries such as savings and loan associations, thrift and loan associations, credit unions, mortgage companies, insurance companies, and other lending institutions. Money market funds offer rates competitive with banks, and an increasingly sophisticated financial services industry continually develops new products for consumers that compete with banks for investment dollars. In addition, other entities (both public and private) seeking to raise capital through the issuance and sale of debt or equity securities compete with banks in the acquisition of deposits.

Interstate Competition

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), enacted on September 29, 1994, repeals the McFadden Act of 1927, which required states to decide whether national or state banks could enter their state, and allows banks to open branches across state lines beginning on June 1, 1997. The Riegle-Neal Act also repeals the 1956 Douglas Amendment to the Bank Holding Company Act, which placed the same requirements on bank holding companies. The repeal of the Douglas Amendment now makes it possible for banks to buy out-of-state banks in any state after September 29, 1995, which may then be converted into interstate branches in 1997.

The Riegle-Neal Act permits interstate banking to begin 12 months after the enactment of the new law. The amendment of the Bank Holding Company Act permits bank holding companies to acquire banks in other states provided that the acquisition does not result in the bank holding company controlling more than 10 percent of the deposits of the United States, or 30 percent of the deposits in the state in which the bank to be acquired is located. However, the Riegle-Neal Act also provides that states have the authority to waive the state concentration limit. Individual states may also require that the bank being acquired be in existence for up to five years before an out-of-state bank or bank holding company may acquire it.

The Riegle-Neal Act provides that interstate branching and merging of existing banks is permitted beginning June 1, 1997, provided that the banks are at least adequately capitalized and demonstrate good management. Interstate mergers and branch acquisitions are permitted at an earlier time if a state chooses to enact a law allowing such activity. The states are also authorized to enact a law to permit interstate banks to branch de novo.

On August 9, 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was signed into law. Among other things, FIRREA allows the acquisition of healthy and failed savings associations by bank holding companies, and imposes no interstate barriers on such bank holding company acquisitions. With certain qualifications, FIRREA also allows bank holding companies to merge acquired savings associations into their existing commercial bank subsidiaries; however, for a period of five years from the date of enactment, the acquired savings association must continue as a member of, and continue to pay premiums to, the Savings Association Insurance Fund, which was created by FIRREA to replace the Federal Savings and Loan Insurance Corporation deposit insurance fund, which FIRREA abolished.

Recent legislation and economic developments have favored increased competition between different types of financial institutions for both deposits and loans, resulting in increased cost of funds to banks generally and to the Bank in particular. In order to compete with the other financial institutions in its service area, the Bank relies principally upon personal contacts by its officers, directors, founders, employees and shareholders; local promotional activity including direct mail, advertising in local newspapers and business journals; and specialized services. The Bank's promotional activities emphasize the advantages of dealing with a locally-owned and headquartered institution attuned to the particular needs

of the community. In the event that a customer's loan demands exceed the Bank's lending limits, the Bank attempts to arrange for such loans on a participation basis with its correspondent banks. The Bank also assists customers requiring services not offered by the Bank to obtain these services from its correspondent banks.

Supervision and Regulation

The Company

The Company is a bank holding company registered under the Act, and is subject to supervision by the Board of Governors of the Federal Reserve System (the "FRB"). As a bank holding company, the Company is required to file with the FRB an annual report and such other additional information as the FRB may require pursuant to the Act. The FRB may also make examinations of the Company and its subsidiaries.

The Act requires prior approval of the FRB for, among other things, the acquisition by a bank holding company of direct or indirect ownership or control of more than 5% of the voting shares, or substantially all the assets, of any bank or for a merger or consolidation by a bank holding company with any other bank holding company. The Act also prohibits the acquisition by a bank holding company or any of its subsidiaries of voting shares or substantially all the assets of any bank located in a state other than the state in which the operations of the bank holding company's banking subsidiaries are principally conducted, unless the statutes of the state, in which the bank to be acquired is located, expressly authorize such an acquisition, such as enacted by California.

The Company and the Bank are deemed to be affiliates within the meaning of the Act. Pursuant thereto, a bank can loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral security for a loan or extension of credit to any person or company or issue a guarantee, acceptance, or letter of credit on behalf of an affiliate only if the aggregate amount of the above transactions of the bank and its subsidiaries does not exceed 10% of the capital stock and surplus of the bank on a per affiliate basis or 20% of the capital stock and surplus of the bank on an aggregate affiliate basis. In addition, such transactions must be on terms and conditions that are consistent with safe and sound banking practices and in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as that term is defined in the Federal Reserve Act. Such restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts.

With certain limited exceptions, a bank holding company is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company and from engaging directly or indirectly in any activity other than banking or managing or controlling banks or furnishing services to or performing services for its authorized subsidiaries. A bank holding company may, however, engage or acquire an interest in a company that engages in

activities which the FRB has determined to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such a determination, the FRB is required to consider whether the performance of such activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. The FRB is also empowered to differentiate between activities commenced de novo and activities commenced by the acquisition, in whole or in part, of a going concern. Although the future scope of permitted activities is uncertain and cannot be predicted, some of the activities that the FRB has determined by regulation to be closely related to banking are: making or servicing loans; performing certain data processing services; acting as a fiduciary or investment advisor; leasing personal or real property; providing limited insurance activities; acting as a commodity trading and futures commission merchant advisor; providing securities brokerage services solely as agent for a customer; and real estate and personal property appraisal.

Federal law prohibits a holding company and any subsidiary bank from engaging in certain tie-in arrangements in connection with the extension of credit. Thus, the Bank may not extend credit, lease or sell property, or furnish any services, or fix or vary the consideration for any of the foregoing on the condition that: (i) the customer must obtain or provide some additional credit, property or service from or to the Bank other than a loan, discount, deposit or trust service; or (ii) the customer must obtain or provide some additional credit, property or service from or to the Company or any other subsidiary of the Company; or (iii) the customer may not obtain some other credit, property or service from competitors, except reasonable requirements to assure soundness of credit extended.

In December, 1988, the FRB adopted risk-based capital adequacy guidelines for bank holding companies and state member banks. The other bank regulators have adopted similar guidelines. The FRB's guidelines assign various risk percentages to different categories of assets, and capital is measured as a percentage of risk assets. While in many cases total risk assets calculated in accordance with the guidelines is less than total assets calculated absent the rating, certain non-balance sheet assets, including loans sold with recourse, legally binding loan commitments, and standby letters of credit, are treated as risk assets, with the assigned rate varying with the type of asset. As a result, it is possible that total risk assets for purposes of the guidelines exceeds total assets under generally accepted accounting principles, thereby reducing the capital-to-assets ratio. Under the terms of the guidelines, bank holding companies are expected to meet capital adequacy guidelines based both on total assets and on total risk assets. To the extent that holding companies have favorable capital adequacy ratios based on total risk assets, such banks are more likely to be permitted to operate at or near the minimum primary capital to total assets ratios specified in regulatory guidelines. Under the new guidelines, the Company's capital adequacy ratio at December 31, 1998 was 15.60%. The acceptable capital ratio is 8 percent.

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, the Company and its

subsidiaries are subject to examination by and may be required to file reports with the California Commissioner of Financial Institutions (the "Commissioner"). Regulations have not yet been proposed or adopted or steps otherwise taken to implement the Commissioner's powers under this statute.

The Financial Accounting Standards Board ("FASB") has issued SFAS 114, "Accounting by Creditors for Impairment of a Loan." This statement prescribes that a loan is impaired when it is probable that a creditor will be unable to collect all contractual principal and interest amounts due under the terms of the loan agreement. Measurement of the impairment can be based on the expected future cash flows from the loan discounted at the loan's effective interest rate, or by reference to an observable market price (if one exists), or by the fair value of the collateral for a collateral-dependent loan. Additionally, the statement prescribes measuring the impairment of a restructured loan by discounting the total expected future cash flows at the effective interest rate under the original loan agreement. The impact of initially applying the statement is reported as a part of bad debt expense. The Company adopted this standard in 1995, but no material effect on the Company's financial position resulted.

In addition, the FASB has issued SFAS 115, "Accounting for Investments in Debt and Equity Securities." This statement addresses the accounting and reporting of investments in equity securities that have readily determinable market value, and all investments in debt securities. Under this statement, investment securities are classified into three categories as follows:

<u>Held to Maturity Securities</u>. Debt securities that the Company has the positive intent and ability to hold to maturity. These securities are to be reported at amortized cost.

<u>Trading Securities</u>. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term. These securities are to be reported at fair value with unrealized gains and losses included in earnings.

<u>Available</u> for Sale Securities. Debt and equity securities not classified into either of the above categories. These securities are to be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity (net of tax effects).

The Company adopted this standard in 1994. There was no material impact on the financial statements of the Company due to this adoption.

On January 1, 1996 the Company adopted SFAS 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of." This statement requires that long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, or disposed of, be reviewed for impairment based on the fair value of the asset. Furthermore, this statement requires that certain long-lived assets and identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company has determined that the impact of SFAS 121 on its operations and financial position is not material for the year ended December 31, 1998.

In June, 1996 the FASB issued SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities, and is applied prospectively to financial statements for fiscal years beginning after December 31, 1996. In 1996, the FASB also issued SFAS 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125," which defers for one year the effective date of certain provisions within SFAS 125. The Company does not believe the impact on its operations and financial position will be material upon adoption of SFAS 125 or SFAS 127.

SFAS 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans based on the estimated fair value of the stock options or other awards granted. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings per Share." Accordingly, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during each year. The computation of diluted earnings per share also considers the number of shares issuable upon the assumed exercise of outstanding common stock options.

The Bank

The Bank, as a California state chartered bank whose accounts are insured by the FDIC up to the maximum legal limits of the FDIC, is subject to regulation, supervision, and regular examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank is also subject to certain regulations issued by the FRB. The regulations of these various state and federal agencies govern most aspects of the Bank's business, including reserves against deposits, interest rates payable on certain types of deposits, loans, investments, mergers and acquisitions, borrowings, dividends and locations of branch offices. Supervision, regulation, and examination of the Bank by the regulatory agencies are generally intended to protect depositors and are not intended to protect the shareholders of the Company.

From time to time, new legislation is adopted which increases the cost of doing business, limits permissible activities, or affects the competitive balance between banks and other financial institutions. For example, in 1980 and 1982 federal legislation resulted in major changes to interest rate structures and permissible bank powers and changed the competitive relationships with other financial institutions.

FIRREA has had significant impact on financial institutions. The chief purposes of this extensive legislation are to promote a safe and stable system of affordable housing, and to improve the supervision of savings associations. In this effort, FIRREA contains major regulatory reforms,

stronger capital standards, and stronger civil and criminal enforcement provisions. Certain of the more significant provisions contained in FIRREA are summarized below.

FIRREA gave the FDIC the duty of insuring the deposits of savings associations as well as banks. The insurance funds are maintained separately and have been renamed. The Bank Insurance Fund ("BIF") insures the deposits of commercial banks and state chartered savings banks, while the Savings Association Insurance Fund ("SAIF") insures deposits of savings and loans and federally chartered savings banks. The FDIC is also authorized to act as conservator or receiver for federally insured banks, and, after a period of three years from the date of enactment, for insured savings associations that are chartered under federal or state law.

FIRREA expands, enhances, and clarifies the enforcement powers of the financial institution regulatory agencies and increases the maximum amount of civil money penalties for violation of laws and regulations, expands the grounds for imposing them, and authorizes the various regulatory agencies to take action to collect them. FIRREA also provides increased insurance assessments for members of both the Bank Insurance Fund (such as the Bank) and the SAIF, and expands the federal banking agencies' powers to appoint a conservator or receiver, including "early intervention."

Although the effects of FIRREA upon the future business, earnings and growth of the Bank cannot be predicted, management does not believe that the provisions of FIRREA will have a material adverse impact on the Bank.

The Omnibus Budget Reconciliation Act of 1990, designed to address the Federal budget deficit, increased the insurance assessment rates for members of the BIF and SAIF over that provided by FIRREA, and eliminated FIRREA's maximum reserve ratio constraints on the BIF.

The Crime Control Act of 1990 further strengthened the authority of Federal bank and thrift regulators to enforce capital requirements, increased civil and criminal penalties for financial fraud, and enacted provisions allowing the FDIC to regulate or prohibit certain forms of golden parachute benefits and indemnification payments to officers and directors.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), was signed into law on December 19, 1991. FDICIA recapitalized the FDIC's Bank

Insurance Fund, granted broad authorization to the FDIC to increase deposit insurance premium assessments and to borrow from other sources, and continued the expansion of regulatory enforcement powers, along with many other significant changes. The FDIC has already implemented a risk-based deposit insurance premium system which effectively raised BIF premiums for most banks, and, should the condition of the BIF so require, it is possible that premiums could be increased again in the future.

FDICIA establishes five categories of capitalization: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Effective December 19, 1992, banks will be prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be undercapitalized, that is, the bank fails to meet the required minimum level for any relevant

capital measure. Asset growth and branching restrictions will apply to undercapitalized banks, which will be required to submit acceptable capital plans guaranteed by its holding company, if any. Broad regulatory authority is granted with respect to significantly undercapitalized banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Even more severe restrictions will be applicable to critically undercapitalized banks, those with capital at or less than 2%, including the appointment of a receiver or conservator after 90 days.

FDICIA also grants the regulatory agencies authority to prescribe standards relating to internal controls, credit underwriting, asset growth, and compensation, among others, and requires the regulatory agencies to promulgate regulations prohibiting excessive compensation or fees.

