FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SAN FRANCISCO CO

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-10198

THE SAN FRANCISCO COMPANY
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3071255 (I.R.S. Employer Identification No.)
550 Montgomery Street, 10th Floor San Francisco, California (Address of principal executive office)	94111 (Zip Code)

Registrant's telephone number, including area code: (415) 781-7810

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

Title of Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 Par Value	None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant on March 22, 1999, was $19,037,269 computed by reference to the higher of the bid price or the price at the last sale of the Class A Common Stock as reported by First Security Van Kasper, the sole market maker of such stock.

The Registrant had 31,728,782 shares of Class A Common Stock outstanding on March 22, 1999.

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THE SAN FRANCISCO COMPANY

1998 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1 - BUSINESS

The Company and the Bank

The San Francisco Company (the "Company"), a Delaware corporation, is a one-bank holding company registered under the Bank Holding Company Act of 1956, for Bank of San Francisco (the "Bank"), a California state chartered bank organized in 1978 whose deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"), subject to applicable limits. The Company was organized in California in 1981 and reincorporated in Delaware in 1988. The Bank, which the Company acquired through a reorganization in 1982, is the only direct subsidiary of the Company and accounts for over 99% of the consolidated assets of the Company. The Bank delivers its services from its headquarters building, Bank of San Francisco Building, at 550 Montgomery Street (at Clay Street), San Francisco, California 94111, and its phone number is (415) 781-7810. The Bank's web-site on the Internet is banksf.com.

The Company's Class A Common Stock, par value $0.01 per share (the "Common Stock" or "Common Shares"), is not traded on an exchange. The sole market maker of the Common Stock is First Security Van Kasper. The bid price for the Common Stock as reported by First Security Van Kasper on March 22, 1999 was $0.60 per share.

The Bank specializes in providing private banking as well as business banking for individuals, their businesses and other businesses, primarily in the Northern California banking market.

See "-- Private and Business Banking." In addition, the Bank provides specialized services related to homeowners associations (see "-- Association Bank Services"), brokerage services (see "-- Stock Option Services") and escrow services (see "--Escrow Services").

The Bank's primary market area, Northern California, has a highly diversified economic base, including high technology electronic manufacturing, scientific research, real estate construction, retail and wholesale trade and transportation. Much of the diversity in the economic base is attributable to the service sector, including finance, accounting, insurance, communications, law, consulting and tourism. While many of the Bank's loans have been and continue to be collateralized by real estate, the Bank's deposit and lending relationships have not been concentrated among borrowers within a specific trade, service or industrial activity.

Private and Business Banking

Private and Business Banking combines highly personalized service with an array of products to meet the complex needs of its primary clients -- executives, professionals and high net worth or high income individuals, and the private and closely held businesses with which these individuals are associated. The Bank has specialized in private banking since it began operations in 1979.

The Bank's marketing strategy focuses on establishing banking relationships with privately and closely held businesses, and their owners and operators whose financial needs require customized banking programs. At December 31, 1998 and 1997, Private and Business Banking customers deposits totaled approximately $41.2 million and $34.7 million, representing approximately 43.1% and 40.1% of the Bank's total deposits, respectively. At December 31, 1998 and 1997, Private and Business Banking customers loans totaled approximately $72.2 million and $49.8 million, representing approximately 97.6% and 96.0% of the Bank's total loans, respectively.

Association Bank Services

Established in 1987, Association Bank Services (the "ABS") provides deposit and financial management services to homeowner and community associations throughout California. The Bank offers its ABS customers deposit accounts for operating funds and reserves, loans, assessment collection services and investment services. In addition, the Bank offers lockbox services, courier services, expedited deposit processing and special handling of accounts. Deposits from homeowner and community associations are a key component of the Bank's core deposit base. At December 31, 1998 and 1997, ABS customers' deposits totaled approximately $19.2 million and $17.2 million, representing approximately 20.0% and 19.9% of the Bank's total deposits, respectively. At December 31, 1998 and 1997, ABS customers loans totaled approximately $1.5 million and $1.6 million, representing approximately 2.0% and 3.1% of the Bank's total loans, respectively.

The Bank also offers a certificate of deposit placement service (the "CD Placement") designed to invest a customer's funds in other insured financial institutions up to a maximum of $100,000 per institution (for which the Bank is paid a fee based on the average CD Placement investments outstanding).

Although a substantial portion of the individual ABS deposit accounts are fully insured and, therefore, could generally be considered stable, a small number of ABS customer account managers control significant numbers of such individual accounts, thus concentrating control of such deposits in the discretionary authority of a few individuals. Accordingly, a decision by several such account managers to withdraw their business from the Bank could have a significant impact on the Bank's core deposits. As of December 31, 1998, no one account manager controlled more than 2% of total deposits.

Stock Option Services

Begun in 1984, Stock Option Services provides a range of discount brokerage services, combined with a program to facilitate the exercise of stock options by employees of publicly held companies.

The stock option exercise program offers employees the means to exercise, hold or sell their option shares at a minimum cost. In this program, the Bank makes loans to holders of stock options of publicly traded companies for the purpose of enabling them to exercise their options and sell all or a portion of the stock acquired. The Bank works with stock transfer and employee benefits officers to coordinate the payment of the option exercise price, the provision for the payment of taxes related to the exercise of such options, the issuance and subsequent sale of the underlying stock and the distribution of the net sale proceeds. At December 31, 1998 and 1997, the Bank had total stock option loans outstanding of $253,000 and $500,000, respectively. Such amounts can vary substantially based upon the timing of the exercise of stock options as well as market conditions.

Historically, Stock Option Services has been a substantially self-funding activity with associated deposit balances closely tracking outstanding loan balances. Because Stock Option Services' deposits are primarily non-interest bearing demand deposit accounts, the Bank benefits from them by reducing its cost of funds. Management believes that most of these clients are in industries that continue to present growth opportunities. Accordingly, stock option programs should represent a continuing component of such clients' overall compensation programs. In addition, the Bank is expanding its marketing efforts to diversify its client base to increase revenue and reduce volatility. The Bank is also marketing its discount brokerage services to those clients presently using stock option services.

Historically, approximately 35% of Stock Option Services' clients have generated over 90% of the fee income from stock option transactions. These transactions accounted for 57% of total commission revenue in 1998. These clients are the focus of Stock Option Services' customer service activities; however, this concentration of clients exposes the Bank to the possibility of losing significant non-interest income if it loses some of these clients. Total commission revenue generated by Stock Option Services was $1.1 million, $1.4 million and $1.2 million for 1998, 1997 and 1996, respectively, representing 11.3%, 12.4%, and 16.1% of the Company's gross revenue for the same periods, respectively. The earnings generated by Stock Option Services is highly dependent on the trading prices of the stock underlying the stock options of its clients and the overall condition of the stock markets in which they trade. Management considers the fee income produced by Stock Option Services to be volatile, and there can be no guarantee that income levels from this activity can be maintained at current levels.

Escrow Services

Begun in 1989, the Corporate Escrow Services Department (the "Escrow") provides primarily non-real estate escrow services, including the temporary deposit and investment of funds, deposit of securities, personal property and other assets by attorneys, business brokers and clients for business transactions, disputes, life care facilities, and court actions. Escrow services has always made a modest contribution to operating profit and provided deposits to fund other business activities. At December 31, 1998 and 1997, Escrow deposits totaled approximately $19.2 million and $15.3 million, representing approximately 20.1% and 17.7% of the Bank's total deposits, respectively.

Trust Services

The Bank was granted trust powers in late 1989. The Bank suspended its trust activities in 1996 because the trust activities never achieved the size necessary to generate the revenues required to cover direct costs. The Bank will consider the resumption of trust activities in the future.

Financial Information Regarding the Operations of the Company

Financial information regarding the operations of the Company and the Bank is disclosed in the Company's consolidated financial statements.

Competition

The banking business in California, and specifically in the market area served by the Bank, is highly competitive. The Bank competes for loans and deposits with other commercial banks, including some of the country's and the world's largest banks, savings and loan associations, finance companies, money market funds, brokerage houses, credit unions, insurance companies, and non-financial institutions. By virtue of their larger amounts of capital, many of the financial institutions with which the Bank competes have significantly greater lending limits than the Bank and perform certain functions, including corporate trust services and international banking services, which are not presently offered directly by the Bank (although such functions may be offered indirectly by the Bank through correspondent institutions).

The Bank's strategy for meeting its competition has been to concentrate on discrete segments of the market for financial services, particularly small to medium-sized businesses and their owners, professionals, corporate executives, affluent individuals, and homeowner and community associations, by offering specialized and personalized banking and brokerage services to such clients.

Competitive conditions continue to intensify as legislation is proposed or enacted which has the effect of dissolving historical barriers that limit participation in certain markets, increasing the cost of doing business for banks, or affecting the competitive balance between banks and other financial institutions. Technological and economic factors can also be expected to have an ongoing impact on competitive conditions. It is difficult to predict the impact that these and other changes may have in the future on commercial banking in general or on the business of the Bank in particular.

Correspondent Banks

The Bank has correspondent relationships with twelve banks for the purpose of check clearing, selling federal funds, buying and selling investment securities, safekeeping of investment securities and related record keeping, stock registration and stock transfer services, and issuance of letters of credit.

Employees

At December 31, 1998, the Company and the Bank employed 56 persons, consisting of 54 full-time and 2 part-time employees.

Regulation and Supervision

Bank holding companies and banks are subject to extensive supervision and regulation. The following summaries of certain statutes and regulations affecting banks and bank holding companies do not purport to be complete. Such summaries are qualified in their entirety by reference to such statutes and regulations.

Various other legislation, including proposals to overhaul the bank regulatory system and to limit the investments that a depository institution may make with insured funds, is introduced into Congress from time to time. Such legislation came close to passage in 1998, and several such bills are presently pending. The Company cannot determine the ultimate effect that any potential legislation, if enacted, would have upon the financial condition or operations of the Company and the Bank, but the general effect of recent legislation has been to increase competition among various types of financial institutions.

On December 4, 1998, the Federal Reserve Board announced that on November 30, 1998, Mr. Putra Masagung, the beneficial owner of 45.5% of the Company's Common Stock and PT Gunung Agung, the beneficial owner of 52.3% of the Company's Common Stock entered into a Voting Trust Agreement. Mr. Masagung and PT Gunung Agung retained their individual beneficial interest but collectively transferred voting control of 97.8% of the Company's Common Stock to a Trustee under the terms of a Voting Trust Agreement (the "Agreement") effective January 4, 1999 which has been filed with the Securities and Exchange Commission. Under the terms of the Agreement, the Trustee shall dispose of the shares upon instructions from Mr. Masagung and PT Gunung Agung.

Since February 11, 1999, the Company and the Bank have not been operating under any regulatory orders or agreements.

The Company

The Company, as a bank holding company, is subject to regulation under the U.S. Federal Bank Holding Company Act of 1956, as amended (the "Holding Company Act"), and is registered with the Federal Reserve Board and subject to the supervision of the Federal Reserve Bank of San Francisco (collectively, the "FRB"). It is the policy of the FRB that each bank holding company serve as a source of financial and managerial strength to its subsidiary bank(s) and conduct its operations in a safe or sound manner.

The Holding Company Act requires prior FRB approval for the acquisition of control over another bank, and generally restricts the Company from engaging in any business other than managing or controlling banks or furnishing services to its subsidiaries. Among the exceptions to such restrictions are certain activities which, in the opinion of the FRB, are so closely related to banking or to managing or controlling banks as to be a proper incident to banking.

The Company and its subsidiaries are, with certain exceptions, prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or provision of services. The FRB is, however, becoming increasingly receptive to pricing discounts conditioned upon the Bank customer purchasing bundled groups of services. In addition, applicable federal law imposes certain restrictions on transactions between the Bank and its affiliates. As an affiliate of the Bank, the Company is subject, with certain exceptions, to the provisions of federal law imposing limitations on, and requiring collateral for, loans by the Bank to any affiliate.

The Bank

The Bank is a California state-chartered bank and is subject to regulation, supervision and periodic examination by the California Department of Financial Institutions (the "DFI") and the FDIC. The Bank is not a member of the Federal Reserve System, but is nevertheless subject to certain regulations of the FRB. The Bank's deposits are insured by the FDIC to the maximum amount permitted by law, which is currently $100,000 per depositor in most cases.

The regulations of state and federal bank regulatory agencies govern many aspects of the Bank's business and operations, including but not limited to, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, the payment of dividends, and potential expansion.

The Bank is subject to the California banking laws and to regulation, supervision and periodic examination by the DFI. The California banking laws, among other matters, regulate: (a) the conduct of the banking business; (b) accounts, including types of deposit accounts and claims made thereon; (c) loans, including limitations on obligations to the bank by borrowers in general and by the bank's insiders; and (d) mergers, consolidations and conversions of banks, including changes in control of banks. California interstate banking and branching law allows the interstate acquisition of whole banks which have been in existence for more than five years and authorizes expanded correspondent bank agency relationships among affiliated and unaffiliated insured banks.

The Federal Reserve Act and FRB regulations, some of which are applicable to state nonmember banks under regulations of the FDIC, place limitations and conditions on loans or other extensions of credit to: a bank's or bank holding company's executive officers, directors and principal shareholders ("insiders"); any company controlled by any such insiders; or any political or campaign committee controlled by such insiders.

Effective January 1, 1999, the FDIC's rules limiting the non-agency activities of state-chartered insured banks and their subsidiaries to those activities permissible to national banks were revised and liberalized. Such activities, including real estate investment and securities activities, are subject to a variety of notice or application procedures and general and specific safety and soundness restrictions.

In response to various business failures in the savings and loan and commercial banking industries, Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"). Among other things, FDICIA addresses prompt corrective action by the federal bank regulatory agencies for troubled institutions. FDICIA also places restrictions on the activities of state-chartered institutions and on institutions failing to meet minimum capital standards and provides enhanced enforcement authority for the federal banking agencies.

FDICIA restricts the acceptance of brokered deposits by insured depository institutions that are not well capitalized. It also places restrictions on the interest rate payable on brokered deposits and the solicitation of such deposits.

Under FDICIA, the FDIC has adopted a revised risk-based assessment system for deposit insurance, under which depository institutions are charged between 0 and 27 basis points for every $100 in insured domestic deposits depending on such institution's capital level and supervisory rating. The Bank's present assessment is zero. The Bank is assessed a surcharge for the Financing Corporations (the "FICO") bonds which were issued to help fund the cost associated with the savings and loan crisis. The Bank is presently assessed an annual FICO surcharge of approximately 0.012% of average deposits through 1999 and 0.0243% of average deposits from 2000 through 2017.

Compliance of the Bank and the Company with Year 2000 data processing matters is discussed elsewhere in this document. The

Bank is monitoring the promulgation by the federal bank regulatory agencies of "know your customer" guidelines.

Capital Adequacy Requirements

FDICIA establishes five capital categories for insured depository institutions: (a) Well Capitalized; (b) Adequately Capitalized; (c) Undercapitalized; (d) Significantly Undercapitalized; and (e) Critically Undercapitalized. All insured institutions (i.e., the Bank) are barred from making capital distributions or paying management fees to a controlling person (i.e., the Company) if to do so would cause the institution to fall into any of the three undercapitalized categories.

FDICIA also provides that if a well or adequately capitalized or undercapitalized institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice, its capital category may be downgraded to achieve a higher level of regulatory scrutiny and prompt corrective action.

Minimum Leverage Ratio. The FRB and the FDIC have established a minimum leverage ratio of 3.0% Tier 1 capital to total quarterly average assets for companies that have received the highest composite regulatory rating (a regulatory measurement of capital, assets, management, earnings and liquidity) and that are not anticipating or experiencing any significant growth. All other institutions may be required to maintain a leverage ratio of at least 100 to 200 basis points above the 3.0% minimum.