FDICIA further establishes a new truth in savings scheme, providing for clear and uniform disclosure of terms and conditions on which interest is paid and fees are assessed on deposits, to be effective upon adoption of implementing regulations.

FDICIA imposes limits on the acceptance of brokered deposits by other than well capitalized banks, including notification requirements on deposit brokers.

The new legislation also creates restrictions on activities authorized under state law. FDICIA generally restricts activities through subsidiaries to those permissible for national banks and provides for a five-year divestiture period for impermissible investments. Insurance activities are also limited, except to the extent permissible for national banks.

Real estate lending has been targeted for close supervision. The regulatory authorities are required to establish uniform credit standards relating to real estate secured loans.

The foregoing summarizes only the most significant aspects of FDICIA. Because of the broad scope and complexity of this legislation and the fact that all implementing regulations have not yet been adopted, it is impossible to predict at this time the full effect FDICIA will ultimately have on the Bank or the banking industry.

The Riegle Community Development and Regulatory Improvement Act of 1994 (the "1994 Act"), which has been viewed as the most important piece of banking legislation since the enactment of the FDICIA, was signed into law on September 23, 1994. In addition to providing funding for the establishment of a Community Development Financial Institutions Fund (the "Fund"), which will provide assistance to new and existing community development lenders to help meet the needs of low- and moderate-income communities and groups, the 1994 Act mandates changes to a wide range of banking regulations. These changes include modifications to the present publication requirements for Call Reports, less frequent regulatory examination schedules for small institutions, small business and commercial real estate loan securitization, amendments to the money laundering and currency transactions reporting requirements of the Bank Secrecy Act, clarification of the coverage of the

Real Estate Settlement Procedures Act for business, commercial and agricultural real estate secured transactions, amendments to the national flood insurance program, and amendments to the Truth in Lending Act to provide greater protection for consumers by reducing discrimination against the disadvantaged.

Title I, Subtitle A of the 1994 Act, designated as the "Community Development Banking and Financial Institutions Act of 1994," created the Fund in order to promote economic revitalization and community development through investment in and assistance to Community Development Financial Institutions ("CDFIs") that provide capital and other resources to economically-depressed communities. The primary focus of the program will be to aid the country's urban, rural and native American communities that are facing severe economic problems due to the lack of economic growth, poverty and the general lack of employment and other opportunities. Financial institutions may participate in the assistance program upon approval by the Fund.

In addition to establishing the Fund, Title I also provides funding for the Bank Enterprise Act ("BEA") of 1991, which will now be administered by the Fund. Under the BEA, insured financial institutions may be awarded insurance premium assessment credits where they are involved in providing lifeline deposit accounts, community lending and other forms of financial assistance in distressed areas, including investing in CDFIs.

Title I, Subtitle B of the 1994 Act amended the Truth in Lending Act to expand disclosure requirements and expand protections regarding consumer lending secured by the consumer's principal dwelling.

Title IV of the 1994 Act amended the Bank Secrecy Act by reducing the reporting requirements imposed on financial institutions for large currency transactions, expanding the ability of financial institutions to provide exemptions to the reporting requirements for businesses that regularly deal in large amounts of currency, and providing for the delegation of civil money penalty enforcement from the Treasury Department to the individual federal banking agencies.

The "Paperwork Reduction and Regulatory Improvement Act," Title III of the 1994 Act, requires the federal banking agencies to consider the administrative burdens that new regulations will impose before their adoption and requires a transition period in order to provide adequate time for compliance. This Act also requires the federal banking agencies to work together to establish uniform regulations and guidelines as well as to work together to eliminate duplicative or unnecessary requests for information in connection with applications or notices. This Act reduces the frequency of examinations for well-rated institutions, simplifies the quarterly financial reporting ("Call Reports") and eliminates the requirement that financial institutions publish their Call Reports in local newspapers. This Act also establishes an internal regulatory appeal process and independent ombudsman to provide a means for review of material supervisory determinations.

Historically, national banks have been required to have two-thirds of their directors residents of the state of domicile. The Paperwork Reduction and Regulatory Improvement Act reduces this requirement to a majority. This

Act also amends the Bank Holding Company Act and Securities Act of 1933 to simplify the formation of bank holding companies.

Additional titles of the 1994 Act include Title V, the "National Flood Insurance Reform Act of 1994,", Subtitle A of Title II, the "Small Business Loan Securitization and Secondary Market Enhancement Act of 1994," and Subtitle B of Title II, the "Small Business Capital Enhancement Act."

The foregoing summarizes only the most significant aspects of the 1994 Act, many of the provisions of which have not yet become effective. Therefore, it is not possible to predict at this time the impact this legislation will have on the Bank or the banking industry.

Future legislation is also likely to impact the Bank's business. Consumer legislation has been proposed in Congress which may require banks to offer basic, low-cost financial services to meet minimum consumer needs. Various proposals to restructure the Federal bank regulatory agencies are currently pending in Congress, some of which include proposals to expand the ability of banks to engage in previously prohibited businesses. Further, the regulatory agencies have proposed and may propose a wide range or regulatory changes, including the calculation of capital adequacy and limiting business dealings with affiliates. These and other legislative and regulatory changes may have the impact of increasing the cost of business or otherwise impacting the earnings of financial institutions. However, the degree, timing, and full extent of these proposals cannot be predicted.

As a result of both Federal and California legislation during the 1980's, there has been a lessening of the historical distinction between the services offered by banks, savings and loan associations, credit unions, and other financial institutions. Banks have experienced increased competition for deposits which can result in increases in their cost of funds. Increased competition for loans can reduce the yield available.

Banking is a business which depends on interest rate differentials. In general, the difference between the interest rates on a bank's deposits and other interest-bearing liabilities and the interest rates on a bank's loans, securities and other interest-earning assets comprise the major source of a bank's earnings. These rates are highly sensitive to many factors which are beyond the control of the Bank and, accordingly, the earnings and growth of the

Bank will be subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment, and also to the monetary and fiscal policies of the United States Government and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by its open-market dealings in the level of reserves for financial institutions subject to reserve requirements, by placing limitations upon savings and time deposit interest rates, and through adjustments to the discount rate applicable to borrowings by banks and other financial institutions from the Federal Reserve. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates. The nature and timing of any future changes in such policies and their impact on the Bank cannot be predicted; however, depending on the degree to which the Bank's maturities of interest-earning assets exceed the maturities of interest-bearing liabilities, increases in interest rates have the temporary

effect of increasing the Bank's net interest margin, while decreases in interest rates have the opposite effect.

Product Development Research

The Company has not engaged in any material research activities relating to the development of new services or the improvement of existing banking services during the last three fiscal years. The officers and employees of the Bank are continually engaged in marketing activities, however, including the evaluation and development of new services, to enable the Bank to retain a competitive position in the service area.

Distribution of Assets, Liabilities and Shareholders' Equity

The following table shows the average balances of the Bank's assets, liabilities, and shareholders' equity for the past two years:

<TABLE>
<CAPTION>

<S>	For Period Ended December 31, 1998 <C>	1997 <C>
	(Dollars in Thousands)	
Assets		
Cash and Due From Banks....................	$ 8,351	$ 5,952
Time Deposits with Other		
Financial Institutions.....................	9,145	4,731
Investment Securities......................	32,090	21,748
Funds Sold.................................	34,163	28,761
Net Loans..................................	79,964	87,594
Other Assets...............................	2,528	3,365
Total...............................	$166,241	$152,151
Liabilities & Shareholders' Equity		
Deposits:		
Demand (non-interest bearing)............................	$ 43,087	$ 25,851
Savings.............................	1,522	1,260
Money Market Accounts...............	66,056	88,044
Time................................	35,763	20,376

Total Deposits.............	146,428	135,531
Securities Sold Under Agreements to Repurchase..................	104	(13)
Other Liabilities.........................	2,117	1,721
Total Liabilities..................	148,649	137,239
Shareholders' Equity......................	17,592	14,912
Total..............................	$166,241	$152,151

</TABLE>

Interest Rates and Interest Differential

The following table sets forth the average balances outstanding for major categories of interest earning assets and interest bearing liabilities and the average interest rates earned and paid thereon:

<TABLE>
<CAPTION>

For Period Ended December 31,

(Dollars in Thousands)

	1998			1997		
	Average Balance	Interest Income(2)/ Expense	Average Yield/ Rate %	Average Balance	Interest Income(2)/ Expense	Average Yield/ Rate %
Interest Earning Assets:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans(1)	$ 82,387	$ 8,517	10.3%	$ 89,526	$ 8,742	9.8%
Investment Securities	32,090	1,766	5.5%	21,748	1,277	5.9%
Funds Sold	34,163	1,808	5.3%	28,761	1,569	5.5%
Time Deposits With Other Financial Institutions	9,145	521	5.7%	4,731	280	5.9%
Total Interest Earning Assets	$157,785	$12,612	8.0%	$144,766	$11,868	8.2%
Interest Bearing Liabilities:						
Savings deposits	$ 1,522	$ 37	2.4%	$ 1,260	$ 30	2.4%
Money Market Accounts	66,056	1,544	2.3%	88,043	2,228	2.5%
Time	35,763	1,856	5.2%	20,377	1,027	5.0%

</TABLE>

<TABLE>
<CAPTION>

	1998	1997

	Average Balance	Interest Income(2)/ Expense	Average Yield/ Rate%	Average Balance	Interest Income(2)/ Expense	Average Yield/ Rate%
<S>	<C>			<C>	<C>	<C>
			(Dollars in Thousands)			
Securities sold under agreements to repurchase	$ 104	$ 3	2.9%	$ (13)	$ 0	0.0%
Total interest bearing liabilities	$103,445	$ 3,440	3.3%	$109,667	$ 3,285	3.0%

</TABLE>

(1) This figure reflects total loans, including non-accrual loans, and is not net of the allowance for possible losses, which had an average balance of $2,423,000 in 1998 and $1,932,000 in 1997.

(2) Includes loan fees of $655,000 in 1998 and $602,000 in 1997.

The following table shows the net interest earnings and the net yield on average interest earning assets:

<TABLE>
<CAPTION>

	1998	1997
	(Dollars in Thousands)	
<S>	<C>	<C>
Total interest income (1).....................	$ 12,612	$ 11,868
Total interest expense........................	3,440	3,285
Net interest earnings.........................	$ 9,172	$ 8,583
Average interest earning assets...............	$157,785	$144,766
Net yield on average interest earning assets.......................................	5.8%	5.9%

</TABLE>

____

(1) Includes loan fees of $655,000 in 1998 and $602,000 in 1997.

The following table sets forth changes in interest income and interest expense. The net change as shown in the column "Net Increase (Decrease)" is segmented into the change attributable to variations in volume and the change attributable to variations in interest rates. Non-performing loans are included in average loans.

<TABLE>
<CAPTION>

	Increase (Decrease) 1998 over 1997			Increase (Decrease) 1997 over 1996		
	Volume	Rate	Net	Volume	Rate	Net
		(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income(1)						
Loans (2)	$ (852)	$ 627	$ (225)	$ 250	$ (17)	$ 233
Investment securities	563	(74)	489	140	(318)	(178)

Funds sold	284	(45)	239	305	45	350
Interest on time deposits with other financial Finstitu- tions	251	(10)	241	0	0	0
Total Interest Earning Assets	$ 246	$ 498	$ 744	$ 695	$ (290)	$ 405

Interest Expense (1)

Savings	$ 6	$ 1	$ 7	$ 3	$ 0	$ 3
Money market	(524)	(160)	(684)	101	22	123
Time	798	31	829	171	18	189
Securities sold under agreements to repurchase	0	3	3	(1)	(3)	(4)
Total interest bearing liab- ilities	$ 280	$ (125)	$ 155	$ 274	$ 37	$ 311

</TABLE>

____

(1) The change in interest due to both rate and volume has been allocated to the change due to volume and the change due to rate in proportion

to the relationship of the absolute dollar amounts of the change in each.

(2) Includes loan fees of $655,000 in 1998 and $602,000 in 1997.

Investment Securities

The following table shows fair value of the investment securities portfolio at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

<S>	December 31, 1998 <C>	1997 <C>
	(Dollars in Thousands)	
U.S. Treasury Securities..................	$ 0	$ 0
Obligations of U.S. Government Agencies and Corporations.................	5,999	18,402
Commercial Paper..........................	41,861	8,004
Other Securities..........................	0	25
Total...................................	$47,860	$26,431

</TABLE>

The maturity schedule and weighted average yields of investment securities at December 31, 1998 is as follows:

<TABLE>

<CAPTION>

	Amount	Average Yield
	(Dollars in Thousands)	
U.S. Agency Securities		
One year or less	$ 5,999	5.29%
Over one year	0	0.00%
Category total	$ 5,999	5.29%
Commercial Paper		
One year or less	$41,861	5.17%
Over one year	0	0.00%
Category total	$41,861	5.17%
Total Investment Portfolio		
One year or less	$47,860	5.19%
Over one year through five years	0	0.00%
Over five years	0	0.00%
Total	$47,860	5.19%

</TABLE>

Loan Portfolio

The loan portfolio consisted of the following at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998	1997
	(Dollars in Thousands)	
Commercial loans	$24,811	$15,365
Real estate construction loans	15,702	4,982
Real estate loans	46,251	38,195
Bankers acceptances	6,681	21,727
Other loans	797	420
Total loans	$94,242	$80,689
Less - Allowances for loan losses	2,500	2,400
- Deferred loan fees	562	511
Net loans	$91,180	$77,778
Government guaranteed loans held for sale	$ 521	$ 942

</TABLE>

Loan Maturities and Interest Rates

The following table shows the amounts of total loans outstanding as of December 31, 1998, which, based on remaining scheduled payments of principal, are due in one year or less, more than one year but less than five years, more than five years but less than ten years, and ten years or more. The amount due for each interval is classified according to whether the interest rate floats in response to changes in interest rates or is fixed.

Aggregate maturities of loan balances which are due:

In one year or less:	
Interest rates are floating or adjustable......................	$44,694
Interest rates are fixed or predetermined...................	7,723
After one year but within five years:	
Interest rates are floating or adjustable......................	33,461
Interest rates are fixed or predetermined...................	760
After five years but within ten years:	
Interest rates are floating or adjustable......................	7,604
Interest rates are fixed or predetermined...................	0
After ten years or more:	
Interest rates are floating or adjustable......................	521
Interest rates are fixed or predetermined...................	0
Total....................................	$94,763

Non-Performing Loans

The current policy is to cease accruing interest on commercial, real estate and installment loans which are past due as to principal or interest 90 days or more, except that in certain circumstances interest accruals are continued on loans deemed by management to be fully collectible.

The following table shows the principal amount of nonperforming loans as of December 31, 1998 and 1997:

(Dollars in Thousands)	December 31, 1998	1997
Non-accrual loans		
Commercial...................	$ 85	$ 100
Real estate loans............	158	238
Government guaranteed loans...	0	0

Bankers acceptances...........	0	0
Other loans...................	0	0
	-----	-----
Total.........................	$ 243	$ 338
	=====	=====

Accruing loans past due more than 90 days

Commercial....................	$ 0	$ 0
Real estate loans.............	0	0
Government guaranteed loans...	220	193
Bankers acceptances...........	0	0
Other loans...................	0	0
	----	----
Total.........................	$220	$193
	====	====

</TABLE>

Except as may have been included in the above table, at December 31, 1998, there were no loans, the terms of which had been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration of the financial position of the borrower or which would be classified as restructured debt in a troubled loan situation. In addition, at December 31, 1998, there were no loans then current as to which there were serious doubts as to the ability of the borrower to comply with the then-present loan repayment terms. For the non-accrual loans listed in the above table, the Bank would have realized additional gross interest income

of $32,000 in 1998 had the loans been current in accordance with their original terms.

Summary of Loan Loss Experience

The following table provides information concerning changes in the allowance for possible loan losses and loans charged off and recovered for 1998 and 1997:

<TABLE>
<CAPTION>

<S>	1998 ---- (Dollars in Thousands) <C>	1997 ---- <C>
Amount of loans outstanding at end of period....................................	$ 94,763	$ 81,631
	========	========
Average amount of loans outstanding before allowance for loan losses...........	$ 82,393	$ 89,526
	========	========
Balance of allowance for loan losses at beginning of period...........................	$2,400	$2,300
Loans charged off:		
Commercial.............................	19	529
Real estate............................	0	190
Government guaranteed loans............	0	0
Bankers acceptances....................	0	0
Other..................................	0	0
	------	------
Total loans charged off...........	19	719
Recoveries of loans previously charged off:		
Commercial.............................	47	279
Real estate............................	0	0
Government guaranteed loans............	0	0

Bankers acceptances....................	0	0
Other..................................	0	0
Total loan recoveries............	47	279
Net loans (recovered) charged off............	(28)	440
Provisions charged to operating expense.......	72	540
Balance of allowance for possible loan losses at end of period....................	$ 2,500	$ 2,400

</TABLE>

The ratio of net loans charged off to average loans outstanding was (0.03)% and 0.5% for the two years ended December 31, 1998 and 1997, respectively.

The Bank has historically evaluated the adequacy of its allowance for possible loan losses on an overall basis rather than by specific categories of loans. In determining the adequacy of the allowance for possible loan

losses, management considers such factors as historical loan loss experience, known problem loans, evaluations made by bank regulatory authorities, assessment of economic conditions and other appropriate data to identify the risks in the loan portfolio.

For the purposes of this report, the allowance for possible loan losses has been allocated to the major categories of loans as set forth in the following table. The allocations are estimates based upon historical loss experience and management judgment. The allowance for possible loan losses should not be interpreted as an indication that charge-offs will occur in these amounts or proportions, or that the allocation indicates future charge-off trends. Furthermore, the portion allocated to each loan category is not the total amount available for future losses that might occur within such categories, since even in this allocation is an unallocated portion, and, as previously stated, the total allowance is applicable to the entire portfolio.

<TABLE>
<CAPTION>

	1998		1997	
<S>	<C> Allowance for possible loan losses	<C> Ratio of loans to total loans	<C> Allowance for possible loan losses	<C> Ratio of loans to total loans
Commercial loans...........	$ 472	26%	$ 408	19%
Real estate loans..........	1,009	65%	754	54%
Gov't guaranteed...........	0	1%	0	1%
Bankers acceptances	0	7%	0	25%
Other loans................	4	1%	5	1%
Unallocated................	1,015	0%	1,233	0%
Total......................	$2,500	100%	$2,400	100%

</TABLE>

Deposits

The average amounts of deposits for the periods indicated are summarized below.

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
	(Dollars in Thousands)	
Demand Deposits.......................	$ 43,087	$ 25,851

Savings deposits, money market and time certificates of deposit of less than $100,000	85,895	94,627
Time certificates of deposit of $100,000 or more	17,446	15,053
Total	$146,428	$135,531

</TABLE>

The maturity schedule of time certificates of deposit of $100,000 or more at December 31, 1998 is as follows:

	December 31, 1998 (Dollars in Thousands)
3 months or less	$15,517
Over 3 through 6 months	5,752
Over 6 through 12 months	977
Over 12 months	0
Total	$22,246

Selected Financial Ratios

The following table sets forth the ratios of net income to average total assets and to average shareholders' equity, and average shareholders' equity to average total assets.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Return on assets	1.0%	0.8%
Return on equity	9.7%	8.1%
Dividend payment ratio	0.0%	0.0%
Equity to assets ratio	10.6%	9.8%

</TABLE>

Item 2. Properties

The Bank's head office is located on the ground and eighth floors of an office building located at 1801 Century Park East, Los Angeles, California. The Bank has leased approximately 3,735 square feet of ground floor office space and approximately 8,256 square feet of eighth floor office space under a lease which expires on February 28, 2003. The Bank has an option to extend the term of the lease for an additional five years. The total monthly rental for the premises is $29,400 for the period from March, 1993 through February, 1998, and $35,280 for the period from March, 1998 through February, 2003, subject to annual adjustments for increases in property taxes and other operating costs. At the end of 1994, the Bank elected to apply the unused tenant improvement allowance of $224,000 against its future lease payments. Payment of the allowance was made to the Bank over a 15-month period beginning February 1, 1995. The Bank is deferring recognition of this amount and amortizing it evenly over the lease term.

The Bank's Merchant Services division is located at 28310 Roadside Drive, Suite 152, Agoura Hills, California. The premises consist of approximately 1,040 square feet which are provided under a lease which expires on July 14, 2000, and the Bank has the option to extend the lease for an additional two year period. The total monthly rental is $1,196, subject to annual adjustments for increases in the consumer price index and various operating costs. Should the Bank elect to exercise its option to extend the lease, the monthly rental will be set at the then-prevailing rate for comparable buildings in the Agoura Hills area.

The Bank also subleases an office in an executive suite facility to house its Orange County Regional Office. The office is located at 2030 Main Street, Irvine, California, and consists of approximately 1440 square feet. The premises are provided under a lease which expires November 3, 2001 at a monthly rental of $4,464 plus a proportionate share of the building's operating costs.

The Bank also leases an office located at 144 N. Glendale Avenue, Suite 202, Glendale, California to house its Glendale Regional Office. The premises consisting of approximately 570 square feet are provided under a lease which expires July 31, 1999 at a rental of $937 per month.

Item 3. Legal Proceedings

Litigation

In the normal course of business, the Company and the Bank are involved in litigation. Management does not expect the ultimate outcome of any pending litigation to have a material effect on the Company's financial position or results of operations.

However, in late 1998, Mark Rubin, a director of the Company and its former vice chairman, filed suit against the Company, the Bank, and individual members of the Company's executive committee. Mr. Rubin alleges that his employment with the Company was wrongfully terminated and that the defendants also breached fiduciary duties owed to Mr. Rubin and committed

acts of defamation and fraud against him. In his complaint, Mr. Rubin's suit seeks compensatory and punitive damages of approximately $59 million.

In January 1999, Mr. Rubin submitted a statutory offer of compromise under Section 998 of the California Code of Civil Procedure offering to settle the lawsuit for $3 million. The Company rejected this settlement proposal.

The Company believes the claims, as alleged, are without merit and has moved to dismiss Mr. Rubin's complaint. Mr. Rubin has informed the Company that he intends to amend his complaint prior to the court hearing on the Company's motion, but has not yet done so. The Company has vigorously defended against Mr. Rubin's lawsuit and will continue to do so. Because the case is in its very early stages, it is not currently possible to determine what impact, if any, the resolution of this matter will have on the future financial condition and results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 1998, no matters were submitted to a vote of the Company's shareholders.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Securities Activity

The common stock of First Regional Bancorp is traded on The Nasdaq Stock Market under the trading symbol FRGB. Quotations are carried either daily or weekly by newspapers throughout the nation including The Wall Street Journal and the Los Angeles Times. The following table summarizes the quotations reported by Nasdaq of First Regional Bancorp's common stock.

<TABLE>
<CAPTION>

	1998		1997	
	High	Low	High	Low

<S>	<C>	<C>	<C>	<C>
1st Quarter	9 3/4	8 1/4	7 1/2	5 3/4
2nd Quarter	10	7 3/4	7	6
3rd Quarter	10 1/8	8 1/2	9 3/4	5 5/8
4th Quarter	8 7/8	7	10 1/2	7 1/4

</TABLE>

Dividends

The Company has not paid any cash dividends and it is the Company's Board of Directors' intention that no cash dividends be declared by the Company during this stage of the Company's development. The Board of Directors intends to increase the Company's capital and to pay cash dividends only when it is prudent to do so and the Company's performance justifies such action.

The Company is a legal entity separate and distinct from its subsidiaries, and has not engaged in any activities other than acting as a holding company. Accordingly, the Company's principal source of funds, including funds available for payment of cash dividends to its shareholders, have and will consist of dividends paid and other funds advanced to the Company by its subsidiaries. As described below, statutory and regulatory requirements impose limitations on the amounts of dividends payable by the Bank to the Company and on extensions of credit by the Bank to the Company.

Holders of the Company's Common Stock are entitled to receive dividends as and when declared by the Board of Directors out of funds legally available therefor under the laws of the State of California. Under California law, the Company would be prohibited from paying dividends unless: (1) its retained earnings immediately prior to the dividend payment equals or exceeds the amount of the dividend; or (2) immediately after giving effect to the dividend (i) the sum of the Company's assets would be at least equal to 125% of its liabilities, and (ii) the current assets of the Company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least 125% of its current liabilities.

Prior to the consummation of the reorganization of the Bank, the Bank did not pay any cash dividends to its shareholders. It is the Bank's Board of Directors' current intention to retain most of the Bank's earnings to increase its capital, although the Bank may pay cash dividends to the Company as its current sole shareholder subject to regulation and when deemed prudent. The Bank paid dividends to the Company of $100,000 and $230,000 in 1998 and 1997; no dividends were paid to the Company in 1996.

Restrictions on Transfer of Funds to the Company by the Bank

The Company is a legal entity separate and distinct from the Bank. It is anticipated that the Company may eventually receive sufficient income to fund its operating expenses through the payment of management fees by its subsidiaries. However, if the Company requires significant amounts of cash, including funds available for the payment of dividends and extraordinary operating expenses, such funds initially will be received as dividends paid by the Bank. Subject to the regulatory restrictions described below, future cash dividends by the Bank to the Company also will depend upon Management's assessment of the Bank's future capital requirements, contractual restrictions and other factors.

In addition, there are statutory and regulatory limitations on the amount of dividends which may be paid to the Company by the Bank. Under California law, funds available for cash dividend payments by a bank are restricted to the lesser of: (i) retained earnings or (ii) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period). Cash dividends may also be paid out of net income for a bank's last preceding fiscal year upon the prior approval of the California Commissioner of Financial Institutions, without regard to retained earnings or net income for its last three fiscal years. If the Commissioner of Financial Institutions finds that the shareholders' equity of a bank is not adequate or that the payment of a dividend would be unsafe or unsound for the bank, the Commissioner may order the bank not to pay any dividend to its shareholders.

Moreover, in a policy statement adopted in November, 1985, the Federal Reserve Board advised banks and bank holding companies that payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. As a result of this new policy, banks and their holding companies may find it difficult to pay dividends out of retained earnings from historical periods prior to the most recent fiscal year or to take advantage of earnings generated by extraordinary items such as sales of buildings, other large assets, or business segments in order to generate profits to enable payment of future dividends.

Under the Financial Institutions Supervisory Act, the FDIC also has authority to prohibit a bank from engaging in business practices which the FDIC considers to be unsafe or unsound. It is possible, depending upon the financial condition of the bank in question and other factors, that the FDIC could assert that the payment of dividends or other payments might under some circumstances be such an unsafe or unsound practice.