Risk-based Capital Ratio. The FRB and the FDIC have established regulations that require companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%. The risk-based capital ratio is calculated with reference to risk-weighted assets, including both on and off-balance sheet exposures, which are multiplied by certain risk weights as defined by regulation. At least one-half of the qualifying capital must be in the form of Tier 1 capital.

In certain circumstances, the agencies which regulate financial institutions may determine that the capital ratios for a financial institution must be maintained at levels which are higher than the minimum levels required by the guidelines. A financial institution that does not achieve and maintain the required capital levels may be issued a capital directive by the regulatory authorities to ensure the maintenance of required capital levels.

The Company and the Bank are in compliance with these capital adequacy requirements. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations -

Capital" for a discussion regarding the Company's and Bank's present capital condition.

Prompt Corrective Action. As noted above, FDICIA amended the Federal Deposit Insurance Act (the "FDIA") to establish closer monitoring of insured depository institutions and to enable prompt corrective action by regulators when an institution begins to experience difficulty. The general thrust of these provisions is to impose greater and earlier scrutiny and more restrictions on institutions as their requirements for additional capitalization increases. Affected institutions may, for example, be required to: sell additional capital, including voting shares; restrict transactions with affiliates; restrict interest rates paid on deposits; restrict asset growth or reduce total assets; terminate, reduce or alter any risky activities; elect new directors and install new management; cease accepting deposits from correspondent depository institutions; or divest or liquidate certain subsidiaries. A parent holding company of an undercapitalized bank is expected to guarantee that the bank will comply with the bank's capital restoration plan until the bank has been adequately capitalized, on the average, for four (4) consecutive quarters. A bank holding company may be required to divest itself of any affiliate of the institution (other than another insured depository institution) under certain conditions.

ITEM 2 - PROPERTIES

The following table sets forth certain information concerning the Bank's sole real property lease commitment:

Banking Offices	Rentable Square Footage	Expiration of Current Lease	Renewal Period(s)
550 Montgomery Street San Francisco, CA	89,000	2010	One option for an additional 25 years

The Bank's headquarters at 550 Montgomery Street is an 89,000 square foot historically significant office building on Clay and Montgomery Streets in San Francisco's Financial District. The building serves as the administrative and banking headquarters of the Company and the Bank. The Bank currently subleases or has available for sublease 57,000 square feet.

As of December 31, 1998, the Company's premises and equipment, net of accumulated amortization and depreciation, is comprised of leasehold improvements totaling $5.0 million, lease interests totaling $2.0 million, and furniture and equipment totaling $500,000. Depreciation on furniture, fixtures and equipment is computed on the straight-line method over the estimated useful life of each type of asset. Estimated useful lives are from three to seven years. Leasehold improvements are amortized over the term of the applicable lease, including lease extensions, or their estimated useful lives, whichever is shorter.

ITEM 3 - LEGAL PROCEEDINGS

Litigation

Because of the nature of its business, the Company and its subsidiaries, including the Bank, are from time-to-time a party to legal actions. Based upon information available to the Company and the Bank, and its review of such outstanding claims to date, management believes the ultimate liability relating to these actions, if any, will not have a material adverse effect on the Company's liquidity, consolidated financial condition or results of operations.

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

The Company did not hold a 1998 Annual Meeting. The 1999 Annual Meeting has been set for May 19, 1999, 10:00 am, at the Company's headquarters, 550 Montgomery Street, 11th floor, San Francisco, California.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

The Company's Common Stock is not listed on any exchange or the National Association of Securities Dealers' Automated Quotation System. First Security Van Kasper of San Francisco, California is the sole market maker in the Company's Common Stock. The following table sets forth the high and low bid prices for the Common Stock based upon information provided by First Security Van Kasper market from January 1997 to December 31, 1998. The last known trades of the Common Stock occurred on December 11, 1998 for 40,000 shares at a price of $0.35 per share.

	1998		1997	
Quarter	High	Low	High	Low
First	$0.60	$0.45	$0.40	$0.40
Second	0.60	0.45	0.40	0.40
Third	0.60	0.45	0.40	0.40
Fourth	0.45	0.35	0.55	0.40

None of the Company's preferred stock was listed on any exchange or traded in any other public market since 1988.

Holders

As of December 31, 1998, the number of holders of record of the Company's Common Stock and Series B Preferred Shares was 405 and 11, respectively, which management believes is in each case less than the number of actual beneficial owners because of the number of shares held by known nominees.

Dividends

The Bank is subject to certain regulatory restrictions regarding payment of dividends to the Company as set forth in the California Financial Code.

The Company is subject to dividend restrictions under the Delaware General Corporation Law and Federal regulations. The Company's Series B Preferred Shares participate equally, share for share, in cash dividends paid on the Common Shares in addition to receiving the cash dividends to which they are entitled. The Board of Directors declared a cash dividend on the Series B Preferred Stock for stockholders of record on July 1, 1998 that was paid on July 15, 1998 totaling $3.92 per share and for stockholders of record on December 31, 1998 that was paid on February 26, 1999 totaling $0.28 per share.

ITEM 6 - SELECTED FINANCIAL DATA

The following table sets forth certain selected consolidated financial data of the Company at and for the years ended December 31:

(Dollars in Thousands except for per share data)	1998	1997	1996	1995	1994
FINANCIAL CONDITION DATA:					
Total assets	$140,136	$116,617	$104,001	$114,862	$156,780
Total loans	73,980	51,924	43,762	53,208	106,452
Total securities held-to-maturity	3,846	5,864	6,943	--	7,859
Total securities available-for-sale	34,235	32,669	28,348	6,536	2,211
Total deposits	95,688	86,519	91,166	105,673	147,148
Other borrowings	20,000	10,000	--	--	4,070

Shareholders' equity	22,704	17,570	11,064	6,880	2,129
OPERATING DATA:					
Total interest income	$8,782	$8,026	$7,242	$10,691	$12,651
Total interest expense	3,411	2,890	3,127	4,415	4,863
Net interest income	5,371	5,136	4,115	6,276	7,788
Provision (adjustment) for loan loses	(1,627)	(2,820)	--	500	3,799
Net interest income after provision (adjustment) for loan losses	6,998	7,956	4,115	5,776	3,989
Total non-interest income	3,891	3,502	3,327	5,014	2,135
Total non-interest exp.	6,907	7,509	6,998	10,301	39,018
Income(loss) before taxes	3,982	3,949	444	489	(32,894)
Provision (benefit) for income taxes	(1,060)	(1,494)	(258)	153	142
Net income (loss)	$5,042	$5,443	$702	$336	$(33,036)
OTHER DATA:					
Return on average assets	4.0%	5.0%	0.7%	0.3%	(16.8)%
Return on average equity	26.7	45.2	7.9	6.8	(183.0)
Average equity to average assets	15.0	11.0	8.3	3.7	9.2
Equity to assets	16.2	15.1	10.6	6.0	1.4
Interest rate spread	3.7	4.0	3.7	4.3	5.0
Net interest margin	4.7	5.1	4.4	5.0	5.1
Non-performing assets to total assets	0.0	0.5	8.2	13.1	12.8
Average interest-earning assets to average interest-bearing liabilities	133.7	138.2	119.3	121.5	105.1
Non-interest expenses to average assets	5.5	6.8	5.0	6.0	19.8
Net interest income, after provision (adjustment) for loan losses, to non-interest expense	101.3	105.9	58.8	56.1	10.2
Loan charge-offs net of (recoveries) as a percent of average loans	(0.1)	(0.8)	0.6	1.4	4.4
Allowance for loan losses as a percent of loans	2.2	6.2	12.9	11.1	6.2
PER SHARE DATA:					
Common shares outstanding, end of period	31,728,782	31,723,782	28,775,995	5,765,978	5,766,008
Preferred shares outstanding, end of period	15,869	15,869	15,869	231,291	16,291

Common Shares:					
Book value per common share	$0.71	$0.55	$0.38	$0.43	$0.37
Income (loss) per weighted average common share					
Basic	0.16	0.18	0.12	0.05	(10.73)
Diluted	0.15	0.17	0.03	0.03	(10.73)

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

This document contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, the Company's and Bank's ability to implement their respective long-term business plan, the economy in general and the condition of stock markets upon which the Company's stock brokerage business and fee income is dependent, the continued services of the Company's and Bank's key executives and managers, the real estate market in California and other factors beyond the Company's and Bank's control. Such risks, uncertainties and factors, including those discussed herein, could cause actual results to differ materially from those indicated. Readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. The Company and the Bank undertake no obligation to revise these forward-looking statements to reflect subsequent events or circumstances. Readers are also encouraged to review the Company's publicly available filings with the Securities and Exchange Commission.

Overview

The following discussion relates to information about the financial condition and results of operations of the Company and the Bank that might not otherwise be apparent from a review of the financial statements contained under ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. In addition to historical information, this discussion and analysis includes certain forward-looking statements regarding events and trends which may affect the Company's future results. Such statements are subject to risks and uncertainties including, but not limited to, those described in this discussion and analysis, as well as those described in ITEM 1 - BUSINESS section of this report that could cause actual results to differ.

The Company recorded net income of $5.0 million for the year ended December 31, 1998, following net income of $5.4 million in 1997 and $702,000 in 1996. The net income in 1998 and 1997 was comprised primarily from four sources; 1) core operating earnings, 2) gain on sale of assets, 3) an adjustment for loan loss provision, and 4) the recognition of the tax benefit of certain deferred tax assets. The net income in 1996 resulted primarily from the sale of problem assets.

Results of Operations - Years Ended December 31, 1998, 1997 and 1996

Net Interest Income

One of the fundamental measures of the Bank's results of operations is net interest income. Net interest income is the difference between the combined yield earned on interest earning assets and the combined rate paid on interest bearing liabilities.

The following table presents the consolidated average balance sheets of the Company, together with the total dollar amounts of interest income and expense, and weighted average interest rates for each of the years in the three year period ended December 31, 1998. Where possible, the average balances are calculated on a daily average basis. When this information is not available, average balances are calculated on a monthly basis.

	1998			1997			1996		
(Dollars in Thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Interest-earning assets:									
Federal funds and time deposits	$21,038	$1,133	5.4%	$19,914	$1,114	5.6%	$22,452	$1,248	5.6%
Investment securities	37,404	2,262	6.0	38,434	2,345	6.1	29,128	1,752	6.0
Loans, net (1)	56,225	5,387	9.6	42,389	4,567	10.8	42,012	4,242	10.1
Total interest-earning assets	114,667	8,782	7.7	100,737	8,026	8.0	93,592	7,242	7.7%
Non-interest earning									

assets	10,956			9,134			13,365		
Total assets	$125,623			$109,871			$106,957		
Liabilities and Equity									
Interest-bearing liabilities:									
Interest-bearing deposits	$75,146	2,778	3.7%	$72,299	$2,798	3.9	$78,403	3,124	4.0
Other borrow-ings	10,644	633	6.0	575	34	6.0	38	3	7.9
Total interest-bearing liabil-ities	85,790	3,411	4.0	72,874	2,832	4.0	78,441	3,127	4.0
Series B Preferred Stock				111	58	52.3	--	--	--
Non-interest bearing lia-bilities	20,982			24,959			19,660		
Stock-holders' equity	18,851			11,927			8,856		
Total lia-bilities and stock-holders' equity	$125,623			$109,871			$106,957		
Net interest income		$5,371			$5,136			$4,115	
Primary interest spread			3.7%			4.0%			3.7%
Margin as a percent of earning assets:									
Interest income			7.7%			8.0%			7.7%
Interest expense			3.0			2.9			3.3
Net interest margin			4.7%			5.1%			4.4%

(1) Non-performing loans have been included in the average loan balances. Interest income is included on non-accrual loans only to the extent to which cash payments have been received and full principal repayment is probable.

Net interest income is dependent on the average balances of interest earning assets and interest bearing liabilities and the rates earned on interest sensitive assets and the rates paid on interest sensitive liabilities. See "Asset Liability Management" for more discussion of the management of net interest income.

The dollar amount of interest income and interest expense fluctuates depending on changes in the respective interest rates and on changes in the respective amounts (volume) of the Bank's earning assets and interest bearing liabilities. For each category of interest earning asset and interest bearing liability, information is provided in the following table for changes attributable to (i) changes due to volume (change in average balance multiplied by prior year's rate), and (ii) changes in rate (changes in rates multiplied by prior year's average balances). Changes attributable to the combined impact of volumes and rates have been allocated pro-rata to each category.

	1998 versus 1997			1997 versus 1996		
(Dollars in Thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Federal funds and time deposits	$(42)	61	19	$8	$(142)	$(134)
Investment securities	(21)	(62)	(83)	26	567	593
Loans, net	(550)	1,370	820	286	39	325
Total interest-earning assets	(613)	1,369	756	320	464	784
Interest-bearing liabilities:						
Interest-bearing deposits	(59)	39	(20)	(92)	(234)	(326)
Other borrowings	(83)	624	541	1	88	89
Total interest bearing liabilities	(142)	663	521	(91)	(146)	(237)
Change in net interest income	$(471)	$706	$235	$411	$610	$1,021

The Company's interest income increased during 1998 from 1997 primarily as a result of the increase in loans outstanding. Interest income and dividends on Federal funds sold and investment securities was $3.4 million in 1998 compared to $3.4 million in 1997 and $3.0 million in 1996. Average portfolio balances were $58.4 million in 1998 compared to $58.3 million in 1997 and $51.6 million in 1996, and average portfolio yields were 5.8%, 5.9%, and 5.8% in 1998, 1997, 1996, respectively.

The Company's interest income increased during 1997 from 1996 primarily as a result of the increase in interest-bearing investment securities, increase in the yield on loans from an increase in earning loans, and a decrease in interest-bearing liabilities.

Interest expense for 1998 was $3.4 million compared to $2.9 million for 1997 and to $3.1 million for 1996. The increase was primarily attributable to an increase in average other borrowings to $20.0 million at the end of 1998 from $10.0 million at the end of 1997 and zero at the end of 1996. The average cost of deposits and borrowings for 1998 was 4.0% as compared to 4.00% for both 1997 and 1996.

Provision (Adjustment) for Loan and Lease Losses

During 1998, 1997, and 1996, the Bank reduced the allowance for loan and lease losses by $1.6 million, $2.8 million, and zero, respectively. The adjustment in 1998 reduced the total allowance for loan and lease losses as a percent of total loans to 2.2% at the end of 1998 from 6.2% at the end of 1997. The adjustment in 1997 reduced the total allowance for loan and lease losses as a percent of total loans to 6.2% at the end of 1997 from 12.9% at the end of 1996. The reduction in the Company's allowance for loan and lease losses to a level that management believes is adequate was based on many factors that are more fully discussed under "Loans -- Allowance for Loan and Lease Losses".

Non-Interest Income

Non-interest income increased $389,000 or 11.1% in 1998 as compared to 1997, primarily as a result of the reinstatement of a note receivable related to a loan previously charged-off as other income. Income from real estate rental income increased in 1998 compared to 1997 as a result of the increase in the rental of available space in the Bank's headquarter building. In addition, other services charges and fees increased as a result of higher volumes transaction volumes. The net increase in non-interest income in 1998 compared to 1997 included a decline in brokerage commissions as a result of a decline in transaction volumes due primarily to the decline in stock values during the second half of 1998.

Non-interest income increased $175,000 or 5.3% in 1997 as compared to 1996, primarily as a result of an increase in stock option and brokerage fees, other service charges and fees and other income. Real estate rental income and gain on sale of assets were lower in 1997 than in 1996 due primarily to lower other real estate owned assets.

The following table provides a detail of non-interest income for the years ended December 31:

(Dollars in Thousands)	1998	1997	1996
Stock option commissions and brokerage fees	$1,051	$1,416	$1,201
Real estate rental income	1,114	896	1,028
Service charges and fees	683	603	444
Other income	563	116	14
Loss on sale of investment securities, net	--	(6)	--
Gain on sale of other assets, net	480	477	640
Total non-interest income	$3,891	$3,502	$3,327

Non-Interest Expense

For the year ended December 31, 1998, non-interest expenses decreased $602,000, or 8.0%, from the year ended December 31, 1997. The reduction was primarily attributed to an adjustment to the accrual for legal related costs that reduced other operating expenses, lower professional fees, and lower costs related to problem assets.