In addition, the Bank is subject to certain restrictions imposed by federal law on any extensions of credit to the Company or other affiliates, investments in stock or other securities thereof, and taking of such securities as collateral for loans. Such restrictions prevent the Company and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts.

Item 6. Selected Financial Data

The balances of selected balance sheet components as of December 31 of each of the past five years were as follows:

<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Total assets	$193,884	$162,445	$152,449	$137,810	$124,287
Net loans	91,701	78,720	87,602	85,327	76,581
Investment securities	58,003	33,057	32,059	22,003	18,434
Funds sold	31,900	38,390	22,780	20,690	21,300
Total deposits	170,423	145,096	136,755	124,724	113,666
Shareholders' equity	20,470	15,423	14,316	12,259	10,222
Book value per share outstanding	$ 7.22	$ 6.38	$ 5.95	$ 5.11	$ 4.26

</TABLE>

The Company's operating results are summarized as follows for the twelve-month periods ending December 31 of each of the following years:

<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
	(Dollars in Thousands except for per share)				
Interest income	$12,612	$11,868	$11,463	$10,920	$ 9,040
Interest expense	3,440	3,285	2,974	2,764	2,432
Net interest income	9,172	8,583	8,489	8,156	6,608
Provision for loan losses	72	540	0	678	250
Net interest income after provision for loan losses	9,100	8,043	8,489	7,478	6,358
Other income	858	695	700	447	807
Other expense	7,052	6,645	6,320	5,644	6,162

</TABLE>

<TABLE>
<CAPTION>

	1998	1997	1996	1995	1994
	(Dollars in Thousands except for per share)				
<S>	<C>	<C>	<C>	<C>	<C>
Income (loss) before taxes and					

effects of accounting change	2,906	2,093	2,869	2,281	1,003
Provision (credit) for income taxes	1,197	885	833	254	2
Net income (loss)	$ 1,709	$ 1,208	$ 2,036	$ 2,027	$ 1,001
Basic earnings (loss) per common share outstanding	$ 0.66	$ 0.50	$ 0.85	$ 0.85	$ .42
Cash dividends declared per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

</TABLE>

The number of shares outstanding (net of unearned ESOP shares) was 2,837,0000 in 1998, 2,416,000 in 1997, 2,406,000 in 1996, and 2,398,800 for 1995, and 1994.

The summary information presented above should be read in conjunction with the Notes to Consolidated Financial Statements, which accompany the Company's financial statements as described below.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

First Regional Bancorp (the "Company") has not conducted any significant business activities independent of First Regional Bank (the "Bank") since the reorganization of the Bank on March 8, 1982. Therefore, the following discussion and analysis relates primarily to the Bank.

The Company achieved continued profitability in 1998, with significant increases in net income, assets, deposits and loans. The Company continues to benefit from strategic decisions made in 1995, when the Company initiated a program of prudent, managed growth; this program resulted in higher levels of earning assets and interest revenue in 1996, 1997, and 1998. The Company's profitability was also in part a reflection of the continued low levels of nonperforming loans, other real estate owned, and other nonearning assets. The low levels of problem assets continue to result in higher revenues due to additional funds being available for investment, and also eliminated the need for large loan loss provisions or real estate writedowns.

Average assets in 1998 were $166,241,000 compared to $152,151,000 in 1997 and $140,162,000 in 1996. As was the case in 1997 and 1996, the Company's asset growth in 1998 was funded by an increase in deposits, as well as by the retention of earnings for the year. The Company generated net income of $1,709,000 in 1998, compared to a profit of $1,208,000 in 1997 and a profit of $2,036,000 in 1996.

Net Revenue From Earning Assets

Net revenue from earning assets is the excess of interest income earned on interest-earning assets over interest expense incurred on interest-bearing liabilities. Interest income or expense are determined by the average volume of interest-bearing assets or liabilities, and the average rate of interest earned or paid on those assets or liabilities. As was the case during 1997, in 1998 the Company's continued growth efforts resulted in an increase in interest earning assets, including loans. In both years, however, the growth in loans was less than the growth in deposits, so much of the increase in funds flowed into the lower-yielding categories of liquid assets, principally funds sold and investment securities. During 1998 the mix of the Bank's deposits shifted away from high-cost deposit sources such as money market deposits in favor of lower-cost catagories such as noninterest bearing deposits. As deposit interest rates were essentially stable in 1998 as they were during 1997 and 1996, the higher deposit levels led to slight increases in interest expense in all three years.

Other Operating Income

Other operating income increased substantially in 1998 after remaining generally stable in 1997 and 1996. Other operating income for 1998 was $858,000, versus $695,000 in 1997 and $700,000 for the year 1996. The 1998 figure included gains on sales of land of $86,000. The 1997 figure included gains on sales of land of $179,000 and gains on sales of loans of $136,000. By contrast, the increase in 1996 was the result of the receipt of profits of $303,000 from the sale of a large portion of a portfolio of government guaranteed loans. The Bank's new merchant services operation, which provides credit card deposit and clearing services to retailers and other credit card accepting businesses, had revenue that totaled $350,000 in 1998 compared to $14,000 in 1997. Customer service fees continued their decline of the past several years.

Loan Portfolio and Provision for Loan Losses

The loan portfolio consisted of the following at December 31, 1998 and 1997:

(Dollars in Thousands)	1998	1997
Commercial loans	$24,811	$15,365
Real estate construction loans	15,702	4,982
Real estate loans	46,251	38,195
Bankers acceptances	6,681	21,727
Other loans	797	420
Total loans	$94,242	$80,689
Less - Allowances for loan losses	2,500	2,400
- Deferred loan fees	562	511
Net loans	$91,180	$77,778
Government guaranteed loans held for sale	$ 521	$ 942

The allowance for possible loan losses is intended to reflect the known and unknown risks which are inherent in a loan portfolio. The adequacy of the allowance for possible loan losses is continually evaluated in light of many factors, including loan loss experience and current economic conditions. While the recent economic recession in California appears to be giving way to full recovery, its impact on the payment performance of the Bank's borrowers has not been a significant factor in recent years. More important, the Company's emphasis on maintaining high asset quality continued in 1998, and as a result, non-performing assets (loans past due ninety days or more excluding government guaranteed loans, loans on nonaccrual status, and other real estate owned) totaled just $243,000 at the end of 1998, down from $338,000 on December 31, 1997, and compared to $302,000 at the end of 1996. Management believes the allowance for possible loan losses as of December 31, 1998 was adequate in relation to both existing and potential risks in the loan portfolio.

The Bank has historically evaluated the adequacy of its allowance for possible loan losses on an overall basis rather than by specific categories of loans. In determining the adequacy of the allowance for possible loan losses, management considers such factors as historical loan loss experience, known problem loans, evaluations made by bank regulatory authorities, assessment of economic conditions and other appropriate data to identify the risks in the loan portfolio.

The allowance for possible loan losses has been allocated to the major categories of loans as set forth in the following table. The allocations are estimates based upon historical loss experience and management judgment. The allowance for possible loan losses should not be interpreted as an indication that charge-offs will occur in these amounts or proportions, or that the allocation indicates future charge-off trends. Furthermore, the portion allocated to each loan category is not the total amount available for future losses that might occur within such categories, since even in this allocation is an unallocated portion, and, as previously stated, the total allowance is applicable to the entire portfolio.

	1998		1997	
	Allowance for possible loan losses	Ratio of loans to total loans	Allowance for possible loan losses	Ratio of loans to total loans

<S> <C> <C> <C> <C>

Commercial loans...........	$ 472	26%	$ 408	19%
Real estate loans..........	1,009	65%	754	54%
Gov't guaranteed...........	0	1%	0	1%
Bankers acceptances	0	7%	0	25%
Other loans................	4	1%	5	1%
Unallocated................	1,015	0%	1,233	0%
	------	---	------	---
Total......................	$2,500	100%	$2,400	100%
	======	===	======	===

</TABLE>

The allowance for possible loan losses is increased by provisions which are charged to operating expense and is reduced by loan chargeoffs. Any subsequent recoveries of charged off loans are added back into the allowance. Based on its ongoing evaluation of loan risks, in 1998 provisions of $72,000 were made to the reserve for loan losses, $19,000 in loans were charged off, and $47,000 in loans previously charged off were recovered. By way of comparison, during 1997 provisions of $540,000 were made to the reserve for loan losses, $719,000 in loans were charged off, and $279,000 in loans previously charged off were recovered. During 1996 no provisions were made to the allowance for loan losses, a total of $230,000 in loans were charged off, and $530,000 in previously charged off loans were recovered. These transactions brought the balance of the allowance for possible loan losses at the end of 1998 to $2,500,000 (or 2.7% of total loans), compared to $2,400,000 (or 2.9% of total loans) at December 31, 1997, and compared to $2,300,000 (or 2.5% of total loans) at the end of 1996.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan," effective January 1, 1995. This Statement defines an impaired loan as one for which it is likely that an institution will be unable to collect all amounts due (that is, all principal and interest) according to the contractual terms of the loan. The Statement generally requires impaired loans to be measured at the present value of expected future cash flows discounted at the effective interest rate of the loan, or, as an expedient, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. In 1998, the Company identified loans having an aggregate average balance of $370,000 which it concluded were impaired under SFAS No. 114. During 1997, the Company had identified loans having an aggregate average balance of $1,783,000 which it concluded were impaired. In contrast, during 1996 the Company had identified loans having an aggregate average balance of $1,252,000 which it concluded were impaired under SFAS No. 114. The Company's policy is to discontinue the accrual of interest income on impaired loans, and to recognize income on such loans only after the loan principal has been repaid in full. Pursuant to this policy, the Company had already ceased to accrue interest on the impaired loans, and had established a general loss reserve for each of the loans. As the loss reserves established by the Company were greater than those called for under SFAS No. 114, the adoption of SFAS No. 114 had no effect on the Company's financial statements for 1998, 1997, or 1996.

Operating Expenses

Total operating expenses rose in 1998, to $7,052,000 from $6,645,000 in 1997 and $6,320,000 in 1996. While the total expense figures have fluctuated over time, most components continue to be moderated by the effects of an ongoing program of expense control.

Salaries and related benefits expense increased again in 1998, rising to $3,555,000 from a 1997 total of $2,915,000 and from $2,566,000 in 1996. The increase in this expense category principally reflects the increases in staffing which began in 1995 as part of the Company's growth initiative and which have continued through 1998 in connection with the establishment of new offices and lines of business. Occupancy expense rose slightly in 1998, to $410,000 from $393,000 in 1997 and a 1996 total of $374,000 due to operating

cost pass-throughs on the premises occupied by the Company. Real estate expense from prior years was partially reversed leaving income of $33,000 in 1998 in contrast to real estate expense of $3,000 in 1997 after a 1996 level of $380,000. The 1996 total reflects a charitable donation by the Bank of its only parcel of other real estate owned; this expense was essentially offset by the tax benefits resulting from the donation. Custodial and other services to customers declined again in 1998 as they did in both 1997 and 1996, standing at $553,000 for the year after $987,000 for 1997 versus $1,089,000 in 1996. This category typically fluctuates in conjunction with the deposit balances maintained by customers, and this factor accounts for the changes in this area over the past three years. Other expenses rose again 1998 as they did in 1997, reversing the pattern of modest declines which had prevailed in prior years. Other expenses totaled $2,567,000 in 1998 compared to $2,347,000 in 1997, which was increased from $1,911,000 in 1996. Other expenses in 1998 include professional services of $330,000 a significant decrease from the prior year. Other expenses in 1997 include an increase in legal fees relating to collection of non-performing loans and the termination of the Company's deposit relationship with Transcorp Pension Services; professional services jumped to $865,000 for 1997 after amounting to $467,000 in 1996. Data processing fees rose in 1998 to $365,000 compared to $254,000 in 1997 and $242,000 in 1996. A positive factor was the continued low level of premiums for FDIC insurance, reflecting the banking industry's achievement of full capitalization of the Bank Insurance Fund as defined by applicable statute. FDIC premium expense for 1998 was $17,000, for 1997 was $16,000, and $2,000 in 1996. Most of the remaining categories of other expense generally remained stable: general insurance was $120,000 during 1998, and $108,000 for both 1997 and 1996; directors fees rose to $72,000 in 1998 due to an increase in outside directors during 1998 from $46,000 in 1997 and from $59,000 in 1996 due to the elimination of directors fees for directors who are also officers of the Bank; and other expenses, which rose to $1,409,000 in 1998 after falling to $862,000 in 1997 from $946,000 in 1996 principally due to higher costs of services provided to customers.

Taxes and Effects of Accounting Changes

The combined effects of the activity described above resulted in Income Before Taxes of $2,906,000 in 1998, up sharply from $2,093,000 in 1997, and up from $2,869,000 in 1996. In 1998, the Company recorded tax provisions of $1,197,000. During 1997, the Company recorded tax provisions of $885,000. At the end of 1995, the Company had a gross deferred tax asset, representing the accumulated effects of timing differences between the Company's accounting records and tax returns. Based on an analysis of the portion of this asset which, more likely than not, would be utilized in the immediate future, a valuation reserve for deferred income tax assets was reduced to $200,000. The remaining balance of the reserve was eliminated in 1996, and this reserve reversal led to net tax provisions of $833,000 in 1996. As a result, the Company generated Net Income of $1,709,000 in 1998, compared to $1,208,000 in 1997, and versus Net Income of $2,036,000 in 1996.