For the year ended December 31, 1997, non-interest expenses increased $511,000, or 7.3%, from the year ended December 31, 1996. The increase was primarily attributed to higher salaries and related benefits which was partially offset by reductions in other costs related to credit quality, professional fees, equipment expense, and insurance.

The following table provides a detail of non-interest expense for the years ended December 31:

(Dollars in Thousands)	1998	1997	1996
Salaries and related benefits	$4,272	$4,203	$3,252
Occupancy expense	1,142	1,192	1,165
Data processing	403	431	304
Professional fees	398	530	629
Insurance premiums	218	228	319
Equipment expense	176	198	345
FDIC insurance premiums	24	98	204
Other operating expenses	274	629	780
Total non-interest expense	$6,907	$7,509	$6,998

The increase in salaries and related expenses in 1998 of $69,000 compared to 1997 was primarily the result of an increase in staffing levels. The increase in salaries and related expenses in 1997 of $951,000 to $4.2 million from $3.3 million in 1996 was primarily the result of increases in incentive compensation accruals. The incentive compensation accruals increased based on the Company's strong financial performance in 1997. The compensation expense included incentives costs of $960,000, $970,000, and $17,000 for 1998, 1997 and 1996, respectively.

The Company's expenses for professional services were $398,000 in 1998 compared to $530,000 in 1997, and $629,000 in 1996. The Company includes in professional fees the costs of legal, accounting, and management consulting services. Professional service expenses declined in 1998, 1997 and 1996 primarily as a result of a lower level of professional services required to manage problem assets, the reduction in litigation matters, and the reduction in activities related to regulatory concerns and recapitalization.

The decline in other operating costs of $355,000 in 1998 compared to 1997 resulted primarily from the reduction of $225,000 in an accrual for legal related costs and a reduction in costs related to non-performing assets by $248,000 due primarily to a write-down of certain other real estate owned (the "OREO") properties in 1997. The decline in other operating costs of $151,000 in 1997 resulted primarily from reductions in real estate owned property tax expense and provisions for declines in the market value of other real estate owned assets.

Provision (Benefit) for Income Taxes

The income tax benefit was $1,060,000 for 1998 compared to $1.5 million for 1997 and to $258,000 in 1996. The 1998 income tax benefit was related to the Company's recognition of additional net deferred tax asset and a federal income tax refund for taxes paid in prior periods. In 1997, the Company recognized a net deferred tax asset resulting in the tax benefit in the income statement of $1.5 million. The income tax benefit in 1996 resulted from utilizing an acceptable alternative method of calculating the Company's Delaware franchise tax which resulted in a refund of the 1994 and 1995 franchise taxes of $270,000 and a reduction in 1996 period taxes of $141,000.

As required by SFAS No. 109, the realizability of deferred tax assets is reevaluated and the valuation allowance is adjusted so that the resulting level of deferred tax asset will, more likely than not, be realized. As of December 31, 1998, the total net deferred tax asset was $2.1 million. The resulting adjustments to the amount of realizable deferred tax assets of $600,000 in 1998 and $1.5 million in 1997 were made based on a determination that the Company is more likely than not able to utilize deferred tax assets that had previously been reserved.

The Company did not have any current Federal income tax expense in 1998, 1997 and 1996 as a result of tax operating loss carryforwards from losses in previous years. The effective tax rates for the years ended December 31, 1998, 1997 and 1996, were (26.6)%, (37.8)% and (58.1)%, respectively. For each of the years ended December 31, 1998, 1997 and 1996, the federal statutory tax rate applicable to the Company was 34%.

As of December 31, 1998, the Company had temporary differences and net operating loss carryforwards for federal tax purposes of approximately $48.2 million which begin expiring in 2007, and for California tax purposes of approximately $17.5 million, which began expiring in 1998. As of December 31, 1998, the Company had rehabilitation tax credit carryforwards for federal tax purposes of approximately $213,000, which expire in 2004 and 2005, and other tax credits of approximately $276,000 which have no expiration. Utilization of the net operating loss carryforwards, and rehabilitation and minimum tax credit carryforwards may be limited on an annual basis under current tax law due to possible changes in ownership in future years.

Financial Condition

Total Assets

The Company's total assets were $140.1 million as of December 31, 1998 an increase of $23.5 million or 20.2% compared to $116.6 million at December 31, 1997 and compared to $104.0 million at December 31, 1996. In 1997 and 1998, management continued its strategy to build the Bank's loan portfolio.

Liquidity

Liquidity is the Bank's ability to meet the present and future cash needs of its clients for loans and deposit withdrawals. The Bank's liquidity generally increases or decreases as a result of fluctuations in the Bank's loans and deposits. The Bank maintains liquid assets of cash and cash equivalents, such as federal funds sold, at levels management believes are sufficient to meet the liquidity needs of its deposit customers. At December 31, 1998, the Company's cash and cash equivalents were $14.9 million or 15.6% of total deposits and 81.7% of non-interest bearing deposits. At December 31, 1997, the Company's cash and cash equivalents were $17.0 million or 19.7% of total deposits and 86.3% of non-interest bearing deposits.

In 1998, the Company's principal source of liquidity was repayment of loans, loan participations and sales, maturity or sale of investment securities, new core deposits, long and short-term secured borrowing, and earnings. The Bank's access to some of these sources of liquidity may be limited for various reasons including some contractual maturities of more than two years, the inability of borrowers to repay loans according to the contractual terms, and limited collateral available to pledge under other borrowing arrangements.

Investment Activities

The Company adopted the Statement of Financial Accounting Standards (the "SFAS") No. 115, "Accounting for Certain Investments in Debt & Equity Securities" which requires that all securities be classified, at acquisition, into one of three categories: held-to-maturity securities, trading securities, and available-for-sale securities. The Bank determines the classification of all securities at the time of acquisition. In classifying securities as being held-to-maturity, trading, or available-for-sale, the Bank considers its collateral needs, asset/liability management strategies, liquidity needs, interest rate sensitivity and other factors in determining its intent and ability to hold the securities to maturity.

Investment securities held-to-maturity may include United States Treasury and Federal agency securities, investments in certificates of deposit, and mortgage-backed securities. The objectives of these investments are to increase portfolio yield, and to provide collateral to pledge for federal, state and local government deposits and other borrowing facilities. The investments held-to-maturity have an average term to maturity of 19 and 31 months at December 31, 1998 and 1997, respectively, and are carried at amortized cost. At December 31, 1998 and 1997, the investment securities held-to-maturity portfolio includes $3.8 million and $5.9 million, respectively, in fixed rate balloon mortgage-backed security investments.

Investment securities available-for-sale may include United States Treasury and Federal agency securities, mutual funds, mortgage-backed securities, and collateralized mortgage obligations. These securities are typically used to supplement the Bank's liquidity portfolio with the objective of increasing yield. Investment securities available-for-sale are accounted for at fair value. Unrealized gains and losses are recorded as a component of accumulated other comprehensive income under shareholders' equity and are not reflected in the current earnings of the Bank. If the security is sold any gain or loss is recorded as a charge to earnings and reclassified from other accumulated comprehensive income. At December 31, 1998 and 1997, the Bank held $34.2 million and $32.7 million as investments available-for-sale, respectively. At December 31, 1998, other accumulated comprehensive income was increased by $79,000, and at December 31, 1997, $16,000 was charged against other accumulated comprehensive income to reflect the market value adjustment net of taxes to the securities available-for-sale.

The tables below sets forth certain information regarding the carrying value and the weighted average yields of the Bank's investment securities portfolio by final contractual maturity at December 31, 1998:

Available for Sale

(Dollars in Thousands)	Within One Year	One to Five Years	More than- Five years	Total Investment Securities
U.S. Treasury	--	$302	--	$302
Average yield	--	5.1%	--	5.1%
Agency securities	--	$13,060	$8,000	$21,060
Average yield	--	5.9%	6.0%	6.0%
Mortgage-backed securities	$2,360	$6,671	$3,842	$12,873
Average yield	6.7%	5.9%	5.8%	6.0%
Total	$2,360	$20,033	$11,842	$34,235
Average yield	6.7%	5.9%	6.0%	6.0%

Held to Maturity

(Dollars in Thousands)	One to Five Years	Total Investment Securities
Mortgage-backed securities	$3,846	$3,846
Average yield	5.4%	5.4%

Expected maturities of mortgage-backed securities can differ from final contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties, and the expected maturity of agency securities can differ from final contractual maturity because the issuer may have the right to prepay the obligation prior to final contractual maturity.

As of December 31, 1998 and 1997, the Bank held 19,710 and 14,986 shares, respectively of stock in the Federal Home Loan Bank of San Francisco (the "FHLB") as a membership requirement with a carrying and market value of $2.0 million and $1.5 million, respectively. The FHLB stock has no term to maturity. As of December 31, 1998 and 1997, the Company and the Bank had no derivative financial instruments.

Loans

The Bank's primary lending activities are in commercial and financial loans made primarily to individuals and businesses in the nine counties surrounding the San Francisco bay area and, to some extent, in the Sacramento metropolitan area. The Bank purchases whole loans and enters into loan participation agreements with other banks in Northern California. The Bank also provides financing for the exercise of employee stock options. The Bank offers credit ranging from $25,000 to $4.0 million depending on loan characteristics such as type, collateral, and terms.

At December 31, 1998 and 1997, the Bank had net loans outstanding of $72.2 million and $48.7 million, respectively, which represented approximately 75.5% and 56.3% of the Bank's total deposits at those dates and approximately 51.5% and 41.8% of the total assets of the Company. During 1998, the Bank originated, purchased and participated in loans outstanding totaling $35.0 million, compared with $24.9 million during 1997. The interest rates charged on the Bank's loans have varied with the degree of risk, maturity, market interest rates, funds availability, and governmental regulations, and have been subject to competitive pressures. Approximately 45.0% of the Bank's loans have interest rates that either adjust quarterly, or more frequently, based on the Bank's prime rate, the eleventh district cost of funds, or the one-year treasury constant maturity, or mature within 90 days.

At December 31, 1998, the Bank had no direct loans to foreign borrowers. Based on the best information available at this time, management does not believe that the uncertainties and volatility in the Asian financial markets will have a direct negative impact on the credit quality of the Bank's assets.

Real Estate Secured Loans The Bank's real estate mortgage loans typically are secured by first or second deeds of trust on either commercial or residential property, and have original maturities of three years or more. Such loans have been non-revolving and generally have had maturities that do not exceed ten years. Repayment terms generally include principal amortization over a negotiated term, with balloon principal payments due upon maturity of the loans. The typical purpose of these loans is the acquisition or re-financing of real property securing the loan. The primary sources of repayment have been the properties' cash flow in the case of commercial real estate loans and the borrowers' cash flow in the case of residential real estate. The secondary source of repayment is the sale of the real property securing the loan. The Bank's real estate secured loans typically bear a floating rate of interest based on either the prime rate, eleventh district cost of funds, or a treasury constant maturity index. The Bank has made and will continue to consider fixed rate loans.

Loans collateralized by real estate represent the Bank's largest loan concentration. As of December 31, 1998 and 1997, approximately 68.7% and 72.8%, respectively, of the Bank's total outstanding loan portfolio was secured by real estate. The Bank mitigates concentration risk by diversifying the type of real estate and the geographic location of the collateral. The largest concentration of real estate loans is collateralized by commercial real estate which is 53.0% of total outstanding loans. The largest concentration of commercial real estate loans by type of underlying collateral is commercial office properties which total $15.2 million or 10.9% of total assets. The largest geographic concentration in San Francisco totals $18.7 million, or 13.4% of total assets. The largest real estate secured loan was approximately 2.8% of total assets as of December 31, 1998. As of December 31, 1998, the Bank's real estate loan portfolio consists primarily of loans with principal amounts of between $100,000 and $4.0 million which generally have terms of maturity of between one and fifteen years.

Secured Commercial and Financial Loans The Bank offers a variety of commercial and financial lending services including revolving lines of credit, working capital loans, homeowners' association loans, and letters of credit. In addition, the Bank may purchase participations in agricultural and other types of loans. These loans are typically secured by cash deposits, accounts receivable, homeowners' association due assessments, equipment, inventories, agricultural crop production, investments, and securities. In underwriting commercial and financial loans, the Bank focuses on the net worth, income, liquidity and cash flows of the borrower or borrowers and the value of the collateral. The Bank's commercial and financial loans typically have a floating rate of interest based on the prime rate. The Bank's commercial and financial loans are primarily in principal amounts of at least $100,000 and generally have terms of one year or less.

As of December 31, 1998 and 1997, the Bank had secured commercial and financial loans outstanding of $10.1 million and $4.9 million constituting approximately 13.6% and 9.5% of the Bank's total outstanding loan portfolio, respectively. As of December 31, 1998, approximately 37.6% of the Bank's gross secured commercial and financial loan commitments were scheduled to mature within one year. As of December 31, 1998, the largest secured commercial and financial loan commitment accounted for less than 2% of the Bank's total assets.

Unsecured Loans The Bank offers a variety of unsecured loans including commercial and financial loans and loans to individuals. The purpose of unsecured loans includes revolving lines of credit for personal investing or cash flow management, home or business improvements, working capital loans, and letters of credit. In underwriting unsecured loans, the Bank focuses on the net worth, income, liquidity and cash flows of the borrower. The Bank's unsecured loans typically have a floating rate of interest based on the prime rate. The Bank's unsecured loans are primarily in principal amounts of at least $100,000 and generally have terms of one year or less. In addition, the Bank will extend unsecured credit under a credit card arrangement as an accommodation for qualifying borrowers. As of December 31, 1998, the Bank had credit card commitments totaling $511,000 with outstanding balances of $163,000.

As of December 31, 1998 and 1997, the Bank's unsecured loan commitments totaled $22.7 million and $15.6 million and had outstanding balances totaling $11.8 million and $8.6 million and were 15.9% and 16.6%, respectively, of the Bank's total outstanding loan portfolio. The Bank's largest unsecured loan accounted for less than 2.0% of total assets as of December 31, 1998.

Other Loans and Leases The Bank offers a variety of other loans and leases including stock option loans and lease financing. The stock option loans typically have a floating rate of interest based on the prime rate and have a term of less than 30 days. See "Stock Option Services." As of December 31, 1998 and 1997, stock option loans totaled $253,000 and $553,000 and were 0.4% and 1.0%, respectively, of the Bank's total loan portfolio. The lease financing receivables totaled $893,000 at December 31, 1998.

Lending Policies and Procedures The Bank's lending policies are established by the Bank's senior management and approved by the Board of Directors of the Bank and its Loan, Investment and Special Assets Committee. The Bank is required by regulation to limit its maximum outstanding balance to any one borrower to 25% of capital and reserves on secured loans and to 15% of capital and reserves on unsecured loans. Secured loans are defined as loans secured by a first deed of trust or possessory collateral. Of the $47.0 million in loan commitments added in 1998, a total of $18.7 million were to borrowers that each have loan commitments from the Bank of $1.0 million or more. Generally, any new or renewing loan where the Bank's total borrower credit exposure is over $1.0 million requires the approval of the Loan, Investment and Special Assets Committee of the Board. All other loans where the total borrower exposure is $1.0 million and less can be approved by executive management.

The Bank assesses the lending risks, economic conditions and other relevant factors related to the quality of the Bank's loan portfolio in order to identify possible credit quality risks. The Bank has engaged a third party professional firm to perform certain agreed upon procedures relating to credit quality and loan classification. These credit review consultants review a sample of loans periodically and report the results of their findings to the Audit Committee of the Bank's Board of Directors. Results of reviews by the credit review consultants as well as examination of the loan portfolio by state and federal regulators are also considered by management in determining the level of the allowance for loan and lease losses.

The Bank may restructure loans as a result of a borrower's inability to service the obligation under the original terms of the loan agreement. Restructures are executed only when the Bank expects to realize more from a restructured loan than from allowing the loan to be foreclosed or pursuing other forms of collection.

When a borrower fails to make a required payment on a loan, the loan is categorized as delinquent. If the delinquency is not cured, workout procedures are generally commenced. If workout proceedings are not successful, collection procedures, which may include collection demands, negotiated restructures, foreclosures and suits for collection, are initiated. In general, loans are placed on non-accrual status after being contractually delinquent for more than 90 days, or earlier if management believes full collection of future principal and interest on a timely basis is unlikely. When a loan is placed on non-accrual status, all interest accrued but not received is charged against interest income. When the ability to fully collect non-accrual loan principal is in doubt, cash payments received are applied against the principal balance of the loan until such time as full collection of the remaining recorded balance is expected. Generally, loans with temporarily impaired values and loans to borrowers experiencing financial difficulties are placed on non-accrual status even though the borrowers continue to repay the loans as scheduled. Such loans are categorized as performing non-accrual loans and are reflected in non-performing assets. Interest received on such loans is recognized as interest income when received. A non-accrual loan is restored to an accrual basis when principal and interest payments are paid current and full payment of principal and interest is probable. Loans that are well secured and in the process of collection remain on accrual status.

Composition of Loan and Lease Portfolio The composition of the Bank's loan portfolio at December 31, is summarized as follows:

(Dollars in Thousands)	1998	1997	1996	1995	1994
Real estate mortgage	$50,845	$37,826	$28,022	$37,049	$ 71,153
Secured commercial and financial	10,054	4,912	6,229	7,379	20,906
Unsecured	11,771	8,633	7,800	7,604	12,052
Other loans and leases	1,310	553	1,711	1,176	2,341

	73,980	51,924	43,762	53,208	106,452
Deferred fees, net	(144)	(61)	(190)	(180)	(388)
Allowance for possible loan and lease losses	(1,625)	(3,200)	(5,663)	(5,912)	(6,576)
Total loans and leases, net	$72,211	$48,663	$37,909	$47,116	$99,488

The following table presents the loan portfolio at December 31, 1998 based upon the final contractual maturity date allocated into maturity categories. This table does not reflect anticipated prepayment of loans.

(Dollars in Thousands)	Within One Year	One to Five Years	After Five Years	Total
Real estate mortgage	$4,920	$15,204	$30,721	$50,845
Secured commercial and financial	3,759	6,251	43	10,054
Unsecured	8,372	2,776	623	11,771
Other	417	--	894	1,310
Total loans	$17,468	$24,231	$32,281	$73,980

Adjustable rate loans total $49.9 million, or 67.4% of total loans, including $28.6 million with rates that adjust immediately based on prime rate. Fixed rate loans and loans with next adjustment dates beyond two years total $24.1 million, or 32.6% of the Bank's total loan portfolio, have a weighted average yield of 8.7% and an average final maturity date of within 8.5 years. As of December 31, 1998, fixed rate loans with pre-payment penalties totaled $9.9 million. Generally, the prepayment penalty provisions are effective for the first one to three years from the date of origination.

There were $9.5 million in loans, or 12.8% of total loans, that adjust at least annually based on the FHLB eleventh district cost of funds index ("Cofi") which have a weighted average yield of 8.3% and a weighted average term to final maturity of approximately 10.3 years, as of December 31, 1998. Generally, these loans have a weighted average annual interest rate change limit of 2.00% and a life-time interest rate floor and cap of 6.3% and 14.6%, respectively. The Bank also held $11.1 million in loans, or 15.0% of total loans, that have an initial fixed term of two years and then adjust quarterly based on the one-year treasury constant maturity index. As of December 31, 1998, the yield on these loans was 8.5% and the average term to final maturity was approximately 9.1 years.

Non-performing Assets

Effective January 1, 1995, the Company adopted SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" as amended by SFAS No. 118 "Accounting by Creditors for Impairment of a Loan-

Income Recognition and Disclosures". A loan is considered impaired when, based on certain events and information, it is "probable" that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. At December 31, 1998, the Bank had no impaired loans. At December 31, 1997, the Company measured the impairment of all impaired loans totaling $171,000 using the collateral value method. For the year ended December 31, 1998 and 1997, the weighted average impaired loans outstanding was $34,000 and $924,000, respectively. Total interest recognized on impaired loans during 1998 was $3,000 compared to $13,000 in 1997, and the related allowance for loan losses totaled $26,000 at December 31, 1997.

Real estate acquired through foreclosure is recorded at fair value at the time of transfer to OREO. The Bank periodically obtains either an appraisal or market valuation analysis on all OREO. If the valuation analysis indicates a decline in the market value of the property, a specific loss allowance is established. The Bank provides a charge against current earnings for estimated losses on foreclosed property when the carrying value of the property exceeds its fair value net of estimated selling expenses. Fair value is based on current market conditions, appraisals, and estimated sales values of similar properties, net of an estimated discount for selling and other expenses.

In 1998, the Bank reduced its non-performing asset portfolio by $530,000, from $581,000 as of December 31, 1997 to $51,000 as of December 31, 1998, through asset sales, and loan repayments. Based upon information presently available, management believes that the Bank has made sufficient provision to its allowance for possible loan losses and specific reserves to absorb possible losses.

The table below outlines the Bank's non-performing assets as of December 31:

(Dollars in Thousands)	1998	1997	1996	1995	1994
Non-accrual loans	--	$171	$3,400	$7,511	$9,377
Other real estate owned, net	$51	410	5,133	7,514	10,021
Real estate investment, net	--	--	--	236	682
Total non-performing assets	$51	$581	$8,533	$15,261	$20,080
Non-performing assets as a percentage of total loans, OREO outstanding	0.1%	1.1%	17.4%	24.7%	16.7%
Loans past due 90 days or more and accrual	--	--	--	--	$ 940
Loans restructured and in compliance with modified terms	--	--	4,109	4,126	6,317

At December 31, 1998, the Bank had no loans that were delinquent 31 days or more. For each of the years ended December 31, 1998, 1997, and 1996, interest income foregone on restructured loans was zero. The amount of gross interest income that would have been collected for non-accrual loans if all such loans had been performing in accordance with their original terms was zero, $2,000, and $29,000, in 1998, 1997 and 1996, respectively.

Allowance for Loan and Lease Losses Generally, the Bank's method of analyzing the adequacy of its allowance for loan and lease losses is based on the evaluation of fair value of the underlying collateral, known risks, trends, and other factors. The fair value of the underlying collateral is based on current market conditions, appraisals, and estimated sales values of similar properties. In addition, the Bank establishes a specific loss allowance based on the asset classification and credit quality grade. This specific loss allowance is utilized to ensure that allowances are allocated based on the credit quality grading to capture inherent risks. In addition, the Bank carries an "unallocated" allowance for loan and lease losses to provide for losses that may occur in the future in loans that are not presently classified, based on present economic conditions, trends, and related uncertainties. The Bank continues to refine the allowance methodology to ensure that all known risks, trends, and facts are utilized in determining the adequacy of the allowance for loan and lease losses.

Generally, the Bank charges current earnings with provisions for estimated losses on loans receivable. However, the Bank will record an allowance for loan and lease loss adjustment if the total allowance for loan and lease losses exceeds the amount of estimated losses. The provision or adjustment takes into consideration the adequacy of the total allowance for loan and lease losses giving due consideration to specifically identified problem loans, the financial condition of the borrowers, the fair value of the collateral, recourse to guarantors, and other factors. See "Provision (Adjustment) for Loan and Lease Losses" for additional discussion on allowance for loan and lease losses.

The following table summarizes the loan and lease loss experience of the Bank for the years ended December 31:

(Dollars in Thousands)	1998	1997	1996	1995	1994
Balance of allowance for loan and lease losses at beginning of period	$3,200	$5,663	$5,912	$6,576	$8,050
Loans charged off:					

Commercial, financial and unsecured	--	(5)	(4)	(427)	(3,888)
Real estate	--	(35)	(642)	(2,444)	(2,732)
Sale of loans	--	--	--	--	--
Subtotal	--	(40)	(646)	(2,871)	(6,620)
Recoveries of previous losses:					
Commercial and financial	--	320	397	1,565	1,181
Real estate	52	77	--	142	166
Net lease financing	--	--	--	--	--
Subtotal	--	397	397	1,707	1,347
Net loans recovery/(charged off)	52	357	(249)	(1,164)	(5,273)
Provision (adjustment) for loan and lease losses	(1,627)	(2,820)	--	500	3,799
Balance of allowance for loan and lease losses at end of period	1,625	$3,200	$5,663	$5,912	$6,576
Ratio of the allowance to total loans and leases	2.2%	6.2%	12.9%	11.1%	6.2%
Ratio of the allowance to non-accrual loans	--	1,871.3	166.6	78.7	70.1
Ratio of net (recoveries)/charge-offs to average loans	(0.1)	(0.8)	0.6	1.4	4.4

Allocation of the allowance for loan and lease losses by collateral type at December 31 are as follows:

	1998		1997		1996	
(Dollars in Thousands)	Balance	Percent(1)	Balance	Percent(1)	Balance	Percent(1)
Real estate mortgage	$939	68.7%	$1,460	72.8%	$2,456	64.0%
Secured commercial and financial	129	13.6	97	9.6	250	14.2
Unsecured	137	15.9	214	16.6	483	17.8
Other loans and leases	11	1.8	2	1.0	36	4.0
Unallocated	409	--	1,427	--	2,438	--
Total	$1,625	100.0%	$3,200	100.0%	$5,663	100.00%

	1995		1994	
	Balance	Percent(1)	Balance	Percent(1)
Real estate mortgage	$1,613	69.6%	$2,322	66.9%
Secured commercial and financial	1,207	13.9	1,522	19.6
Unsecured	1,872	14.3	2,359	11.3
Other loans and leases	--	2.2	--	2.2
Unallocated	1,220	--	373	--
Total	$5,912	100.0%	$6,576	100.0%

(1) Percent refers to the percent of loans and leases in each

category to total loans.

Deposits

The Bank had total deposits of $95.7 million and $86.5 million at December 31, 1998 and 1997, respectively. As of December 31, 1998, deposits consisted of demand deposits totaling $18.2 million, money market and savings accounts totaling $20.0 million, NOW accounts totaling $17.8 million and time deposits totaling $39.6 million. As of December 31, 1998, the Bank had a total of 2,234 deposit accounts consisting of 549 demand deposit accounts with an average balance of approximately $33,000 each, 461 savings and money market accounts with an average balance of approximately $44,000 each, approximately 794 NOW accounts with an average balance of approximately $22,000 each and 430 time accounts with an average balance of approximately $92,000. The Bank's deposits and, correspondingly, its liquidity, are largely dependent upon four sources of funds: deposits acquired through its ABS function, Private and Business Banking, Escrow Services, and deposits solicited through the Bank's money desk. These sources of deposits comprised 96.8% of the Bank's total deposits at December 31, 1998.

Certificates of deposit having a balance of at least $100,000 represented approximately 22% of the Bank's total deposits as of December 31, 1998 compared to 18.0% as of December 31, 1997. As of December 31, 1998, $15.7 million of the Bank's certificates of deposit of at least $100,000 mature in 90 days or less and $2.9 million mature between 91 days and one year. The aggregate average maturity of all of the Bank's certificates of deposit of at least $100,000 was 3.6 months as of December 31, 1998, and the aggregate amount of all such certificates of deposit as of December 31, 1998 was $21.2 million with a weighted average stated rate of 4.4%.

The Bank solicits money desk deposits principally from other financial institutions and municipalities outside of the Bank's market area. As of December 31, 1998 and 1997, the Bank had outstanding money desk deposits of $12.3 million or 12.8% of total Bank's total deposits and $11.7 million or 13.5% of Bank's total deposits, respectively. During 1998, the money desk deposits averaged $10.6 million, with a high balance of $12.7 million. As of December 31, 1998, money desk deposits had a remaining weighted average maturity of approximately 11 months.

The following table sets forth the maturities, as of December 31, 1998, of the Bank's interest-bearing deposits and other interest-bearing liabilities:

	Over 3	Over	More Than

(Dollars in Thousands)	3 Months or Less	Months to 6 Months	6 Months to 1 Year	1 Year to 5 Years	Total
Interest-bearing liabilities:					
Now accounts	$17,838	--	--	--	$17,838
Money market and savings accounts	19,998	--	--	--	19,998
Time deposits	21,268	$4,537	$7,613	$6,197	39,615
Total interest-bearing liabilities	$59,104	$4,537	$7,613	$6,197	$77,451

Other Borrowings

The Bank has other borrowing facilities which include advances from the FHLB and access to the discount window at the FRB. During 1998 and 1997, the Bank borrowed $20.0 million from the FHLB under this borrowing facility. The following table sets forth the maturities, as of December 31, 1998, of the borrowings:

(Dollars in Thousands)	Less than 1 year	Over 1 Year to 3 Years	More Than 4 Years to 5 Years	Total
Fixed rate borrowing	--	$8,000	$5,000	$ 13,000
Adjustable rate borrowing	$2,000	--	5,000	7,000
Total interest-bearing liabilities	$2,000	$8,000	$10,000	$20,000

The Bank's short term line of credit with the FRB of up to $1.9 million is available upon the pledge of securities. The long-term borrowing from the FHLB of $20.0 million is secured by pledged securities and loans totaling $25.0 million. As of December 31, 1998, the Bank had $8.0 million available under its line of credit with the FHLB. During 1998 and 1997, the Bank did not borrow at the discount window at the Federal Reserve Bank.

Capital

Shareholders' equity totaled $22.7 million at December 31, 1998, an increase of $5.1 million from $17.6 million at December 31, 1997. The increase in equity in 1998 was primarily from earnings of $5.0 million. During 1997, the Company issued 2,941,176 shares of Class A Common Stock in exchange for $1.0 million in capital.

The Company and the Bank are subject to general regulations issued by the FRB, FDIC, and DFI which require maintenance of a certain level of capital. The Company is subject to a Letter

Agreement dated April 21, 1989, with the FRB which requires that the Company maintain a minimum leverage capital ratio of 5.5%. As of December 31, 1998, the Company and the Bank were in compliance with all minimum capital requirements.

The following table reflects both the Company's and the Bank's capital ratios with respect to the minimum capital requirements in effect as of December 31, 1998.

	Company	Bank	Minimum Capital Requirement
Leverage ratio	16.3%	16.1%	4.0%
Tier 1 risk-based capital	21.6	21.4	4.0
Total risk-based capital	23.0	22.8	8.0

Year 2000 Readiness Disclosure

The Bank has adopted and is implementing a plan to identify, assess, and address issues related to the Year 2000 problem (the "Y2K Plan"). The Year 2000 (the "Y2K") problem is a computer programming issue that has occurred as a result of many computer systems being programmed to use a two digit code to identify the year. For example, the year 1998 would be signified as "98", and, therefore, the year 2000 may be mis-recognized as 1900. This could result in the miscalculation of financial data and/or result in processing errors in transactions or functions that are date sensitive.

The following discussion of the implications of the Y2K problem for the Bank contains numerous forward-looking statements based on inherently uncertain information. The cost of the project and the date on which the Y2K Plan specifies the Bank will complete the modifications are based on several assumptions of future events including the continued availability of internal and external resources, third party modifications and other factors. However, there can be no guarantee that the Y2K Plan and the Bank's remediation efforts will be achieved and actual results could differ. Moreover, the Y2K Plan specifies that the Company will be able to make the necessary modifications in advance, there can be no guarantee that failure to modify the systems would not have a material adverse affect on the Bank. There also can be no guarantee that the failure of other third parties to modify their systems would not have a material adverse affect on the Company and the Bank.