Liquidity, Sources of Funds, and Capital Resources

The Bank continues to enjoy a liquid financial position. Total liquid assets (cash and due from banks, investment securities, and federal funds

sold) totaled $99,180,000 and $81,294,000 (or 58.0% and 56.0% of total deposits) at December 31, 1998 and 1997, respectively. The ratio of net loans to deposits was 53.5% and 54.3% at the end of 1998 and 1997, respectively.

Deposits of custodial clients of retirement plans administered by Transcorp Pension Services, a corporate customer of the Bank, represented approximately 13% and 39% of the Bank's total deposits as of December 31, 1998 and 1997, respectively; in recognition of this the Bank has maintained a large portion of its assets in liquid form since the inception of the Transcorp relationship. In 1997 Transcorp merged with an affiliated company which already possessed custodial powers, and for this reason Transcorp sought to terminate its deposit relationship with the Bank. The Bank and Transcorp ultimately agreed to terminate the relationship under a settlement agreement which, among other things, provided for the transfer of the remaining deposits over an 18-month period beginning in March, 1998 and continuing through September, 1999. Because the Bank has invested the Transcorp deposits in highly liquid assets, it anticipates no difficulty in accommodating the deposit withdrawals over the 18-month transfer period.

The Bank's investment portfolio continues to be composed of high quality, low risk securities, principally U.S. Agency securities and commercial papers. No gains or losses were recorded on securities sales during 1998. In 1997, the Bank generated net gains of $23,000 on sales of securities; by way of comparison, losses of $65,000 on sales of securities were incurred in 1996. As of December 31, 1998 the Bank's investment portfolio contained gross unrealized gains of $3,000 and gross unrealized losses of $2,000, for net unrealized gains of $1,000; at December 31, 1997 the Bank's investment portfolio contained gross unrealized gains of $20,000 and gross unrealized losses of $7,000, for net unrealized gains of $13,000. The Company adopted SFAS No. 115 in 1994, with the result that the net unrealized gains and losses gave rise to a $1,000 (net of taxes) increase in shareholders' equity as of December 31, 1998, and a $9,000 increase (net of taxes) in the Company's shareholders' equity as of December 31, 1997. Because the Company's holdings of securities are intended to serve as a source of liquidity should conditions warrant, the securities have been classified by the Company as "available for sale," and thus the unrealized gains and losses had no effect on the Company's income statement.

The Bank's management has attempted to match the rates and maturities of its interest-bearing assets and liabilities as part of its liquidity and asset/liability management policy. The objective of this policy is to moderate the fluctuations of net interest revenue which result from changes in the level of interest rates. The table which follows indicates the repricing or maturity characteristics of the major categories of the Bank's assets and liabilities, and thus the relative sensitivity of the Bank's net interest income to changes in the overall level of interest rates. A positive "gap" for a period indicates that an upward or downward movement in the level of interest rates would have a corresponding change in net interest income, while a negative "gap" implies that an interest rate movement would result in an inverse change in net interest income.

Category	Floating Rate	Less than one month	One month but less than six months	Six months but less than one year	One year but less than five years	Five years or more
Fed funds sold	31,900	0	0	0	0	0
Time deposits with other banks	0	297	9,004	842	0	0
Investment securities	0	16,960	30,900	0	0	0
Subtotal	31,900	17,257	39,904	842	0	0
Loans	83,871	5,815	1,251	750	14	0
Total earning assets	115,771	23,072	41,155	1,592	14	0
Cash and due from banks	0	0	0	0	0	0
Premises and equipment	0	0	0	0	0	0
Other real estate owned	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total non-earning assets	0	0	0	0	0	0
Total assets	115,771	23,072	41,155	1,592	14	0
Funds purchased	1	0	0	0	0	0
Repurchase agreements	0	0	0	0	0	0
Subtotal	1	0	0	0	0	0
Savings deposits	7,314	0	0	0	0	0
Money market deposits	49,991	0	0	0	0	0
Time deposits	0	18,565	30,886	1,563	140	0
Total bearing liabilities	57,306	18,565	30,886	1,563	140	0
Demand deposits	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0
Equity capital	0	0	0	0	0	0
Total non-bearing liabilities	0	0	0	0	0	0
Total liabilities	57,306	18,565	30,886	1,563	140	0
GAP	58,465	4,507	10,269	29	(126)	0
Cumulative GAP	58,465	62,972	73,241	73,270	73,144	73,144

Category	Non-interest earning or bearing	Total
Fed funds sold	0	31,900
Time deposits with other banks	0	10,143
Investment securities	0	47,860
Subtotal	0	89,903
Loans	0	91,701

Total earning assets	0	181,604
Cash and due from banks	9,277	9,277
Premises and equipment	790	790
Other real estate owned	0	0
Other assets	2,213	2,213
Total non-earning assets	12,280	12,280
Total assets	12,280	193,884
Funds purchased	0	1
Repurchase agreements	0	0
Subtotal	0	1
Savings deposits	0	7,314
Money market deposits	0	49,991
Time deposits	0	51,154
Total bearing liabilities	0	108,460
Demand deposits	61,964	61,964
Other liabilities	2,990	2,990
Equity capital	20,470	20,470
Total non-bearing liabilities	85,424	85,424
Total liabilities	85,424	193,884
GAP	(73,144)	0
Cumulative GAP	0	0

</TABLE>

As the table indicates, the vast majority of the Company's assets are either floating rate or, if fixed rate, have extremely short maturities. Since the yields on these assets quickly adjust to reflect changes in the overall level of interest rates, there are no significant unrealized gains or losses with respect to the Company's assets, nor is there much likelihood of large realized or unrealized gains or losses developing in the future. For this reason, realized or unrealized gains or losses are not expected to have any significant impact on the Company's future operating results or liquidity.

The Company continues to maintain a strong and prudent capital position. Total shareholders' equity was $20,470,000 and $15,423,000 as of December 31, 1998 and 1997, respectively. The Company's capital ratios for those dates in comparison with regulatory capital requirements were as follows:

<TABLE>
<CAPTION>

<S>	12-31-98 <C>	12-31-97 <C>
Leverage Ratio (Tier I Capital to Assets:		
First Regional Bancorp	11.17%	9.50%
Regulatory requirement	4.00%	4.00%

</TABLE>

The "regulatory requirement" listed represents the level of capital required for Adequately Capitalized status.

In addition, bank regulators have issued new risk-adjusted capital guidelines which assign risk weighting to assets and off-balance sheet items and place increased emphasis on common equity. The Company's risk adjusted capital ratios for the dates listed in comparison with the risk adjusted capital requirements were as follows:

<TABLE>
<CAPTION>

<S>	12-31-98 <C>	12-31-97 <C>
Tier I Capital to Assets:		
First Regional Bancorp	14.35%	16.70%
Regulatory requirement	4.00%	4.00%

Tier I + Tier II Capital to Assets:		
First Regional Bancorp	15.60%	18.00%
Regulatory requirement	8.00%	8.00%

</TABLE>

The Company believes that it will continue to meet all applicable capital standards.

During 1998, First Regional's capital was substantially increased through a private placement offering of common shares at a price of $9.00 per share. This transaction strengthens the Company's already solid financial foundation, and thus provides the basis for additional future growth.

During the year the company also established an Employee Stock Ownership Plan consisting of 150,000 shares of First Regional common stock acquired in market transactions or directly from First Regional Bancorp at an average price of $9.48 per share. This new Plan will build the capital base of First Regional Bank and provide its employees with a powerful incentive to achieve further improvements in First Regional's operating performance.

Year 2000 Issues

The approach of the year 2000 presents potential problems to businesses, such as the Company, which utilize computers. Many computer systems in use today, particularly older computers and computer programs, may not be able to properly interpret dates after December 31, 1999 because they use only two digits to indicate the year in a date. For example, the year 2000 could be interpreted as the year 1900 by such systems. As a result, the systems could produce inaccurate data, or not function at all.

In anticipation of this potential problem, the Company has developed a comprehensive plan to ensure that all of its systems are able to properly deal with the year 2000. The Company is currently assessing the ability of each system to properly perform, and is implementing corrective measures when deficiencies are found. Thus far, relatively few required corrections have been identified, and most of these situations would have been corrected in the normal course of business as part of the routine ongoing maintenance and updating of the Company's systems. At this point, the Company anticipates no difficulty in achieving full year 2000 capability. Further, while it is impossible to determine the costs of achieving full year 2000 capability, at this point those costs are not expected to be material.

As a financial institution, the Bank is also exposed to potential risk if borrowers and depositors suffer year 2000-related difficulties and are unable to repay their loans or maintain their deposit balances. The Bank is in the process of performing an assessment of the year 2000 readiness with both borrowers (as part of the loan granting or renewal process) and depositors. At this time, it is impossible to determine what impact, if any, the year 2000 will have on either the loan payment performance of the Bank's borrowers or the balances of key depositors. Thus far, however, none of the Bank's borrowers or depositors have reported the expectation of material adverse impacts as a result of the year 2000.

Inflation

The impact of inflation on the Company differs significantly from other industries, since virtually all of its assets and liabilities are monetary. During periods of inflation, companies with net monetary assets will always experience a reduction in purchasing power. Inflation continues to have an impact on salary, supply, and occupancy expenses, but the rate of inflation in general and its impact on these expenses in particular has remained moderate in recent years.

Item 8. Financial Statements and Supplementary Data

See "Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K" below for financial statements filed as part of this report.

Item 9. Disagreements on Accounting and Financial Disclosure

The Company has not reported a disagreement with its existing or previous accountants on any matter of accounting principle or practice on financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of Registrant

The information pertaining to directors which is required by this item will be included in the definitive proxy statement to be filed by the Company within 120 days of fiscal year end pursuant to Section 14 of the Act. Such information is hereby incorporated by reference in accordance with Rule G of the General Instructions to the Annual Report on Form 10-K.

Item 11. Executive Compensation

The information required by this item will be included in the definitive proxy statement to be filed by the Company within 120 days of fiscal year end pursuant to Section 14 of the Act. Such information is hereby incorporated by reference in accordance with Rule G of the General Instructions to the Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item will be included in the definitive proxy statement to be filed by the Company within 120 days of fiscal year end pursuant to Section 14 of the Act. Such information is hereby incorporated by reference in accordance with Rule G of the General Instructions to the Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions

The information required by this item will be included in the definitive proxy statement to be filed by the Company within 120 days of fiscal year end pursuant to Section 14 of the Act. Such information is hereby incorporated by reference in accordance with Rule G of the General Instructions to the Annual Report on Form 10-K.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

List of Documents filed as a part of this report:

(a) Financial Statements and Financial Statement Schedules

See Index to Financial Statements which is part of this Form 10-K.

(b) Exhibits

See Index to Exhibits which is part of this Form 10-K

(Exhibits are listed by numbers corresponding to the Exhibit Table in Item 601 of Regulation S-K)

(c) Reports on Form 8-K

No Form 8-K reports were filed by the Company during the fourth quarter of 1998.

SIGNATURES

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

First Regional Bancorp

By:/s/ Jack A. Sweeney

Jack A. Sweeney, Chairman of the Board
Chief Executive Officer

Date: March 30, 1999

Pursuant to the requirements of the Securities 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.

Signature	Title	Date
/s/ Jack A. Sweeney Jack A. Sweeney	Director, Chairman of the Board and Chief Executive Officer	March 30, 1999
/s/ Lawrence Sherman Lawrence J. Sherman	Director, Vice Chairman of the Board	March 30, 1999
/s/ H. Anthony Gartshore H. Anthony Gartshore	Director and President	March 30, 1999
/s/ Thomas McCullough Thomas E. McCullough	Director, Chief Financial Officer and Chief Accounting Officer	March 30, 1999
/s/ Gary M. Horgan Gary M. Horgan	Director	March 30, 1999
/s/ Jeffrey Cove Jeffrey Cove	Director	March 30, 1999
/s/ Don S. Levin Don S. Levin	Director	March 30, 1999
/s/ Frank R. Moothart Frank R. Moothart	Director	March 30, 1999
/s/ Mark Rubin Mark Rubin	Director	March 30, 1999

<TABLE>
<CAPTION>

INDEX TO FINANCIAL STATEMENTS

</TABLE>

All other financial statement schedules are omitted because they are not applicable, not material or because the information is included in the financial statements or the notes.

First Regional Bancorp and Subsidiary

Consolidated Financial Statements as of December 31, 1998 and 1997 and for Each of the Three Years in the Period Ended December 31, 1998 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
First Regional Bancorp and Subsidiary
Century City, California:

We have audited the accompanying consolidated balance sheets of First Regional Bancorp and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of First Regional Bancorp and its subsidiary as of December 31, 1998 and 1997, and the results of their earnings and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Los Angeles, California
February 19, 1999

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
<CAPTION>

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

ASSETS	1998	1997
<S>	<C>	<C>
Cash and due from banks (Note 6)	$ 9,277,000	$ 9,847,000
Federal funds sold	31,900,000	38,390,000
	------------	------------

Cash and cash equivalents	41,177,000	48,237,000
Investment securities available for sale, amortized cost $47,859,000 and $26,418,000 (Note 2)	47,860,000	26,431,000
Interest-bearing deposits in financial institutions	10,143,000	6,626,000
Loans, net (Note 3)	91,180,000	77,778,000
Government guaranteed loans, held for sale, at lower of cost or market (Note 3)	521,000	942,000
Premises and equipment, net (Note 4)	790,000	698,000
Accrued interest receivable and other assets	1,287,000	1,106,000
Income tax assets (Note 5)	926,000	627,000
TOTAL	$193,884,000	$162,445,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits (Notes 12 and 14):		
Noninterest bearing	$ 61,964,000	$ 35,820,000
Interest bearing:		
Time deposits	51,154,000	30,206,000
Money market deposits	49,991,000	72,959,000
Other	7,314,000	6,111,000
Total deposits	170,423,000	145,096,000
Note payable (Note 10)	1,463,000	
Accrued interest payable and other liabilities (Note 5)	1,528,000	1,926,000
Total liabilities	173,414,000	147,022,000
COMMITMENTS AND CONTINGENCIES (Notes 4 and 6)		
SHAREHOLDERS' EQUITY (Notes 7, 8 and 10):		
Common stock, no par value; authorized, 50,000,000 shares; outstanding, 2,983,000 (1998) and 2,416,000 (1997) shares	16,034,000	11,286,000
Less unearned ESOP shares; 146,000 in 1998	(1,386,000)	
Total common stock, no par value; outstanding 2,837,000 (1998) and 2,416,000 (1997) shares	14,648,000	11,286,000
Retained earnings	5,821,000	4,128,000
Accumulated other comprehensive income	1,000	9,000
Total shareholders' equity	20,470,000	15,423,000
TOTAL	$193,884,000	$162,445,000

</TABLE>
See notes to consolidated financial statements.