Generally, the Bank's business risks come from internal sources such as the Bank's own computer systems and from external sources such as borrowers whose businesses might be adversely impacted by the Y2K problem, deposit customers whose transactions are transmitted electronically, and other third parties such as institutions, vendors, and governmental agencies whose computer systems may have a direct or indirect adverse impact on the Bank or the Bank's customers. The Bank maintains much of its computer hardware on the premises of third party vendors, uses software under licensing agreements with vendors, and has outsourced its data processing requirements to outside vendors. As a result, the Bank is highly reliant on vendors to upgrade many of the Bank's systems to be Y2K compliant in the timeframe specified by the Y2K Plan.

The purpose of the Y2K Plan is to manage and mitigate the business risks associated with the Y2K problem. The Y2K Plan involves a five step process; identification, assessment, renovation, testing, and implementation. Presently, the Bank is in the testing phase of the process. A project team, staffed by Bank employees, is responsible for monitoring the Y2K Plan progress including vendor commitments, and periodically reporting such progress to the Bank Audit and Regulatory Committee of the Board. The Bank's internal audit function periodically performs a review of the Y2K Plan progress.

As of December 31, 1998, the Bank has implemented mission critical system upgrades for all of its core banking hardware and software. Testing to the mission critical systems is expected to be completed by March 31, 1999. The Bank has requested certification of testing compliance from all vendors and intends to test the compliance of all major systems. The Bank will attempt to obtain a certification of testing compliance of all major systems from an independent third party where possible. The Bank has sent notification to all loan and deposit customers apprising them of the potential problems and requesting that they assess the compliance of their computer systems. The Bank's lending policies have been revised to require an assessment of a borrower's risks to the Y2K problem, and the assessment has been incorporated into the credit review process. In addition, the Y2K Plan includes provisions that provide for the Bank's use of manual processes, for a limited period of time, if the Bank's systems are not operational, and that ensure that additional liquidity is available in the event of a limited disruption of customer cashflows.

The Y2K Plan includes a contingency plan if certain tasks are not successfully completed by specified trigger dates. If the Bank's mission critical systems are not compliant by March 31, 1999, the Bank will take the necessary steps to correct the deficiency by implementing the contingency plan phase of the Y2K Plan which includes engaging alternate vendors who are Y2K compliant. If the Bank implements the contingency phase, additional costs are likely to be incurred.

The cost associated with executing the Y2K Plan and completing the Y2K modifications were estimated to be approximately $250,000, for 1997 and 1998, including approximately $160,000 for acquired hardware which is being amortized over its estimated useful life. Additional costs, estimated to be a maximum of $100,000, may be incurred in the future. The funds for these modifications are from general working capital. These costs, exclusive of the cost of replacement systems that are being capitalized and amortized in accordance with the Bank's policies, are being expensed as incurred. As of December 31, 1998, approximately $247,000 of Y2K costs have been incurred. No significant information technology projects have been deferred as a result of the Y2K efforts. There can be no assurance that the cost to replace or modify the Bank's date sensitive systems will not exceed the Bank's present estimate or that all business risks and related exposure have been identified.

If the Bank's date sensitive systems or the systems of those third parties who have material business relationships with the Bank are not Y2K compliant by January 1, 2000, the Bank's business and results of operations may be materially and adversely affected. The Bank could experience time delays in its daily operations and increased processing costs due to the required shift to manual processes, and the Bank may not be able to provide customers with timely and pertinent information regarding their accounts which may negatively affect customer relations and lead to the potential loss of customers. In addition, the Bank's clients may experience liquidity problems which may result in the Bank needing to increase its liquidity by obtaining funds from other more expensive sources including money desk deposits, or borrowing from the FHLB or FRB.

The Bank believes that the greatest risk for disruption to its business may result from Y2K noncompliance of third parties that have major business relationships with the Bank. The possible consequences of noncompliance by third parties include, among other things, delays in processing daily deposits and withdrawals, and an increase in loan delinquencies from potential business failures. These risks are inherent in the industry and not specific to the Bank. The Bank is unable to estimate the potential financial impact of the scenarios described above. However, the Bank believes that its Y2K Plan should reduce any material adverse effect that any such disruption may have.

Item 7A - Quantitative and Qualitative Disclosure About Market Risk

Market Risk Management

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, and other market changes that affect market sensitive instruments. The Company's primary market rate risk is interest rate risk. The Company does not have any significant direct risks related to foreign currency exchange rates, commodity prices, equity prices, or other market changes that affect market sensitive instruments.

Generally, interest rate risk occurs as a result of interest sensitive assets and liabilities not repricing at the same time and by the same amount. The Company's interest rate risk is a combination of several risk factors including interest, liquidity, price, and compliance. These risk factors are influenced by many circumstances including changes in the economic environment and competitive pressures.

The oversight responsibilities for the Company's interest rate risk management is performed by the Bank's Asset Liability Committee (the "ALCO"). The interest rate risk management policies are approved by the Board of Directors. The Company's approach to managing interest rate risk is to periodically measure the amount of interest rate risk based on estimated cashflows assuming multiple interest rate scenarios. The results of the measurement are evaluated and alternate strategies, if needed, are implemented to reduce the interest rate risk exposure. The strategies the Company uses to manage interest rate risk include adjustments to the composition of the investment securities portfolio, and new loan and deposit product terms. The Company's policies permit the use of off-balance sheet derivative instruments to control interest rate risk. However, as of December 31, 1998, no such instruments were outstanding.

Using a simulation model, the Company measures interest rate sensitivity on a quarterly basis. The simulation model takes into consideration the potential volatility in projected results that can occur as the interest rate environment changes over time. This provides a dynamic assessment of interest rate sensitivity. For example, callable agency securities have a final maturity but also have a call feature that would result in the possibility of a security being repaid prior to final maturity in a declining interest rate environment, and, due to competitive pressures, a reduction in interest rates on deposits may not be possible without increasing liquidity risk. These and other factors may increase or decrease the amount of volatility in projected results.

A simplified method of measuring interest rate sensitivity is a "gap" analysis. A gap analysis assesses the difference between the amount of assets and the amount of liabilities which are subject to interest rate repricing at set intervals as of a specific date. If more assets than liabilities are interest rate sensitive at a given time in a rising interest rate environment, net interest income increases. In a declining interest rate environment with the same "gap", net interest income decreases. If more liabilities change rates than assets, the same scenarios produce the opposite effects. Gap analysis only partially depicts the Company's sensitivity to interest rate changes at a specific date. Such an analysis does not fully describe the complexity of relationships between product features and pricing, market rates and future management of the asset and liability mix.

The following table illustrates the repricing opportunities for the Company's interest-earning assets and interest-bearing liabilities at December 31, 1998:

(Dollars in Thousands)	3 Months or Less	Over 3 Months to 6 Months	Over 6 Months to 1 Year	More Than 1 Year to 5 Years	No stated and/or Over 5 Years	Total
Interest-Earning Assets:						
Investment securities and certain cash equivalents	$10,032	--	$1,328	$23,880	$13,812	$49,052
Operating leases	--	--	--	--	2,000	2,000
Loans and leases	34,176	$3,972	6,852	27,097	1,883	73,980
Total interest-earning assets	44,208	3,972	8,180	50,977	17,695	125,032
Liabilities and Equity:						
Interest-bearing deposits	59,667	4,456	7,404	5,924	--	77,451
Other borrowings	7,000	--	--	13,000	--	20,000
Portion of non-interest bearing liabilities and equity	--	--	--	--	27,581	27,581

Portion of liabilities and equity	66,667	4,456	7,404	18,924	27,581	125,032
Interest bearing assets over (under) liabilities and equity	$(22,459)	$(484)	$776	$32,053	$(9,886)	--
Cumulative primary gap	$(22,459)	$(22,943)	$(22,167)	$9,886	--	
Gap as a percentage of total interest-earning assets	(18.0)%	(18.3)%	(17.7)%	7.9%	0.0%	

The Company's simulation model estimates the changes in earnings as a result of changes in interest rate sensitive assets and liabilities which would occur as a result of an instantaneous and sustained increase or decrease in interest rates of 200 basis points, and the resulting effect on the Company's net interest margin, net income and capital over a one and two year period. The Company has established policy guidelines regarding maximum negative variances in net interest margin of 15%, in net income of 50%, and in capital of 10% in the event of an instantaneous and sustained increase or decrease in market rates of 200 basis points. As of December 31, 1998, the Company's sensitivity to changes on interest rates was within policy guidelines.

The following table presents the Company's hypothetical changes in the Company's net interest income, net income and capital, measured for the one-year period beginning January 1, 1999, based on the December 31, 1998 beginning balance sheet.

Change in	Estimated Increase/(Decrease) in					
Interest Rates	Net interest income		Net income		Capital	
(basis points)	Amount	Percent	Amount	Percent	Amount	Percent
+ 200	$146	0.2%	$146	5.5%	$(940)	(3.7)%
no change	-	-	-	-	-	-
- 200	$(557)	(8.6)%	$(557)	(21.0)%	$(537)	(2.1)%

The table above illustrates that in an increasing interest rate environment, the Company's net interest income and earnings would be expected to increase slightly due to an increase in yield on loans and investments at a faster pace than the increase in the cost of deposits. However, capital would be expected to decline due to an estimated decline in the market value primarily related to investment securities. In a declining interest rate environment, the Company's net interest margin, earnings, and capital would be expected to decline primarily as a result of net interest income. Net interest income would decline due to lower reinvestment yields on the accelerated maturity of certain fixed rate callable securities, prepayment of fixed rate loans, and the decline of interest on adjustable rate loans and investments, and the lag in the decline of the cost of interest bearing deposits.

The simulation model includes key assumptions regarding cashflows including projections of new and renewing loans and deposits, prepayment assumptions for certain investment securities and loans, and assumptions of estimated competitive pressures on the pricing of loan and deposit products.

The simulation model does not contemplate all interest rate scenarios or all of the actions the Company may undertake in response to changes in market interest rates. Also, the model does not capture the change in value for certain balance sheet assets, which may reduce the effect of changes in interest rates. For example, in a 2% falling rate scenario, the model will not reflect additional interest income on certain loans that have reached annual or life-time floors and/or have pre-payment penalties; however, those floors and/or prepayment penalties may result in a significant increase in value.

The projections provided herein contain estimates that are based on certain assumption that may or may not occur, are subject to uncertainties that could cause actual results to differ materially, and any method of analyzing interest rate risk has certain inherent shortcomings. For example, although certain assets and liabilities have similar repricing characteristics, they may react in different degrees to changes in market interest rates, certain categories of assets and/or liabilities may precede, or lag behind, changes in market interest rates, and the shift in the slope of the yield curve could result in different estimates. Also, actual rates of prepayments on loans and investments could vary significantly from the estimates used in the projections. Accordingly, results in the preceding tables should not be relied upon as indicative of actual results in the event of changing market interest rates and are not intended to represent, and should not be construed to represent, the underlying value of the Company.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders of
The San Francisco Company:

We have audited the accompanying consolidated statements of financial condition of The San Francisco Company and subsidiaries (the "Company") as of December 31, 1998 and 1997 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The San Francisco Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

February 11, 1999
San Francisco, California

The San Francisco Company
Consolidated Statements of Financial Condition
December 31, 1998 and 1997

(Dollars in Thousands Except Per Share Data)	Notes	1998	1997
Assets:			
Cash and due from banks		$ 5,908	$ 2,837
Federal funds sold		9,000	14,150
Cash and cash equivalents		14,908	16,987
Investment securities held-to-maturity			
(Market value: 1998-$3,851 and 1997-$5,822)	2	3,846	5,864
Investment securities available-for-sale	2	34,235	32,669
Federal Home Loan Bank stock, at par	2	1,971	1,499
Loans and leases	3	73,980	51,924
Deferred fees, net	3	(144)	(61)
Allowance for loan and lease losses	4	(1,625)	(3,200)
Loans, net		72,211	48,663
Other real estate owned	5	51	410

Premises and equipment, net	6	7,546	7,791
Interest receivable		748	720
Other assets		4,620	2,014
Total assets		$140,136	$116,617
Liabilities and Shareholders' Equity:			
Non-interest bearing deposits		$ 18,237	$19,691
Interest bearing deposits		77,451	66,828
Total deposits	7	95,688	86,519
Other borrowings	8	20,000	10,000
Other liabilities and interest payable		1,744	2,528
Total liabilities		117,432	99,047
Commitments and contingencies	14		
Shareholders' Equity:	10		
Convertible preferred stock (par value $0.01 per share)			
Series B - Authorized - 437,500 shares			
Issued and outstanding - 1998 - 15,869 and 1997 - 15,869 shares		111	111
Common stock (par value $0.01 per share)			
Class A - Authorized - 100,000,000 shares			
Issued and outstanding - 1998 - 31,728,782 and 1997 - 31,723,782 shares		317	317
Additional paid in capital		78,816	78,814
Retained deficit		(56,619)	(61,656)
Accumulated other comprehensive income (loss)		79	(16)
Total shareholders' equity		22,704	17,570
Total liabilities and shareholders' equity		$140,136	$116,617

The accompanying notes are an integral part of the consolidated financial statements.

The San Francisco Company
Consolidated Statements of Operations
Years Ended December 31, 1998, 1997 and 1996

(Dollars in Thousands Except Per Share Data)	Notes	1998	1997	1996
Interest income:				
Loans		$5,387	$4,567	$4,242
Fed funds sold		1,133	1,103	1,248
Investments		2,172	2,311	1,714

Dividends		90	45	38
Total interest income		8,782	8,026	7,242
Interest expense:				
Deposits	7	2,778	2,798	3,124
Other borrowings		633	92	3
Total interest expense		3,411	2,890	3,127
Net interest income		5,371	5,136	4,115
Adjustment for loan and lease losses	4	(1,627)	(2,820)	--
Net interest income after adjustment for loan and lease losses		6,998	7,956	4,115
Non-interest income:				
Stock option commissions and brokerage fees		1,051	1,416	1,201
Real estate rental income	6	1,114	896	1,028
Service charges and fees		683	603	444
Other income		563	116	14
Loss on sale of investment securities, net		--	(6)	--
Gain on sale of other assets, net		480	477	640
Total non-interest income		3,891	3,502	3,327
Non-interest expense:				
Salaries and related benefits		4,272	4,203	3,252
Occupancy expense	6	1,142	1,192	1,165
Data processing		403	431	304
Professional fees		398	530	629
Insurance premiums		218	228	319
Equipment expense		176	198	345
FDIC insurance premiums		24	98	204
Other operating expenses		274	629	780
Total non-interest expense		6,907	7,509	6,998
Income before income taxes		3,982	3,949	444
Benefit for income taxes	9	(1,060)	(1,494)	(258)
Net Income		$5,042	$5,443	$702
Income per share:				
Basic:				
Weighted average shares outstanding		31,727,138	30,393,679	5,829,035
Net income		$0.16	$0.18	$0.12
Diluted:				
Weighted average shares outstanding		33,062,713	30,644,487	23,773,101
Net income		$0.15	$0.17	$0.03

The accompanying notes are an integral part of the consolidated financial statements.

The San Francisco Company and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income
Years Ended December 31, 1998, 1997 and 1996
(Unaudited)

(Dollars in Thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Comprehensive Income	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income/ (Loss)	Total Shareholders' Equity
Balances at January 1, 1996	$4,414	$58	$70,168		$(67,801)	$41	$6,880
Net proceeds on sale of stock	3,500	--	--		--	--	3,500
Conversion of preferred stock to Common Stock	(7,803)	230	7,573		--	--	--
Other	--	--	100		--	--	100
Other comprehensive loss, net of tax							
Net unrealized loss arising during the period				$(118)	--	(118)	(118)
Other comprehensive loss				(118)			
Net income				702	702	--	702
Comprehensive income				$584			
Balances at December 31, 1996	111	288	77,841		(67,099)	(77)	11,064
Net proceeds from the sale of stock	--	29	971		--	--	1,000
Net proceeds from the exercise of stock options	--	--	2		--	--	2
Other comprehensive income, net of tax							
Unrealized holding gains arising during the period, net							
Plus: reclassification adjustment for losses included in net income				$6			

Net unrealized losses				55			
Other comprehensive loss				61	--	61	61
Net income				5,443	5,443	--	5,443
Comprehensive income				$5,504			
Balances at December 31, 1997	111	317	78,814		(61,656)	(16)	17,570
Net proceeds from the exercise of stock options	--	--	2		--	--	2
Dividend on Preferred Stock	--	--	--		(5)	--	(5)
Other comprehensive income, net of tax							
Net unrealized gains				$95	--	95	95
Other comprehensive income				95			
Net income				5,042	5,042	--	5,042
Comprehensive income				$5,137			
Balances at December 31, 1998	$111	$317	$78,816		$(56,619)	$79	$22,704

See accompanying notes to unaudited consolidated financial statements.

The San Francisco Company
Consolidated Statements of Cash Flows
For the Years Ended December 31, 1998, 1997 and 1996

(Dollars in Thousands)	1998	1997	1996
Cash Flows from Operating Activities:			
Net income	$5,042	$5,443	$702
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustment for loan losses	(1,627)	(2,820)	--
Deferred income tax benefit	(600)	(1,500)	--
Depreciation and amortization expense	533	535	671
Net gain on sale of real estate owned and other assets	(480)	(477)	(643)
Provision for other real estate owned and real estate investment	--	182	--
Loss on sale of investment securities available for sale	--	6	--

(Increase) decrease in interest receivable and other assets	(34)	79	12
(Decrease) increase in other liabilities and interest payable	(726)	757	(438)
Increase (decrease) in deferred loan fees	83	(129)	10
Net cash flows provided by operating activities	2,191	2,076	314
Cash Flows from Investing Activities:			
Purchase of Federal Home Loan Bank stock, net	(472)	(829)	--
Proceeds from maturities of investment securities held-to-maturity	2,018	1,079	865
Purchase of investment securities held-to-maturity	--	--	(7,846)
Proceeds from sales of investment securities available-for sale	--	9,120	--
Purchase of investment securities available-for-sale	(32,562)	(18,600)	(29,321)
Proceeds from maturities of investment securities available-for-sale	31,091	5,214	7,390
Capital expenditures for real estate owned	--	28	--
Net (increase) decrease in loans	(22,056)	(8,162)	7,422
Recoveries of loans previously charged off	52	397	397
Purchases of premises and equipment	(288)	(267)	(41)
Purchase of equipment under operating lease	(2,000)	--	--
Proceeds from sales of real estate owned and investment, and other assets	839	4,952	4,639
Net cash used in investing activities	(19,378)	(7,068)	(16,495)
Cash Flows from Financing Activities:			
Net increase (decrease) in deposits	9,169	(4,647)	(14,507)
Net increase in other borrowings	10,000	10,000	--
Cash dividend on Series B Preferred stock	(63)	--	--
Net proceeds from sale of stock	2	1,000	3,500
Net cash provided by (used in) financing activities	19,108	6,353	(11,007)
(Decrease) increase in cash and cash equivalents	(2,079)	1,361	(27,188)
Cash and cash equivalents at beginning of year	16,987	15,626	42,814
Cash and cash equivalents at end of year	$14,908	$16,987	$15,626

The accompanying notes are an integral part of the consolidated financial statements.

(continued)

(Dollars in Thousands)	1998	1997	1996

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	$3,386	$2,811	$3,167
Income taxes	21	6	5

Supplemental Schedule of Noncash Investing and Financing Activities:

Net transfer of loans to other real estate owned	--	--	1,378

The accompanying notes are an integral part of the consolidated financial statements.

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The San Francisco Company
Notes to Consolidated Financial Statements
December 31, 1998 and 1997

Note 1: Statement of Accounting Policies

The accounting and reporting policies of The San Francisco Company (the "Company") and its subsidiaries are in accordance with generally accepted accounting principles and practices within the banking industry.

Organization

The Company is a Delaware corporation and a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was organized in 1981 under the laws of the State of California, and in July, 1988, the Company reincorporated in Delaware. Bank of San Francisco (the "Bank"), a state chartered bank, was organized as a California banking corporation in 1978 and became a wholly owned subsidiary of the Company through a reorganization in 1982. The Bank specializes in providing private banking and business banking for such professional individuals, their business and other business primarily in the Northern California banking market. The Bank's wholly owned subsidiary, Bank of San Francisco Realty Investors (the "BSFRI"), invested in real estate investment properties from 1985 to 1996. During 1996, BSFRI disposed of all of its real estate investment properties.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiary, BSFRI. BSFRI is no longer active in real estate investment activities. All material intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents and Statements of Cash Flows

Cash equivalents are defined as short-term, highly liquid investments both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of change in value because of changes in interest rates. Generally, only investments with maturities of three months or less at the time of purchase qualify as cash equivalents. Cash and cash equivalents include cash and due from banks, time deposits with other financial institutions, and Federal funds sold.

The Bank is required to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. In 1998 and 1997, the average reserve balances outstanding were $879,000 and $1.0 million, respectively. Generally, the Bank does not maintain compensating balance arrangements.

Investment Securities

The Company classifies its investment securities into one of two categories: held-to-maturity or available-for-sale. The investments classified as held-to-maturity are carried at amortized cost because management has both the intent and ability to hold these investments to maturity. Investments classified as available-for-sale are carried at fair value with any unrealized gains and losses included as a component of accumulated other comprehensive income under shareholders' equity.

Investment securities include debt securities and Federal Home Loan Bank (the "FHLB") Stock. Any discounts or premiums are accreted or amortized to income over the expected term of the investment considering prepayment assumptions, if applicable. Discounts or premiums are adjusted periodically to reflect actual prepayment experience. The gain or loss on all investment securities sold is determined based on the specific identification method. The estimated fair value is based on quoted market prices and/or third party dealer quotes. FHLB stock is recorded at cost and is redeemable at par value.

Loans and Leases

Loans are stated at the principal amount outstanding, net of the allowance for loan losses, deferred fees and unearned discount, if any. The Bank holds loans receivable primarily for investment purposes. A significant portion of the Bank's loan portfolio is comprised of adjustable rate loans.

Interest on loans is calculated using the simple interest method on the daily balances of the principal amount outstanding. The accrual of interest is discontinued and any accrued and unpaid interest is charged against current income when the payment of principal or interest is 90 days past due, unless the loan is well-secured and in the process of collection. When the ability to fully collect non-accrual loan principal is in doubt, cash payments received are applied against the principal balance of the loan until such time as full collection of the remaining recorded balance is expected. Generally, loans with temporarily impaired values and loans to borrowers experiencing financial difficulties are placed on non-accrual status even though the borrowers continue to repay the loans as scheduled. Interest received on such loans is recognized as interest income when received. A non-accrual loan is restored to an accrual basis when principal and interest payments are being paid currently and full payment of principal and interest is probable.

Lease financing receivables, net of unearned income, are included in loans. Unearned income related to lease financing receivables is recognized in income over the life of the lease under a method that yields an approximately level rate of return on the unrecovered lease investment.

Loan Fees

The Bank charges nonrefundable fees for originating loans. Loan origination fees, net of the direct costs of underwriting and closing the loans, are deferred and amortized to interest income using the interest method. Unamortized net fees and costs on loans sold or paid in full are recognized as income. Other loan fees and charges, which represent income from delinquent payment charges, and miscellaneous loan services, are recognized as interest income when collected.

Allowance for Loan and Lease Losses

Generally, the Bank charges current earnings with provisions for estimated losses on loans receivable. However, the Bank will record an allowance for loan and lease loss adjustment if the total allowance for loan and lease losses exceeds the amount of estimated losses. The provision or adjustment takes into consideration the adequacy of the total allowance for loan and lease losses giving due consideration to specifically identified problem loans, the financial condition of the borrowers, the fair value of the collateral, recourse to guarantors, and other factors. At December 31, 1998 and 1997, the Company reduced the allowance for loan and lease losses to a level that management believes adequately reflects the credit risks in the loan and lease portfolio.

The allowance for loan and lease losses takes into consideration numerous factors including the financial condition of the borrowers, the fair value of the collateral prior to the anticipated date of sale, collateral concentrations and past loss experience. These allowances are subjective and may be adjusted in the future depending on economic conditions. In addition, regulatory examiners may require the Company to provide additional allowances based on their judgements of the information regarding problem loans and credit risks available to them at the time of their examinations.

Losses are recognized as charges to the allowance when the loan or a portion of the loan is considered uncollectible or at the time of foreclosure. Recoveries on loans receivable previously charged off are credited to allowance for loan and lease losses.

Premises and Equipment

Premises and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed on the straight-line method over the estimated useful life of each type of asset. Estimated useful lives are from three to seven years. Leasehold improvements are amortized over the term of the applicable lease, including lease extensions, or their estimated useful lives, whichever is shorter.

Other Real Estate Owned

Other real estate owned (the "OREO") includes loans receivable that have been repossessed in settlement of debt (foreclosures). At the date of transfer, OREO is recorded at fair value net of estimated selling costs.

The Company provides a charge against current earnings for estimated losses on foreclosed property when the carrying value of the property exceeds its fair value net of estimated selling expenses. The Bank obtains an appraisal or market valuation analysis on all other real estate owned. If the periodic valuation indicates a decline in the fair value below recorded carrying value, an allowance for OREO losses is established. Fair value is based on current market conditions, appraisals, and estimated sales values of similar properties.

Impairment of Long-lived Assets

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (the "SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying value of an asset to future net cash flows expected to be generated by that asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.

As of December 31, 1998, the Company determined that no events or changes occurred during 1998 that would indicate that the carrying value of any long-lived assets may not be recoverable. Adoption of this statement did not have any impact on the Company's financial position, results of operations or liquidity.

Other Assets

Other assets included equipment owned by the Bank and deferred tax assets discussed below. The equipment is leased to a third party under an operating lease agreement which is stated at cost net of accumulated depreciation. Depreciation is computed using a straight line method over five (5) years. Lease payments are recognized as other income net of depreciation expense.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under such method, deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period of enactment.

A valuation allowance is established to the extent that it is not more likely than not that the benefits associated with the deferred tax assets will be realized.

Stock-based Compensation

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 permits a company to choose either a new fair value based method of accounting for its stock-based compensation (stock options) or the current Accounting Principles Board (the "APB") Opinion No. 25 intrinsic value based method of accounting for its stock-based compensation. SFAS No. 123 requires pro-forma disclosures of net income and earnings per share computed as if the fair value based method had been applied in financial statements of companies that continue to follow APB No. 25. The Company has elected to use the current APB No. 25 intrinsic value based method of accounting for its stock-based compensation and to disclose its stock-based compensation in accordance with SFAS No. 123.

Non-Interest Income

Fees for other customer services represent fees earned for the brokerage of certificates of deposit and escrow services, and commissions earned in connection with the Bank's stock option lending program and other banking services. Fees for services are recorded as income when the services are performed.

Earnings per Share (the "EPS")

The Company has adopted SFAS No. 128, "Earnings Per Share," effective with these financial statements and has applied it to all prior periods. SFAS No. 128 establishes simplified standards for computing and presenting EPS, and replaces the presentation of primary EPS with "basic EPS" and modifies the fully diluted EPS calculation which is designated diluted EPS. It also requires a dual presentation of basic EPS and diluted EPS on the face of the income statement, and requires disclosure of the calculation of basic EPS compared to diluted EPS in the footnotes to the financial statements.

Basic EPS is calculated dividing net income by the weighted average number of common shares outstanding. The dilutive EPS is calculated giving effect to all potentially dilutive common shares, such as certain stock options, that were outstanding during the period.

The following tables present a reconciliation of the amounts used in calculating basic and diluted EPS for each of the periods shown.

(dollars in thousands except Per-share amounts)

1998	Income	Shares	Per-share amount

	Income	Shares	Per-share amount
Basic EPS	$5,034	31,727,138	$0.16
Effect of dilutive securities:			
Series B Preferred Stock	8	793	
Stock options	--	1,334,781	
Diluted EPS	$5,042	33,062,713	$0.15

1997	Income	Shares	Per-share amount
Basic EPS	$5,443	30,393,679	$0.18
Effect of dilutive securities:			
Series B Preferred Stock	58	793	
Stock options	--	250,015	
Diluted EPS	$5,501	30,644,487	$0.17

1996	Income	Shares	Per-share amount
Basic EPS	$702	5,829,035	$0.12
Effect of dilutive securities:			
Series D Preferred Stock	--	17,944,066	
Stock options	--	--	
Diluted EPS	$702	23,773,101	$0.03

Use of Estimates

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

Recent Accounting Pronouncements

In October 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise, an amendment of FASB Statement No. 65". This statement is to conform the subsequent accounting for securities retained after the securitization of mortgage loans by mortgage banking enterprises with that of non-mortgage banking enterprises. This statement is effective for the first quarter beginning after December 15, 1998. As of December 31, 1998, the Company did not have any mortgage-backed securities retained after the securitization of mortgage loans held for sale.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring that an entity recognize those items as assets or liabilities in the statement of financial position and measure them at fair value. This statement is effective for all quarters of fiscal years beginning after June 15, 1999. As of December 31, 1998, the Company did not have any derivative instruments or engage in hedging activities.

In February 1998, the FASB issued SFAS No. 132, "Accounting for Pensions and Other Post- Retirement Benefit Plans", which revises and standardizes the disclosure requirements for pension and other post retirement benefit plans. The Company does not have any pension or post retirement benefit plans that require disclosure in accordance with SFAS No. 132.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information", which requires that a public company report financial and descriptive information about its reportable operating segments on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. This statement is effective for year-end 1998 financial statements. The Company evaluated its business activities in accordance with the provisions of SFAS No. 131 and determined that its operating segments have similar economic characteristics such as products and services, production process, customers, methods used to distribute products and services, and regulatory environment resulting in their aggregation.

Regulatory

On December 4, 1998, the Federal Reserve Board announced that on November 30, 1998, Mr. Putra Masagung, the beneficial owner of 45.5% of the Company's Common Stock and PT Gunung Agung, the beneficial owner of 52.3% of the Company's Common Stock entered into a Voting Trust Agreement. Mr. Masagung and PT Gunung Agung retained their individual beneficial interest but collectively transferred voting control of 97.8% of the Company's Common Stock to a Trustee under the terms of a Voting Trust Agreement ("the agreement") effective January 4, 1999 which has been filed with the Securities and Exchange Commission. Under the terms of the Agreement, the Trustee shall dispose of the shares upon instructions from Mr. Masagung and PT Gunung Agung.

As of February 11, 1999, the Company and the Bank were not operating under any regulatory orders.

Reclassifications

Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the current year presentation.

Note 2: Investment Securities

The amortized cost and estimated market values of investment securities held-to-maturity at December 31 are as follows:

(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
1998:				
Mortgage-backed securities	$3,846	6	(1)	$3,851
Total	$3,846	6	(1)	$3,851
1997:				
Mortgage-backed securities	$5,864	--	$(42)	$5,822
Total	$5,864	--	$(42)	$5,822

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The amortized cost and estimated market values of investment securities available-for-sale at December 31 are as follows:

(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
1998:				
Fixed rate mortgage-backed securities	$12,810	$67	$(4)	$12,873
U.S. Treasury and agency securities	21,346	26	(10)	21,362
Total	$34,156	$93	$(14)	$34,235
1997:				
Fixed rate mortgage-backed securities	$7,133	$7	$(17)	$7,123
U.S. Treasury and agency securities	25,552	26	(32)	25,546
Total	$32,685	$33	$(49)	$32,669

For 1998 and 1997, the Company included a net unrealized gain of $79,000 and a net unrealized loss of $16,000, respectively, as a component of accumulated other comprehensive income under shareholders' equity. The Company recorded a loss of $6,000 on sale of securities in 1997 and no gains or losses on sale of investment securities during 1998.