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
INTEREST INCOME:			
<S>	<C>	<C>	<C>
Interest on loans	$ 8,517,000	$ 8,742,000	$ 8,509,000
Interest on deposits in financial institutions	521,000	280,000	280,000
Interest on federal funds sold	1,808,000	1,569,000	1,219,000
Interest on investment securities	1,766,000	1,277,000	1,455,000
Total interest income	12,612,000	11,868,000	11,463,000
INTEREST EXPENSE:			
Interest on deposits (Notes 12 and 14)	3,437,000	3,285,000	2,970,000
Interest on other borrowings	3,000		4,000

Total interest expense	3,440,000	3,285,000	2,974,000
NET INTEREST INCOME	9,172,000	8,583,000	8,489,000
PROVISION FOR LOAN LOSSES (Note 3)	72,000	540,000	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,100,000	8,043,000	8,489,000
OTHER OPERATING INCOME:			
Customer service fees	680,000	291,000	361,000
Other	178,000	404,000	339,000
Total operating income	858,000	695,000	700,000
OTHER OPERATING EXPENSES:			
Salaries and related benefits (Note 6)	3,555,000	2,915,000	2,566,000
Occupancy expenses (Note 4)	410,000	393,000	374,000
Custodial and other service (Note 14)	553,000	987,000	1,089,000
Real estate (income) expense, net	(33,000)	3,000	380,000
Other expenses (Note 13)	2,567,000	2,347,000	1,911,000
Total operating expenses	7,052,000	6,645,000	6,320,000

</TABLE>

See notes to consolidated financial statements.

(Continued)

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
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CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<S>	<C> 1998	<C> 1997	<C> 1996
INCOME BEFORE PROVISION FOR INCOME TAXES	$2,906,000	$2,093,000	$2,869,000
PROVISION FOR INCOME TAXES (Note 5)	1,197,000	885,000	833,000
NET INCOME	$1,709,000	$1,208,000	$2,036,000
BASIC EARNINGS PER COMMON SHARE (Note 8)	$ 0.66	$ 0.50	$ 0.85
DILUTED EARNINGS PER COMMON SHARE (Note 8)	$ 0.62	$ 0.46	$ 0.78

</TABLE>

See notes to consolidated financial statements.

(Concluded)

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
<CAPTION>

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

	Common Stock			Accumulated	
	Shares Outstanding	Amount	Retained Earnings	Other Comprehensive Income	Comprehensive Income

<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1996	2,399,000	$11,332,000	$ 922,000	$ 5,000	
Options exercised	7,000				
Comprehensive income -					
Net income			2,036,000		$2,036,000
Other comprehensive income -					
Net change in unrealized gain (loss) on securities available for sale, net of tax				21,000	21,000
Comprehensive income					$2,057,000
BALANCE, DECEMBER 31, 1996	2,406,000	11,332,000	2,958,000	26,000	
Options exercised including tax benefit	40,000	102,000			
Common stock repurchased and retired	(30,000)	(148,000)	(38,000)		
Comprehensive income -					
Net income			1,208,000		$1,208,000
Other comprehensive income -					
Net change in unrealized gain (loss) on securities available for sale, net of tax				(17,000)	(17,000)
Comprehensive income					$1,191,000
BALANCE, DECEMBER 31, 1997	2,416,000	11,286,000	4,128,000	9,000	
Common stock repurchased and retired	(4,000)	(20,000)	(16,000)		
Common stock issued in private placement and for ESOP	503,000	4,574,000			
Unearned ESOP shares	(146,000)	(1,386,000)			
Options exercised including tax benefit	68,000	194,000			
Comprehensive income -					
Net income			1,709,000		$1,709,000
Other comprehensive income -					
Net change in unrealized gain (loss) on securities available for sale, net of tax				(8,000)	(8,000)
Comprehensive income					$1,701,000
BALANCE, DECEMBER 31, 1998	2,837,000	$14,648,000	$ 5,821,000	$ 1,000	

</TABLE>

See notes to consolidated financial statements.

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income	$ 1,709,000	$ 1,208,000	$ 2,036,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for losses on loans	72,000	540,000	
Provision for losses on real estate			80,000
Contribution of real estate			320,000
Provision for depreciation	136,000	88,000	51,000
Gain on sale of investment securities, net		(23,000)	(32,000)
Gain on sale of real estate	(86,000)	(179,000)	
Amortization of investment securities premiums and discounts, net	(287,000)	(261,000)	(154,000)
Gain on sale of loans	(9,000)	(103,000)	(295,000)

Loss (gain) on sale of fixed assets	4,000	(15,000)	
Amortization of loan premiums and discounts, net	(464,000)	(977,000)	610,000
(Increase) decrease in interest receivable and other assets	(181,000)	1,418,000	(473,000)
(Decrease) increase in interest payable and other liabilities	(398,000)	659,000	551,000
Deferred income tax benefit	(212,000)	(4,000)	(273,000)
Net cash provided by operating activities	284,000	2,351,000	2,421,000
INVESTING ACTIVITIES:			
Net (increase) decrease in interest-bearing deposits in financial institutions	(3,517,000)	(1,384,000)	2,879,000
Net increase in loans	(13,017,000)	(263,000)	(19,189,000)
Proceeds from sale of loans	452,000	7,275,000	16,620,000
Purchases of investment securities	(88,500,000)	(39,158,000)	(24,452,000)
Proceeds from maturities of investment securities	67,346,000	22,474,000	7,567,000
Proceeds from sales of investment securities		17,328,000	4,135,000
Purchases of premises and equipment	(352,000)	(425,000)	(212,000)
Proceeds from sale of premises and equipment	120,000	16,000	
Net decrease in investment in real estate			12,000
Proceeds from sale of real estate	86,000	2,589,000	
Net cash (used in) provided by investing activities	(37,382,000)	8,452,000	(12,640,000)

</TABLE>
See notes to consolidated financial statements.

(Continued)

FIRST REGIONAL BANCORP AND SUBSIDIARY

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<S>	<C> 1998	<C> 1997	<C> 1996
FINANCING ACTIVITIES:			
Net increase in time deposits	$19,785,000	$ 5,367,000	$11,824,000
Net increase in noninterest-bearing deposits and other interest-bearing deposits	5,542,000	2,974,000	207,000
Decrease in note payable	(37,000)		
Sales of common stock	4,688,000		
Stock options exercised	96,000		
Common stock repurchased and retired	(36,000)	(186,000)	
Net cash provided by financing activities	30,038,000	8,155,000	12,031,000
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,060,000)	18,958,000	1,812,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	48,237,000	29,279,000	27,467,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$41,177,000	$48,237,000	$29,279,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of debt for ESOP shares	$ 1,500,000		
Acquisition of other real estate owned through foreclosure		$ 2,410,000	
Net transfer of loans to loans held for sale			$20,480,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 3,354,000	$ 3,272,000	$ 2,721,000
Income taxes paid	$ 1,397,000	$ 625,000	$ 1,285,000

</TABLE>

See notes to consolidated financial statements.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First Regional Bancorp, a bank holding company (the "Company"), and its subsidiary, First Regional Bank, a California state-chartered bank (the "Bank"), primarily serve Southern California through its branch and loan production offices. The Company's primary source of revenue is providing loans to customers, which are predominantly small and mid-sized businesses. The accounting and reporting policies of the Company conform to generally accepted accounting principles and general practices within the banking industry. The following are descriptions of the more significant of these policies.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and accounts have been eliminated.

Use of Estimates in the Preparation of the Financial Statements - The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Securities - Investment securities available for sale are reported in the accompanying consolidated balance sheets at fair value, and the net unrealized gain or loss on such securities (unless other than temporary) is reported as a separate component of shareholders' equity. Premiums and discounts on debt securities are amortized or accreted as adjustments to interest income using the level-yield method. Realized gains and losses on sales of securities are determined on a specific-identification basis and reported in earnings.

Loans - Loans are carried at face amount less payments collected, deferred fees and allowances for loan losses. Interest on loans is accrued monthly on a simple-interest basis. Loan origination fees and commitment fees, net of related costs, are deferred and recognized over the contractual lives of the loans as a yield adjustment.

Government guaranteed loans represent loans for which the repayment of principal and interest is guaranteed by the U.S. government. Those loans are secured by real estate and are due in amortizing installments over periods of up to 40 years. The loans bear contractual interest at various rates above national prime lending rates and were generally purchased at premiums. Premiums on purchases of government guaranteed loans are amortized on a level-yield method over the estimated lives of the loans, considering prepayments.

Government guaranteed loans are generally classified as held for sale. When a decision to sell a loan is made, the loan is classified as held for sale and carried at the lower of cost or market value. Gains or losses on the sale of loans are determined on a specific-identification basis and reported in earnings.

The allowance for loan losses is maintained at a level considered adequate by management to provide for losses that might be reasonably anticipated. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. Management's periodic estimates of the allowance for loan losses are inherently uncertain and depend on the outcome of future events. Such estimates are based on previous loan loss experience; current economic conditions; volume, growth, and composition of the loan portfolio; the value of collateral; and other relevant factors.

Loans are considered to be impaired when it is not probable that they will be collected in accordance with their original terms. Impaired loans are carried at the lower of their contractual balances or estimated fair values. Specific reserves necessary to reduce their carrying amounts to fair value are included in the allowance for loan losses.

All loans on nonaccrual are considered to be impaired; however, not all impaired loans are on nonaccrual status. Impaired loans on accrual status must be such that the loan underwriting supports the debt service requirements. Factors that contribute to a performing loan being classified as impaired include: a below-market interest rate, delinquent taxes and debts to other lenders that cannot be serviced out of existing cash flow.

Nonaccrual loans are those which are past due 90 days as to either principal or interest, or earlier when payment in full of principal or interest is not expected. When a loan is placed on nonaccrual status, interest accrued but not received is reversed against interest income. Thereafter, interest income is no longer recognized, and the full amount of all payments received, whether principal or interest, is applied to the principal balance of the loan. A nonaccrual loan may be restored to an accrual basis when principal and interest payments are current, and full payment of principal and interest is expected.

Other Real Estate Owned - Other real estate owned is recognized when a property collateralizing a loan is foreclosed upon or otherwise acquired by the Bank in satisfaction of the loan. Upon foreclosure, other real estate owned is recorded at estimated fair value. Reductions in value at the time of foreclosure are charged against the allowance for loan losses. Allowances are recorded to provide for estimated declines in fair value and costs to sell subsequent to the date of acquisition.

Premises and Equipment - Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 15 years. Amortization is computed using the straight-line method over the estimated useful lives of the leasehold improvements or the term of the lease, whichever is shorter.

Income Taxes - Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A deferred tax asset is recorded to the extent that management believes it is more likely than not to be realized. A valuation allowance is recognized for the remaining portion of the deferred tax asset.

Cash and Cash Equivalents - Cash and cash equivalents include cash and due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Earnings per Common Share - Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during each year. The computation of diluted earnings per share also considers the number of shares issuable upon the assumed exercise of outstanding common stock options. All earnings per common share amounts presented have been restated in accordance with the provisions of this statement. A reconciliation of the numerator and the denominator used in the computation of basic and diluted earnings per common share is included in Note 8.

Employee Stock Ownership Plan and Trust - The Company accounts for its ESOP in accordance with Statement of Position 93-6. Accordingly, the debt of the ESOP is recorded as debt of the Company and the shares pledged as collateral are reported as unearned ESOP shares in the balance sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share ("EPS") computations.

Current Accounting Pronouncements - In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," effective for the fiscal years beginning after December 15, 1997. 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. Reclassification of financial statements for earlier periods, provided for comparative purposes, is required. This statement was adopted for the year ended December 31, 1998, and is reflected in the Company's consolidated financial statements.

In September 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for financial statements for periods beginning after December 15, 1997. This statement established standards for reporting information about operating segments in annual and interim financial statements. Because the Company has no other operating segments outside of the banking operation that meet the threshold requirements under this statement, no segment disclosures are provided.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for financial statements for periods beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Adoption of this statement is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications - Certain amounts in the 1997 and 1996 financial statements have been reclassified to be comparable to the classification used in the 1998 financial statements.