As of December 31, 1998 and 1997, the Bank's investment in FHLB stock totaled $2.0 million and $1.5 million and is stated at par.

The amortized cost and estimated market value of securities at December 31, 1998 by contractual final maturity, are shown below:

	Securities Available for Sale		Securities Held to Maturity	
(Dollars in Thousands)	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
1 to 5 years	$13,346	$13,362	--	--
More than 5 years	8,000	8,000	--	--
Subtotal	21,346	21,362	--	--
Mortgage-backed securities	12,810	12,873	$3,846	$3,851
Total	$34,156	$34,235	$3,846	$3,851

The average yield on investments securities was 6.0% and 6.1% during 1998 and 1997, respectively. The U.S. Treasury and agency securities held by the Company had effective maturities of less than three years. Expected maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties. Factors such as prepayments and interest rates may affect the yield and carrying value of mortgage-backed and callable agency securities. As of December 31, 1998 and 1997, the Company had no derivative financial instruments.

At December 31, 1998 and 1997, $600,000 and $1.6 million, respectively, of securities were pledged as collateral for treasury, tax, loan deposits, public agency, bankruptcy and trust deposits. At December 31, 1998, $23.7 million of investment securities and $1.3 million of loans were pledged as collateral for the $20.0 million FHLB borrowing. At December 31, 1998 and 1997, the Company had no securities sold under agreements to repurchase.

At December 31, 1998, the Bank had an unsecured $1.0 million letter of credit from an independent third party bank for the purpose of issuing international trade finance letters of credit on behalf of the Bank's clients.

Note 3: Loans and Leases

The Bank's loan and lease portfolio at December 31 is summarized as follows:

(Dollars in Thousands)	1998	1997
Real estate mortgage	$50,845	$37,826
Secured commercial and financial	10,054	4,912
Unsecured	11,771	8,633
Other loans and leases	1,310	553
Total loans and leases	73,980	51,924
Deferred fees	(144)	(61)
Allowance for loan and lease losses	(1,625)	(3,200)
Total loans and leases, net	$72,211	$48,663

At December 31, 1998 and 1997, non-accrual loans totaled zero and $171,000, respectively, and there were no loans past due 90 days or more and still accruing. For the years ended December 31, 1998, 1997 and 1996 interest income foregone on non-accrual loans was zero, $2,000, and $29,000, respectively. Restructured loans totaled zero at December 31, 1998 and 1997, respectively. For the years ended December 31, 1998, 1997 and 1996, no interest income was foregone on restructured.

Effective January 1, 1995, the Company adopted SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" as amended by SFAS No. 118 "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures". In accordance with SFAS No. 114, a loan is considered impaired when, based on certain events and information, it is "probable" that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. At December 31, 1998, there were no impaired loans outstanding. At December 31, 1997, the Company measured the impairment of all impaired loans, totaling $171,000 using the collateral value method. For the year ended December 31, 1998 and 1997, the weighted average impaired loans outstanding was $34,000 and $924,000, respectively. Total interest income recognized on impaired loans during 1998 and 1997 was $3,000 and $13,000, respectively. At December 31, 1997, the portion of the allowance for loan losses assigned to impaired loans totaled $26,000.

The Company's business activities are with clients in Northern California primarily the greater San Francisco Bay Area. As of December 31, 1998, the Company had $50.8 million in loans secured by real estate located in Northern California including 36.9% located in San Francisco. The primary source of repayment of real estate loans is the borrower's or property's debt service capacity while the secondary source of repayment is the underlying real estate collateral. As of December 31, 1998, the Company had $22.7 million in commitments on unsecured loans of which 51.8% were outstanding. The primary source of repayment on the unsecured loans is the borrowers net worth and cash flow.

Note 4. Allowance for Loan and Lease Losses

Changes in the Company's allowance for loan and lease losses for the years ended December 31 were as follows:

(Dollars in Thousands)	1998	1997	1996
Balances at beginning of the year	$3,200	$5,663	$5,912
Adjustment for loan and lease losses	(1,627)	(2,820)	--
Loans charged off	--	(40)	(646)
Recoveries of loans charged off	52	397	397
Balances at end of the year	$1,625	$3,200	$5,663

Note 5: Other Real Estate Owned

Other real estate owned at December 31 consist of the following:

(Dollars in Thousands)	1998	1997
Real Estate:		
Residential development	$217	$3,652
Commercial development	--	--
Raw land	--	--
Subtotal	217	3,652
Allowance for losses	(166)	(3,242)
Total	$51	$410

In 1998, the Company sold OREO that had an original book value of $3.4 million and a net book value, at December 31, 1997, totaling $3.1 million. In 1997, the Company sold OREO that had an original book value of $10.6 million and a net book value, at December 31, 1996, totaling $4.9 million. In 1998 and 1997, the Company recorded a net gains on sale totaling $480,000 and $460,000, respectively.

The following table summarizes the changes in the allowance for losses related to OREO for the periods shown:

(Dollars in Thousands)	1998	1997	1996
Balance of allowance for losses - beginning	$3,242	$9,111	$11,991
Charge-offs	(3,076)	(6,051)	(2,880)
Provision	--	182	--
Balance of allowance for losses - ending	$166	$3,242	$9,111

Based upon information presently available, management believes that the Bank has made sufficient provision to its allowance for possible loan losses and specific reserves to absorb possible losses that might result from the Bank's strategy to divest the OREO.

Note 6: Premises and Equipment, net

Premises and equipment, net, at December 31 consist of the following:

(Dollars in Thousands)	1998	1997
Leasehold	$3,616	$3,701
Leasehold improvements	8,700	8,646
Furniture and equipment	1,747	1,541
Subtotal	14,063	13,888
Less: Accumulated depreciation and amortization	(6,517)	(6,097)
Total	7,546	$7,791

The amount of depreciation and amortization included in non-interest expense was $533,000, $535,000, and $671,000 in 1998, 1997 and 1996, respectively. Total rental and other occupancy expenses net of sublease income for the Company's premises were $154,000, $326,000 and $288,000 in 1998, 1997 and 1996.

At December 31, 1998, the approximate future minimum rental payments under a non-cancelable operating lease, with a remaining term of twelve years, for the Company's premise are as follows:

(Dollars in Thousands)	Amount
1999	$134
2000	134
2001	134
2002	134
2003	134
Thereafter	916
Total	$1,586

The lease payment is fixed until the expiration of the lease on October 31, 2010. During 1998, 1997 and 1996, the Company received $1,114,000, $864,000 and $877,000 of sublease income, respectively. The total future minimum rent payments to be received under noncancellable operating subleases over the next five years aggregate $3.7 million. None of the noncancellable operating subleases have a remaining term of more than five years. These payments are not reflected in the above table.

Note 7: Deposits

Deposit balances and average interest rates paid by the Bank at December 31 are as follows:

	1998		1997	
(Dollars in Thousands)	Balance	Average Rate	Balance	Average Rate
Demand deposit accounts	$18,237	0.0%	$19,691	0.0%
Money market and savings accounts	19,998	1.9	16,040	2.0
NOW accounts	17,838	2.2	15,986	2.3
Time accounts	39,615	4.8	34,802	5.4
Total	$95,688	2.8%	$86,519	2.9%

Total deposit balances averaged $94.0 million and $95.0 million during 1998 and 1997, respectively, with average interest rates of 2.8% and 2.9%, respectively. The weighted average stated rates on deposits as of December 31, 1998 and 1997 were 2.8% and 2.9%, respectively.

Domestic time deposits in amounts of $100,000 or more by time remaining to maturity at December 31 are as follows:

(Dollars in Thousands)	1998	1997
Three months or less	15,774	$10,026
Three months to six months	953	2,925
Six months to one year	2,015	2,062
Between one and two years	2,500	605
Total	$21,242	$15,618

Interest expense on time deposits in amounts of $100,000 or more was $809,000, $589,000 and $304,000 in 1998, 1997, and 1996, respectively. Time deposit accounts in amounts of $100,000 or more averaged $16.7 million and $12.1 million during 1998 and 1997, respectively, with weighted average rates of 4.8% and 4.9%, respectively. The weighted average stated interest rate on such deposits at December 31, 1998 and 1997 was 4.4% and 5.2%, respectively.

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The Company had no brokered deposits as of December 31, 1998 and 1997, and money desk deposits totaled $12.3 million and $11.7 million at December 31, 1998 and 1997, respectively.

Note 8: Other Borrowings

Other borrowings at December 31 are as follows:

(Dollars in Thousands)	Balance Outstanding	Stated Rate	Average Balance	Average Rate	Maximum Balance Outstanding
1998:					
Other borrowings FHLB:					
Long-term	$18,000	5.6%	$10,545	6.0%	$18,000
Short-term	2,000	5.1	99	5.1	2,000
Total	$20,000	5.5%	$10,644	6.0%	$20,000
1997:					
Other borrowings FHLB:					
Long-term	$10,000	6.0%	$575	6.0%	$10,000
Total	$10,000	6.0%	$575	6.0%	$10,000

The following table sets forth the maturities, as of December 31, 1998, of the borrowings:

(Dollars in Thousands)	Less than 1 Year	Over 1 Year to 3 Years	More Than 4 Years to 5 Years	Total
Fixed rate borrowing	--	$8,000	$5,000	$ 13,000
Adjustable rate borrowing	$2,000	--	5,000	7,000
Total other borrowings	$2,000	$8,000	$10,000	$20,000

The Bank has a credit facility available with the FHLB for up to 20% to total assets, or $28.0 million as of December 31, 1998. At December 31, 1998 and 1997, $25.0 million and $14.8 million of loans and securities were pledged as collateral against other borrowings. The Bank is required to hold FHLB stock as a condition for maintaining its membership in the FHLB.

The Bank has access to the discount window at the Federal Reserve Bank (the "FRB") for a total borrowing facility of $1.9 million upon the pledge of securities. At December 31, 1998, no securities are pledged as collateral for the FRB facility.

Note 9: Income Taxes

The (benefit) provision for income taxes consists of:

(Dollars in Thousands)	1998	1997	1996
Current:			
Federal	$(472)	--	--
State	$12	$6	$(258)

Total current	(460)	6	(258)
Deferred:			
Federal	(680)	(1,065)	--
State	80	(435)	--
Total deferred	(600)	(1,500)	--
Total benefit for income taxes	(1,060)	$(1,494)	$(258)

The provision for income taxes for 1998 consists of minimum amounts due, federal tax refund, and recognition of the tax benefit of certain deferred tax assets including temporary differences and net operating loss carryforwards.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are presented below:

(Dollars in Thousands)	1998	1997
Deferred Tax Assets:		
Book loan loss allowance in excess of tax	$45	$711
Other provisions	33	167
Provision for losses for real estate	68	1,334
Net operating losses	17,645	17,546
Tax credits	489	489
Net tax value of premises in excess of book	124	127
Other	272	395
Total deferred tax assets	18,676	20,769
Valuation allowance	(16,140)	(18,864)
Total deferred tax assets, net	2,536	1,905
Deferred Tax Liabilities:		
Loan origination costs	(101)	(54)
Taxable income in excess of book for rehabilitation credit	(335)	(351)
Total deferred tax liabilities	(436)	(405)
Net deferred taxes	$2,100	$1,500

As required by SFAS No. 109, the realizability of the deferred tax assets is reevaluated and the valuation allowance is adjusted so that the resulting level of deferred tax asset will, more likely than not, be realized. During 1998 and 1997, an adjustment of $600,000 and $1.5 million, respectively, to the amount of realizable deferred tax assets was recorded based on a determination that the Company is more likely than not able to utilize deferred tax assets that had previously been reserved.

The total tax provision (benefit) differs from the statutory federal rates for the reasons shown in the following table:

	1998	1997	1996
Tax expense at the statutory federal rate	34.0%	34.0%	34.0%
Utilization of prior year taxable losses	0.0	(34.0)	(34.2)
State income taxes (refund), net of federal tax benefit	8.5	0.2	(58.1)
Non-deductible expenditures and non-taxable income	0.5	0.0	0.2
Expiration of state net operating loss carryforwards	10.8	0.0	0.0
Realization of previously deferred tax benefits	(12.0)	0.0	0.0
Change in valuation allowance	(68.4)	(38.0)	0.0
Total effective tax benefit rate	(26.6)%	(37.8)%	(58.1)%

As of December 31, 1998, the Company has net operating loss carryforwards for federal tax purposes of approximately $48.2 million which begin expiring in 2007, and for California tax purposes of approximately $17.5 million, which began expiring in 1998. As of December 31, 1998, the Company had rehabilitation tax credit carryforwards for federal tax purposes of approximately $213,000, which expire in 2004 and 2005, and minimum tax credits of approximately $276,000 which have no expiration.

Note 10: Shareholders' Equity

The capital contributions in 1998, 1997, and 1996 were zero, $1.0 million, and $3.5 million, respectively. The capital in 1997 was raised by the issuance of 2,947,787 shares of Class A Common Stock at $0.34 per share. The capital in 1996 was raised by the issuance of 175,000 shares of Series D Preferred Stock at $20.00 per share. The Series D Preferred shares were converted into Class A Common Stock in 1996.

Description of Capital Stock

The authorized capital stock of the Company consists of 100,000,000 Common Shares, par value $0.01 per share and 5,000,000 shares of preferred stock, par value $0.01 per share, of which 437,500 are designated as Series B Preferred Shares. The remainder are not designated.

Description of Common Stock

As of December 31, 1998, there were 31,728,782 Common Shares outstanding out of a total of 100,000,000 shares authorized. The Series B Preferred Shares, which were convertible into shares of the Class B Common Stock at the option of the holders thereof are now convertible to Common Stock. The reclassification is not deemed by the Company to alter or change any of the relative powers, preferences or special rights of the holders of the Class B Preferred shares.

Dividends

After payment of dividends at the stated rate on all series of preferred stock that the Company may issue in the future and that are designated senior, each share of Common Stock is entitled to receive dividends if, as and when declared by the Board of Directors of the Company. Any dividend so declared and payable in cash, capital stock of the Company or other property will be paid equally, share for share, on the Common Stock, Series B Preferred Shares, and on any other participating series of preferred stock issued in the future; provided, however, that the Company may issue dividends consisting solely of its Common Shares on the Common Stock.

Liquidation Rights

In the event of the liquidation, dissolution or winding up of the Company, holders of the Common Stock are entitled to share equally, share for share, in the assets available for distribution, subject to the liquidation preferences of the Series B Preferred Shares and the rights of any other class or series of preferred stock then outstanding.

Description of Preferred Stock

The Board of Directors of the Company is authorized by the Certificate of Incorporation to provide for the issuance of one or more series of preferred stock. The Board of Directors has the power to fix various terms with respect to each such series, including voting powers, designations, preferences, dividend rates, conversion and exchange provisions, redemption provisions, and the amounts which holders are entitled to receive upon any liquidation, dissolution, or winding up of the Company. As of December 31, 1998, the Board of Directors authorized only the issuance of the Series B Preferred Shares. The Company's Certificate of Incorporation provides that additional securities, including additional shares of any class of preferred stock, can be issued only if unanimously approved by the Board of Directors or by stockholders holding a majority of the voting power of the Company.

Voting Rights

Holders of Common Stock (when and if issued) are entitled to one vote per share. Except as described below, holders of Common Stock vote together with holders of the Company's Series B Preferred Shares, on all matters including the election of directors. The Board of Directors is presently authorized to have nine (9) members. The Board of Directors is a classified Board with staggered terms providing for a maximum of three classes of directors, which are as nearly equal in number as possible, and with one class elected each year for a maximum term of three years. Holders of Common Stock are not entitled to vote cumulatively for the election of directors.

The holders of Common Stock are entitled to vote as separate classes on any modification to the rights of either class of stock and as otherwise required by law.