2. INVESTMENT SECURITIES

The amortized cost and estimated fair values of securities available for sale as of December 31, 1998 and 1997 were as follows:

<TABLE>
<CAPTION>

1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
U.S. agency securities	$ 5,998,000	$ 1,000	$ -	$ 5,999,000
Commercial paper	41,861,000			41,861,000
	$47,859,000	$ 1,000	$ -	$47,860,000
1997				
U.S. agency securities	$18,389,000	$20,000	$(7,000)	$18,402,000
Commercial paper	8,004,000			8,004,000
Other securities	25,000			25,000
	$26,418,000	$20,000	$(7,000)	$26,431,000

</TABLE>

All securities held at December 31, 1998 are scheduled to mature in 1999.

The Banks investments in commercial paper are subject to credit risk. The Bank's policy is to purchase commercial paper rated "A1" by Moody's or "P1" by Standard and Poors. All purchases are reviewed and approved by the Investment Committee.

Securities carried at $6,000,000 and $4,000,000 were pledged as of December 31, 1998 and 1997, respectively, to secure current or future public deposits and for other purposes required or permitted by law.

3. LOANS

The loan portfolio consisted of the following at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Real estate loans	$46,251,000	$38,195,000
Commercial loans	24,811,000	15,365,000
Real estate construction loans	15,702,000	4,982,000
Bankers' acceptances	6,681,000	21,727,000
Other loans	797,000	420,000
	94,242,000	80,689,000
Allowance for loan losses	(2,500,000)	(2,400,000)
Deferred loan fees, net	(562,000)	(511,000)
Loans, net	$91,180,000	$77,778,000
Government guaranteed loans held for sale	$ 521,000	$ 942,000

</TABLE>

The Bank's lending is concentrated in real estate in Southern California. In the recent past, this area experienced adverse economic conditions. Future declines in the local economy or in real estate values may result in increased losses that cannot reasonably be predicted at this date. No industry constitutes a concentration in the Bank's portfolio except the real estate construction industry.

An analysis of the activity in the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
Balance, beginning of year	$2,400,000	$2,300,000	$2,000,000
Provision for loan losses	72,000	540,000	
Loans charged off	(19,000)	(719,000)	(230,000)
Recoveries on loans previously charged off	47,000	279,000	530,000
Balance, end of year	$2,500,000	$2,400,000	$2,300,000

Management believes the allowance for loan losses as of December 31, 1998 is adequate to absorb losses inherent in the loan portfolio. Management's estimates of the allowance are subject to potential adjustment by the Federal Deposit Insurance Corporation (the "FDIC") and the California Department of Financial Institutions upon subsequent examination of the Bank by such authorities.

At December 31, 1998 and 1997, the recorded investment in loans for which impairment had been recognized was $463,000 and $496,000, with specific reserves of $121,000 and $252,000 respectively. The average recorded investment in impaired loans during 1998 and 1997 was $370,000 and $1,783,000, respectively. Interest income on impaired loans of $43,000, $45,000, and $190,764 was recognized for cash payments received in 1998, 1997 and 1996, respectively.

In the ordinary course of business, the Bank grants loans to its directors and executive officers. Following is a summary of such loans for the years ended December 31, 1998 and 1997:

	1998	1997
Balance, beginning of year	$ 64,000	$ 78,000
Loans granted or renewed		64,000
Repayments	(64,000)	(78,000)
Balance, end of year	$ -	$ 64,000

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following as of December 31, 1998 and 1997:

	1998	1997
Furniture, fixtures and equipment	$ 2,020,000	$ 1,988,000
Leasehold improvements	555,000	538,000
	2,575,000	2,526,000
Accumulated depreciation and amortization	(1,785,000)	(1,828,000)
Premises and equipment, net	$ 790,000	$ 698,000

Rental expense for premises included in occupancy expenses for 1998, 1997 and 1996 was approximately $385,000, $366,000 and $356,000, respectively.

The future minimum rental commitments, primarily representing noncancelable operating leases for premises, were as follows at December 31, 1998, excluding the effect of future cost-of-living increases provided for in the leases, and net of sublease income:

<TABLE>
<CAPTION>

	Minimum Rental Commitments
<S>	<C>
1999	$ 498,000
2000	486,000
2001	469,000
2002	423,000
2003	61,000
Thereafter	----------
Total	$1,937,000
	==========

</TABLE>

At the end of 1994, the Company elected to apply the unused tenant improvement allowance of $224,000 against its future lease payments for the Century City Office. Payment of the allowance was made to the Company over a 15-month period beginning February 1, 1995. The Company is deferring recognition of the amount and amortizing it evenly over the lease term, which expires in February 2003.

5. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 1998, 1997 and 1996, net of valuation adjustments, consists of the following:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Current provision:			
Federal	$1,068,000	$652,000	$ 997,000
State	341,000	237,000	109,000
	----------	--------	----------
	1,409,000	889,000	1,106,000
	----------	--------	----------
Deferred provision (benefit):			
Federal	(190,000)	(3,000)	(389,000)
State	(22,000)	(1,000)	116,000
	----------	--------	----------
	(212,000)	(4,000)	(273,000)
	----------	--------	----------
Total	$1,197,000	$885,000	$ 833,000
	==========	========	==========

</TABLE>

Income tax assets (liabilities) consisted of the following at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Income taxes currently receivaable:		
Federal	$ 34,000	$ 5,000
State	57,000	(5,000)
	--------	--------
	91,000	
	--------	--------
Deferred income tax asset:		
Federal	614,000	428,000
State	221,000	199,000
	--------	--------
	835,000	627,000
	--------	--------

Total	$926,000	$627,000
	========	========

</TABLE>

The components of the net deferred income tax asset at December 31 are summarized as follows:

<TABLE>
<CAPTION>

Federal	1998	1997
<S>	<C>	<C>
Deferred tax liabilities:		
Prepaid expenses	$ (37,000)	$ (53,000)
State taxes	(75,000)	(67,000)
Depreciation	(119,000)	(78,000)
Other		(194,000)
	---------	---------
Gross liabilities	(231,000)	(392,000)
	---------	---------
Deferred tax assets:		
Loan and real estate loss allowances	311,000	291,000
Deferred compensation	328,000	270,000
State franchise tax	97,000	64,000
Contribution charge-off	77,000	173,000
Other	32,000	22,000
	---------	---------
Gross assets	845,000	820,000
	---------	---------
Net deferred tax asset - federal	614,000	428,000
	---------	---------
State		
Deferred tax liabilities:		
Prepaid expenses	(12,000)	(17,000)
Depreciation	(35,000)	(22,000)
Other		(62,000)
	--------	---------
Gross liabilities	(47,000)	(101,000)
	--------	---------
Deferred tax assets:		
Loan and real estate loss allowances	153,000	155,000
Deferred compensation	105,000	86,000
Real estate contribution		52,000
Other	10,000	7,000
	--------	---------
Gross assets	268,000	300,000
	--------	---------
Net deferred tax asset - state	221,000	199,000
	--------	---------
Net deferred tax asset	$835,000	$ 627,000
	========	=========

</TABLE>

The provision for income taxes (benefit) for the years ended December 31, 1998, 1997 and 1996 varied from the federal statutory tax rate for the following reasons:

<TABLE>
<CAPTION>

	1998		1997		1996	
	Amount	Rate	Amount	Rate	Amount	Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tax expense (benefit) at statutory rate	$1,017,000	35.0 %	$733,000	35.0 %	$1,014,000	35.0 %
State franchise taxes, net of federal income tax benefit	211,000	7.3	156,000	7.4	146,000	5.1
Valuation allowance					(200,000)	(6.9)
Other, net	(31,000)	(1.1)	(4,000)	(0.1)	(127,000)	(4.4)
	----------	-----	--------	-----	----------	-----

Total	$1,197,000	41.2 %	$885,000	42.3 %	$ 833,000	28.8 %
	==========	=====	========	=====	==========	=====

</TABLE>

6. COMMITMENTS AND CONTINGENCIES

As of December 31, 1998, the Company had the following commitments and contingent liabilities:

Undisbursed loans	$27,914,000
Stand-by letters of credit	$ 1,621,000

The Bank uses the same standards of credit underwriting in entering into these commitments to extend credit as it does for making loans and, therefore, does not anticipate any losses as a result of these transactions. Also, commitments may expire unused, and consequently, the above amounts do not necessarily represent future cash requirements. The majority of the commitments above carry variable interest rates.

The Company sponsors a defined contribution 401(k) plan benefiting substantially all employees. At the discretion of the Board of Directors, the Company matches employee contributions. Currently, the Company provides 50% matching up to the first 6% of wages contributed by an employee. Company contributions are used to buy the Company's common stock on the open market for allocation to the employees' accounts in the plan. The Company contributed approximately $47,000, $42,000 and $28,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

As of December 31, 1998, the Bank had unused lines of credit with other depository institutions of $6,500,000.

The Bank's principal regulators are the FDIC and the California Department of Financial Institutions; the Company is regulated by the Federal Reserve Bank. At periodic intervals, these agencies examine the Bank and the Company as part of their legally prescribed oversight responsibilities.

Regulations of the Federal Reserve Board require depository institutions to maintain a portion of their deposits in the form of either cash or deposits with the Federal Reserve Bank that are noninterest bearing and are not available for investment purposes. The average Federal Reserve balances required to be maintained to meet these requirements were approximately $2,202,000 and $830,000 at December 31, 1998 and 1997, respectively.

In the normal course of business, the Company and the Bank are involved in litigation. Management does not expect the ultimate outcome of any pending litigation to have a material effect on the Company's financial position or results of operations.

However, in late 1998, Mark Rubin, a director of the Company and its former vice chairman, filed suit against the Company, the Bank, and individual members of the Company's executive committee. Mr. Rubin alleges that his employment with the Company was wrongfully terminated and that the defendants also breached fiduciary duties owed to Mr. Rubin and committed acts of defamation and fraud against him. In his complaint, Mr. Rubin's suit seeks compensatory and punitive damages of approximately $59 million. In January 1999, Mr. Rubin submitted a statutory offer of compromise under Section 998 of the California Code of Civil Procedure offering to settle the lawsuit for $3 million. The Company rejected this settlement proposal.

The Company believes the claims, as alleged, are without merit and has moved to dismiss Mr. Rubin's complaint. Mr. Rubin has informed the Company that he intends to amend his complaint prior to the court hearing on the Company's motion, but has not yet done so. The Company has vigorously defended against Mr. Rubin's lawsuit and will continue to do so. Because the case is in its very early stages, it is not currently possible to determine what impact, if any, the resolution of this matter will have on the future financial condition and results of operations of the Company.

7. REGULATORY CAPITAL

The Bank 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 the regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank'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 regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998 and 1997, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1998 and 1997, the most recent notifications from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since the most recent notification that management believes have changed the Bank's category.

Following is a table showing the minimum capital ratios required for the Bank and the Bank's actual capital ratios and actual capital amounts at December 31, 1998 and 1997 (the Company's ratios and amounts are substantially the same):

<TABLE>
<CAPTION>

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998:						
Total capital (to risk-weighted assets)	$23,546,000	15.6 %	$12,075,000	> 8.0 %	$15,093,000	> 10.0 %
Tier I capital (to risk-weighted assets)	$21,651,000	14.4 %	$ 6,035,000	> 4.0 %	$ 9,053,000	> 6.0 %
Tier I capital (to average assets)	$21,651,000	11.2 %	$ 7,753,000	> 4.0 %	$ 9,692,000	> 5.0 %
As of December 31, 1997:						
Total capital (to risk-weighted assets)	$16,581,000	18.0 %	$ 7,373,000	> 8.0 %	$ 9,216,000	> 10.0 %
Tier I capital (to risk-weighted assets)	$15,413,000	16.7 %	$ 3,686,000	> 4.0 %	$ 5,530,000	> 6.0 %
Tier I capital (to average assets)	$15,413,000	9.5 %	$ 6,256,000	> 4.0 %	$ 8,122,000	> 5.0 %

</TABLE>

8. EARNINGS PER SHARE RECONCILIATION

<TABLE>
<CAPTION>

	December 31, 1998		
	Income (Numerator)	Weighted-Average Shares (Denominator)	Per Share Amount
Basic EPS			
<S>	<C>	<C>	<C>
Income available to common shareholders	$1,709,000	2,595,000	$ 0.66
Effect of Dilutive Securities			
Incremental shares from assumed exercise of outstanding options		169,000	(0.04)
Diluted EPS			
Income available to common shareholders	$1,709,000	2,764,000	$ 0.62

<CAPTION>

December 31, 1997

Basic EPS			
Income available to common shareholders	$1,208,000	2,429,000	$ 0.50
Effect of Dilutive Securities			
Incremental shares from assumed exercise of outstanding options		194,000	(0.04)
Diluted EPS			
Income available to common shareholders	$1,208,000	2,623,000	$ 0.46

	December 31, 1996		
Basic EPS			
Income available to common shareholders	$2,036,000	2,401,000	$ 0.85
Effect of Dilutive Securities			
Incremental shares from assumed exercise of outstanding options		205,000	(0.07)
Diluted EPS			
Income available to common shareholders	$2,036,000	2,606,000	$ 0.78

9. STOCK COMPENSATION PLANS

The Company has a nonqualified employee stock option plan that authorizes the issuance of up to 350,000 shares of its common stock and expires in 2000. Options may be granted at a price not less than the fair market value of the stock at the date of grant, are exercisable, and expire as determined by the Board of Directors.

During 1994, the Board of Directors authorized cancellation of the outstanding options under the plan of 275,000 shares at an exercise price of $2.75 per share. These options were subsequently reissued at an exercise price of $2.00 per share, vesting over a five-year period and expiring on January 1, 2000. During 1996 and 1995, additional options were granted to officers for an aggregate of 20,000 and 30,000 shares, respectively, at exercise prices ranging from $3.50 - $5.75 per share in 1996 and $2.50 - $3.50 per share in 1995. No options were granted in 1998 or 1997.

In 1998, under the terms of the Plan, 74,000 stock options were exchanged for 68,000 shares of stock. In 1997, under the terms of the Plan, 60,000 stock options were exchanged for 40,408 shares of stock.

At December 31, 1998, 1997 and 1996, the Company had options outstanding granted under the plan as follows:

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	280,000	$2.29	340,000	$2.24	345,000	$2.09
Granted					20,000	4.63
Exercised	(74,000)	2.10	(60,000)	2.00	(10,000)	2.00
Terminated					(15,000)	2.00
Outstanding at end of year	206,000	2.36	280,000	2.29	340,000	2.24
Options exercisable at year end	64,000	2.38	70,000	2.21	64,000	2.09

The estimated fair value of options granted during 1996 was $2.45 per share. No compensation cost has been recognized for the stock option plan. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method of SFAS No. 123, the Company's net income and basic earnings per share for the year ended December 31, 1998 and 1997 would have been reduced to the pro forma amounts indicated below:

	1998	1997	1996
Net income to common shareholders:			
As reported	$1,709,000	$1,208,000	$2,036,000
Pro forma	$1,672,000	$1,171,000	$1,999,000
Basic earnings per share:			
As reported	$ 0.66	$ 0.50	$ 0.85
Pro forma	$ 0.64	$ 0.49	$ 0.83

The fair values of options granted under the Company's stock option plan during 1996 were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used: no dividend yield, expected volatility of 53%, risk free interest rate of 6.3%, and expected lives of five years.

10. EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

During 1998, the company established for eligible employees an Employee Stock Ownership Plan and Trust ("ESOP"). Eligible full-time and part-time employees employed with the Bank who have been credited with at least 1,000 hours during a 12-month period and who have attained age 21 are eligible to participate.

On September 30, 1998, the ESOP borrowed $1,500,000 from an unrelated bank in order to fund the purchase of 150,000 shares of the Company's common stock. This loan is scheduled to be repaid monthly on a straight-line basis over five years, with the funds for repayment from the Company's contributions to the ESOP. The ESOP shares were pledged as collateral for its debt. The interest rate on this loan is variable, prime plus .5%, with interest of 8.25% at December 31, 1998. The outstanding principal balance of the ESOP loan at December 31, 1998 was $1,463,000.

Shares purchased by the ESOP are held in a trust account for allocation among participants as the loan is repaid. The number of shares allocated each plan year is dependent upon the ratio of that year's total loan payment to the aggregate payments scheduled to occur throughout the term of the loan. The annual allocation of shares is apportioned among participants on the basis of compensation in the year of allocation. ESOP benefits generally become 100% vested after an employee completes seven years of credited service. Benefits are payable upon death, retirement, or disability. The number of shares of common stock allocated to employee accounts was 3,750 shares at December 31, 1998.

Periodic operating expense associated with the ESOP is recognized based upon both the number of shares pro-rata allocated and the periodic fair market value of the common stock. The expense related to the ESOP for the year ended December 31, 1998 was $68,000. At December 31, 1998, unearned compensation related to the ESOP approximated $1,386,000 and is shown as a reduction of shareholders' equity in the accompanying balance sheet. Based upon the market price of the Company's stock at December 31, 1998, the unearned shares of the ESOP have a cumulative fair value of $1,097,000.

11. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	December 31, 1998		December 31, 1997	
	Carrying	Estimated	Carrying	Estimated

	Amount	Fair Value	Amount	Fair Value
	(In thousands)		(In thousands)	
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and due from banks	$ 9,277	$ 9,277	$ 9,847	$ 9,847
Federal funds sold	31,900	31,900	38,390	38,390
Interest-bearing deposits in financial institutions	10,143	10,143	6,626	6,626
Investment securities available for sale	47,860	47,860	26,431	26,431
Loans	91,180	96,364	77,778	79,597
Government guaranteed loans	521	521	942	970
Accrued interest receivable	660	660	787	787
Liabilities:				
Deposits:				
Noninterest-bearing	61,964	61,964	35,820	35,820
Interest-bearing:				
Time deposits	49,991	50,114	30,206	30,217
Money market and other deposits	58,468	58,468	79,070	79,070
Accrued interest payable	220	220	131	131

</TABLE>

Fair market values of commitments to extend credit and standby letters of credit are immaterial as of December 31, 1998 and 1997.

The fair values of cash and due from banks, federal funds sold, interest-bearing deposits in financial institutions, noninterest-bearing deposits, and money market and other deposits approximate their carrying value.

The fair value of investment securities available for sale is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. The fair value of loans and time deposits is estimated based on present values using applicable risk-adjusted spreads to the U.S. Treasury curve to approximate current entry-value interest rates applicable to each category of such financial instruments.

No adjustment was made to the entry-value interest rates for changes in credit of performing loans for which there are no known credit concerns. Management segregates loans in appropriate risk categories. Management believes that the risk factor embedded in the entry-value interest rates, along with the general reserves applicable to the performing loan portfolio for which there are no known credit concerns, results in a fair valuation of such loans on an entry-value basis. The fair value of nonperforming loans with a recorded book value of $463,000 in 1998 and $496,000 in 1997 were not estimated because it is not practicable to reasonably assess the credit adjustment that would be applied in the marketplace for such loans.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 1998 and 1997. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

12. INTEREST EXPENSE

A summary of interest expense on deposits for the years ended December 31, 1998, 1997 and 1996 is as follows:

<TABLE>
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	1998	1997	1996
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Money market savings/NOW account deposits	$1,544,000	$2,228,000	$2,105,000
Time deposits under $100,000	1,026,000	322,000	222,000
Time deposits of $100,000 or more	830,000	705,000	616,000
Savings deposits	37,000	30,000	27,000
	$3,437,000	$3,285,000	$2,970,000

</TABLE>

The aggregate amount of time deposits in denominations of $100,000 or more outstanding as of December 31, 1998 and 1997 was approximately $22,246,000 and $16,672,000, respectively. The aggregate amount of deposits from escrow related accounts was approximately $30,294,000 and $14,522,000 as of December 31, 1998 and 1997.

13. OTHER OPERATING EXPENSES

Included in other operating expenses for the years ended December 31, 1998, 1997 and 1996 are the following items:

	1998	1997	1996
Professional services	$ 330,000	$ 865,000	$ 467,000
Data processing fees	365,000	254,000	242,000
Equipment expense	254,000	196,000	87,000
General insurance	120,000	108,000	108,000
Directors' fees	72,000	46,000	59,000
FDIC assessment	17,000	16,000	2,000
Other	1,409,000	862,000	946,000
Total	$2,567,000	$2,347,000	$1,911,000

14. TRANSCORP RELATIONSHIP

The Bank had a long-term relationship with Transcorp Pension Services, Inc. ("Transcorp"), an administrator of self-directed individual retirement accounts and simplified employee pension retirement plans pursuant to which the Bank provided custodial and other services to IRA and pension plans for which Transcorp served as administrator. The Bank's deposit and service relationships with Transcorp were governed by an agreement that required, among other things, not less than a 30-day prior notice of intent by either party to terminate the relationships and withdrawal of the deposited amount over a two-year period. In 1997, Transcorp merged with an affiliated company that already possessed custodial powers, and in anticipation of that merger, Transcorp gave notice of its intent to terminate the deposit and service relationships with the Bank.

In order to ensure that the terms of its agreement with Transcorp were honored, as well as to provide for a complete and orderly transfer of custodial responsibilities to the new custodian, the Bank sought certain assurances from Transcorp. When these were not forthcoming, the Bank filed suit seeking judicial determination of disagreements regarding various aspects of the Transcorp relationship and the Bank's custodial obligations. That suit was ultimately settled in the first quarter of 1998, with the settlement terms satisfying the Bank's requirement for the complete and orderly transfer of custodial responsibility, and providing for the transfer of the remaining deposits over an 18-month period beginning in March, 1998 and continuing through September, 1999. The terms of the settlement are nonmonetary, except that the Bank has agreed to pay Transcorp $50,000 upon the successful re-registration of all custodial assets, and Transcorp has agreed to pay the Bank $50,000 if it fails to re-register the custodial assets within the established time frame.

Deposits of custodial clients of the plans Transcorp administers represent approximately 13% and 39% of the Bank's total deposits as of December 31, 1998 and 1997, respectively. For the years ended December 31, 1998, 1997 and 1996, the Bank paid interest of $782,000, $1,780,000 and $1,746,000, respectively, on deposits of Transcorp custodial clients, and paid $553,000, $987,000 and $1,089,000, respectively, in administrative fees to Transcorp on behalf of its custodial clients.

Because the Bank has invested the Transcorp-related deposits in highly liquid assets, the Bank anticipates no difficulty in accommodating the deposit withdrawals over the remaining transfer period called for in the settlement. Over time, the Bank intends to replace the Transcorp-related deposits with deposits obtained from other sources.

15. RELATED-PARTY TRANSACTIONS

The Bank has an agreement with a director whereby the Bank receives management and consulting services for properties. Total payments in 1998, 1997, and 1996 to the director under the agreement were $0, $4,000, and $6,000, respectively. In the opinion of the Bank, the terms of the agreement are no less favorable to the Bank than could have been obtained in a similar transaction with a person unaffiliated with the Bank.

As of December 31, 1998 and 1997, deposits from directors, officers and their affiliates amounted to $318,000 and $4,654,000, respectively.

16. FINANCIAL INFORMATION REGARDING FIRST REGIONAL BANCORP

As of December 31, 1998 and 1997, the Company's investment in the Bank was recorded on the equity method at $21,619,000 and $15,312,000, respectively.

The Company's cash balance held in the Bank was $36,000 and $1,000 as of December 31, 1998 and 1997, respectively. The only other significant asset or liability recorded on the Company's balance sheet in 1998 is a tax benefit of $199,000 pertaining to the exercise of stock options. There was no significant asset or liability in 1997 and 1996. The Company's significant operations consist solely of the recognition of its equity in the income or loss of the Bank. The Bank paid dividends of $100,000 to the Company in 1998 and $230,000 in 1997. No dividends were paid by the Bank to the Company in 1996.

Federal law restricts the Bank from extending credit to the Company; any such extensions of credit are subject to strict collateral requirements.

17. SUBSEQUENT EVENT - TRUST ADMINISTRATION SERVICES CORP. ACQUISITION

In January 1999, First Regional Bank established Trust Administration Services Corp. ("TASC"), a new, wholly owned subsidiary that provides administrative and custodial services to self-directed retirement plans. In conjunction with the formation of TASC, the Bank acquired the retirement plan division of another institution at a cost of approximately $900,000. As a result of this acquisition, TASC became the administrator for approximately $250 million in retirement assets, including approximately $25 million in cash deposits that were transferred to First Regional Bank in 1999. Management believes that TASC will become a significant source of deposits and fee income in the future, but at this point it is impossible to determine what impact, if any, the formation of TASC will have on the Bank's future results.

* * * * * *

INDEX TO EXHIBITS

Exhibit No.

3.1 Articles of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-14, File No. 2-75140 filed December 2, 1981 and incorporated herein). Certificate of Chairman and Chief Executive Officer and Assistant Secretary evidencing amendment of Articles of Incorporation by written consent of shareholders on November 24, 1987 and filed with the Secretary of State of the State of California on December 7, 1987 (filed as Exhibit 3.1 to the Company's Annual Statement on Form 10-K for the year ended December 31, 1987 and incorporated herein). Certificate of Chairman and Chief Executive Officer and Assistant Secretary evidencing amendment of Articles of Incorporation adopted at Annual Shareholders Meeting on May 19, 1988 and filed with the Secretary of State of the State of California (filed as Exhibit 3.1 to the Company's Annual Statement on Form 10-K for the year ended December 31, 1988 and incorporated herein).

3.2 Bylaws, as amended (filed as Exhibit 3(b) to the Company's Registration Statement on Form 10, File No. 0-10232 filed in March, 1982 and incorporated herein). Certificate of Assistant Secretary evidencing amendment adopted at Annual Shareholders Meeting on May 16, 1985 (filed as Exhibit 3.2 to the Company's Annual Statement on Form 10-K for the year ended December 31, 1985 and incorporated herein).

10.1 1982 Stock Option Plan and Agreement, as amended (filed as Exhibit 10.1 to Company's Annual Statement on Form 10-K for the year ended December 31, 1982 and incorporated herein).

10.2 1991 Stock Option Plan and Agreement (filed as Exhibit 10.4 to Company's Annual Statement on Form 10-K for the year ended December 31, 1991 and incorporated herein).

10.3 Lease for ground and eighth floor premises at 1801 Century Park East, Los Angeles, California (filed as Exhibit 10.3 to Company's Annual Statement on Form 10-K for the year ended December 31, 1993 and incorporated herein). Lease for office at 28310 Roadside Drive, Suite 152, Agoura Hills, California.

11 Statement regarding computation of per share earnings (see Note 1 of the Notes to Consolidated Financial Statements at page 58 of this report on Form 10-K)

21 Subsidiary of Registrant

27 Financial Data Schedule

SUBSIDIARY OF REGISTRANT

The only subsidiary of Registrant is First Regional Bank, a California state chartered bank.

EXHIBIT 21

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