Description of Series B Preferred Stock

The Company issued the Series B Preferred Shares during 1988. As of December 31, 1998, there were 15,869 Series B Preferred Shares outstanding.

Dividends

Holders of the Series B Preferred Shares are entitled to receive, when funds of the Company are legally available for payment, an annual cash dividend of 8% per annum or Fifty-Six Cents ($0.56) per share, payable semi-annually in January, and July of each year. Dividends on the Series B Preferred Shares are cumulative.

Payment of dividends on the Series B Preferred Shares shall be junior to payment of dividends at the stated rate of all other series of preferred stock that the Company may issue in the future and that are designated senior to the Series B Preferred Shares. Dividends on the Series B Preferred Shares will be declared and paid or set apart for payment in full for all previous dividend periods (i) before the payment or setting apart of any funds or assets for the payment of any dividends on the Common Stock or any other class of stock, except preferred stock ranking on a parity with or senior to the Series B Preferred Shares, and (ii) before any purchase or other acquisition for value of any Common Stock or any future class of stock except preferred stock ranking on a parity with or senior to the Series B Preferred Shares; provided, however, that the Company may issue dividends consisting of its Common Shares on the Common Shares.

After payment of dividends at the stated rate on all series of preferred stock that the Company may issue in the future and that are designated senior to the Series B Preferred Shares and on any other preferred stock of the Company that is on a parity with the Series B Preferred Shares, and payment of dividends at the stated rate on the Series B Preferred Shares, holders of the Series B Preferred Shares will participate pro rata with the holders of Common Stock, on the basis of number of shares owned, in all other dividends by the Company to its stockholders, except that, as noted above, the Company may issue dividends consisting solely of its

Common Shares on the Common Shares.

Liquidation Rights

In the event of any liquidation, dissolution, receivership, bankruptcy, or winding up of the Company, voluntarily or involuntarily, the holders of the Series B Preferred Shares are entitled to receive the sum of Seven Dollars ($7.00) per share, plus any accrued and unpaid dividends thereon, before any distributions will be made to the holders of the Common Stock or any other class of stock junior in preference upon liquidation, but after or concurrent with distributions to be made at the stated rate on preferred stock of any series ranking on a parity with or senior in preference upon liquidation to the Series B Preferred Shares, and will be entitled to no other distribution.

Conversion

The holders of Series B Preferred Shares are entitled at any time to convert their Series B Preferred Shares into Common Stock of the Company at the conversion ratio of one Series B Preferred Share convertible into one-tenth of one share of Common Stock, upon payment of a conversion fee of Seven Dollars ($7.00) per share, subject to adjustment under certain conditions.

Voting Rights

The holders of the Series B Preferred Shares are entitled to one vote per Series B Preferred Share on all matters on which shareholders are entitled to vote. Holders of the Series B Preferred Shares have full voting rights and powers equal to the voting rights and powers of the holders of the Common Stock. Holders of the Series B Preferred Shares are entitled to vote generally for the election of directors and vote with the holders of the Common Stock, except that the holders of the Series B Preferred Shares are entitled to vote as a class on any modification to the rights of the Series B Preferred Shares and otherwise as required by law.

Note 11: Stock Option Plan

During 1996, the Company's stockholders approved the Amended and Restated 1993 Stock Option Plan (the "Plan"). Pursuant to the Plan, options may be granted to directors and key employees of the Company and its subsidiaries. The shares of Common Stock reserved for the Plan total 4,325,069 shares. The number of shares granted may be subject to adjustment as determined by a Committee of the Board of Directors. The exercise price of options must be at least the fair market value of the shares of the Company's Common Stock as of the date the option is granted. The expiration date of the options is ten years from the effective date that the options were granted. As of December 31, 1998, 11,611 of the options granted have been exercised. The agreements for certain executive officers and former executive officers provide that options shall be granted to acquire shares of Common Stock under the Plan equal to 9% of the fully-diluted shares of the Company's Common Stock, with additional shares to be issued in the future to maintain the 9% ratio.

The following table provides the fair value of stock options granted in 1998 and 1997. The fair value was calculated using the following assumption in the Black Scholes option-pricing model:

	1998	1997
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	4.54%	5.35%
Expected life	2.5 yrs	2.75 yrs
Volatility factor	0.431	0.253
Fair value of options granted	$0.08	$0.08

The Company has not recognized any compensation costs for the stock options in the financial statements. The proforma net income reflects only options granted and vested in 1998 and 1997. Had the Company determined compensation cost based on fair value at the date of grant for its stock options, the Company's net income would have been the proforma amounts indicated below:

	1998	1997	1996
Net income - as reported (dollars in thousands)	$5,042	$5,443	$702
proforma	5,026	5,355	539
Earnings per share -Basic	$0.16	$0.18	$0.12
Diluted	0.15	0.17	0.03
Proforma per share -Basic	$0.16	$0.18	$0.09
Diluted	0.15	0.17	0.02

The following table provides the stock option activity for each period presented:

	December 31, 1998		December 31, 1997		December 31, 1996	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance at beginning of year	3,672,033	$1.08	3,029,500	$1.24	509,322	$5.68
Granted	646,425	0.45	668,971	0.34	2,522,678	0.35
Exercised	5,000	0.34	6,611	0.34	--	--
Expired	--	--	19,827	0.34	2,500	5.68
Balance at						

end of year	4,313,458	$0.99	3,672,033	$1.08	3,029,500	$1.24

At December 31, 1998, the range of exercise prices and remaining contractual life of outstanding options was $0.34 and $5.68, respectively, and five (5) years and ten (10) years, respectively. Generally, the stock options vest within three years. The following table provides stock option information as of December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise price	Number Out-standing	Weighted-average Remaining Contract-ual life	Weighted average Exer-cise Price	Number Exeris-able	Weighted-average Exer-cise Price
$0.34-$0.45	3,802,965	8.70 years	$0.36	2,954,064	$0.34
$4.50-$5.68	510,493	5.75 years	$5.68	484,970	$5.68

Note 12: Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators, that if undertaken, could have a 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 judgements by the regulators regarding the Bank's capital components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios, as set forth below, of total and Tier I capital, as defined by regulations, to risk weighted assets, and Tier I capital to average assets.

The Company is subject to a Letter Agreement dated April 21, 1989 with the FRB which requires that the Company maintain a minimum leverage capital ratio of 5.5%.

As of December 31, 1998, the most recent notification from the FDIC categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the highest capital category, a bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage ratios as set forth below and must not be subject to any certain regulatory orders, agreements or directives.

The following table sets forth the Bank's capital amounts and ratios as of December 31, for each of the periods shown:

(dollars in thousands)	Actual		For Capital Adequacy purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
1998:						
Total risk-based capital	$22,620	22.8%	$7,945	8.0%	9,931	10.0%
Tier 1 capital	21,374	21.4	3,988	4.0	5,981	6.0
Leverage capital	21,374	16.1	5,296	4.0	6,621	5.0
1997:						
Total risk-based capital	$16,877	21.6%	$6,242	8.0%	7,803	10.0%
Tier 1 capital	15,875	19.8	3,209	4.0	4,814	6.0
Leverage capital	15,875	14.4	4,417	4.0	5,521	5.0

Note 13: Employee Benefit Plans

Employee 401K Plan

The Company provides a 401k plan for its employees. The Company provides matching contributions up to 2% of the employees qualifying earnings. During 1998, 1997, and 1996, the Company contributed $47,000, $41,000 and $31,000, respectively, to the 401k Plan.

Note 14: Commitments and Contingencies

Lending and Letter of Credit Commitments

In the normal course of its business, the Bank has entered into various commitments to extend credit which are not reflected in the consolidated financial statements. Over 90% of such commitments consist of the undisbursed balance on personal and commercial lines of credit and of undisbursed funds on construction and development loans. At December 31, 1998 and 1997, the Bank had outstanding loan commitments, which had primarily adjustable rates, totaling approximately $20.9 million and $10.7 million, respectively. In addition, the Bank had outstanding letters of credit, which represent guarantees of obligations of Bank customers, totaling $1.1 million and $9.8 million at December 31, 1998 and 1997, respectively. The actual liquidity needs or the credit risk that the Company will experience will be lower than the contractual amount of commitments to extend credit because a significant portion of these commitments are expected to expire without being drawn upon. The Bank's outstanding loan commitments are made using the same underwriting standards as comparable outstanding loans. The credit risk associated with these commitments is considered in management's determination of the allowance for loan losses.

Litigation

Because of the nature of its business, the Company and its subsidiaries, including the Bank, are from time-to-time a party to legal actions. Based upon information available to the Company and the Bank, and its review of such outstanding claims to date, management believes the ultimate liability relating to these actions, if any, will not have a material adverse effect on the Company's liquidity, consolidated financial condition or results of operations.

Note 15: Related Party Transactions

Loans

In the ordinary course of business, the Bank may extend credit to directors, officers, shareholders and their associates on substantially the same terms, including interest rates and collateral, as in comparable loan transactions with unaffiliated persons, and such loans do not involve more than the normal risk of collection. As of December 31, 1998 and 1997, there were no loans outstanding to such individuals.

Note 16: Fair Value of Financial Instruments

The following disclosures of the estimated fair value of financial instruments are made in accordance with the requirements of SFAS No. 107. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount 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.

The carrying amount and estimated fair values of the Company's financial instruments at December 31, are as follows:

	1998		1997	
(Dollars in Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$14,908	$14,908	$16,987	$16,987
Investment securities	40,052	40,057	40,032	39,990
Loans, net	72,211	72,783	48,663	50,151
Financial Liabilities:				
Deposits	95,688	95,877	86,519	86,519
Other borrowings	20,000	20,176	10,000	10,000

The following methods and assumptions were used to estimate the fair value of each major classification of financial instruments at December 31, 1998 and 1997:

Cash and Cash Equivalents: Current carrying amounts approximate estimated fair value. Due to the short term nature of time deposits with other financial institutions (original maturities of 90 days or less), current carrying amounts approximate market.

Investment Securities Held-to-Maturity and Available-for-Sale, and FHLB Stock: For securities held-to-maturity and available-for-sale, quoted market prices and/or third party dealer quotes were used to determine fair value. FHLB stock is included at par value which is fair value.

Loans Receivable: The carrying amount of loans is net of unearned fee income and allowance for loan losses. The fair value of loans was calculated by discounting cash flows expected to be received through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The credit and interest rate risk inherent in the loans, was estimated by segmenting the portfolio into categories based on collateral type, fixed or adjustable interest rate, maturity, estimated credit risk, and accrual status. The estimate of maturity is based on final maturity for each loan classification, modified, as required, by an estimate of the effect of amortization, and estimated prepayment based on current economic and lending factors.

Deposit Liabilities: The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings and NOW accounts, and money market and checking accounts, is equal to the amount payable on demand as of each period end. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Other Borrowings: The fair value of other borrowings are determined based on the actual cost of funds compared to the market rate of similar borrowings published daily by the FHLB.

Off Balance Sheet Instruments: The estimated fair value of off balance sheet instruments, principally letters of credit and loan commitments, is approximately the face value of commitment fees collected.

Note 17: The San Francisco Company

Condensed statements of financial condition and operations of the Company at December 31 are as follows:

Condensed Statements of Financial Condition

(Dollars in Thousands)	1998	1997
Assets:		
Cash and short term investments	$205	$307
Investment in subsidiary	22,503	17,359
Other assets	5	--
Total assets	$22,713	$17,666
Liabilities:		
Other liabilities	$9	$96
Total liabilities	9	96
Stockholders' equity	22,704	17,570
Total liabilities and shareholders' equity	$22,713	$17,666

Condensed Statements of Operations

(Dollars in Thousands)	1998	1997	1996
Income:			
Interest earned	$5	$6	$4
Other income	--	24	--
Total income	5	30	4

Expense:			
Other expense	3	67	6
Total expense	3	67	6
Franchise taxes (benefit)	9	3	(258)
(Loss) income before equity in undistributed net income of subsidiary	(7)	(40)	256
Equity in undistributed net income of subsidiary	5,049	5,483	446
Net income	$5,042	$5,443	$702

Condensed Statements of Cash Flows

(Dollars in Thousands)	1998	1997	1996
Cash Flows from Operating Activities:			
Net income	$5,042	$5,443	$702
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of subsidiary	(5,049)	(5,483)	(446)
Net cash flows (used in) provided by operating activities	(7)	(40)	256
Cash Flows used in investing activities:			
Investment in Bank	--	(1,000)	(3,500)
Net (increase) decrease in other assets	(5)	2	68
Net cash used in investing activities	(5)	(998)	(3,432)
Cash Flows provided by financing activities:			
Proceeds from sale of Preferred Stock	--	--	3,500
Proceeds from sale of Common Stock	2	1,000	--
Series B Preferred stock cash dividend	(63)	--	--
Net (decrease) increase in other liabilities	(29)	41	(177)
Net cash provided by financing activities	(90)	1,041	3,323
(Decrease) increase in cash and cash equivalents	(102)	3	147
Cash and cash equivalents at beginning of year	307	304	157
Cash and cash equivalents at end of year	$205	$307	$304

Note 18: Quarterly Information (Unaudited)

The following table sets forth the condensed operating results of the Company for each quarter of the year ending December 31, 1998, and is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this report:

(Dollars in Thousands Except Per Share data)

	1998 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$2,060	$2,093	$2,315	$2,314
Interest expense	803	795	932	881
Net interest income	1,257	1,298	1,383	1,433
Adjustment for loan losses	(94)	(308)	(1,075)	(150)
Non-interest income	697	776	731	1,687
Non-interest expense	1,746	1,795	1,678	1,688
Income before income taxes	302	587	1,511	1,582
Provision (benefit) for taxes	--	5	6	(1,071)
Net income	$302	$582	$1,505	$2,653
Earnings per common share:				
Basic	$0.01	$0.02	$0.05	$0.08
Diluted	0.01	0.02	0.05	0.07

During 1998, the Bank provided an adjustment of $1.8 million to its allowance for loan losses. Based on the significant reduction in problem assets and the demonstrated performance on the existing loans, management determined that a reduction of total allowance for loan losses as a percent of total loans to 2.2% at the end of 1998 from 6.2% at the end of 1997 was appropriate. The adequacy of the allowance for loan losses gives consideration to specifically identified problem loans, the financial condition of the borrower, the fair value of the collateral, recourse to guarantors, and other factors that are discussed under "Note 1: Statement of Accounting Policies -- Allowance for Loan and Lease Losses".

As required by SFAS No. 109, the realizability of the deferred tax assets is reevaluated and the valuation allowance is adjusted so that the resulting level of deferred tax asset will, more likely than not, be realized. During 1998, an adjustment of $600,000 to the amount of realizable deferred tax assets was recorded based on a determination that the Company is more likely than not able to utilize deferred tax assets that had previously been reserved. See additional discussion under "Note 9: Income Taxes".

The following table sets forth the condensed operating results of the Company for each quarter of the year ending December 31, 1997, and is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this report:

(Dollars in Thousands Except Per Share data)

	1997 Quarters Ended			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$1,881	$1,939	$2,197	$2,009
Interest expense	697	662	755	776
Net interest income	1,184	1,277	1,422	1,233
Provision (adjustment) for loan losses	--	--	--	(2,820)
Non-interest income	741	886	888	987
Non-interest expense	1,782	1,930	1,975	1,822
Income before income taxes	143	233	355	3,218
Provision (benefit) for taxes	5	2	(3)	(1,498)
Net income	$138	$231	$358	$4,716
Earnings per common share:				
Basic	$0.01	$0.01	$0.01	$0.15
Diluted	0.01	0.01	0.01	0.14

During 1997, the Bank provided an adjustment of $2.8 million to its allowance for loan losses. Based on the significant reduction in problem assets and the demonstrated performance on the existing loans, management determined that a reduction of total allowance for loan losses as a percent of total loans to 6.2% at the end of 1997 from 12.9 % at the end of 1996 was appropriate. The adequacy of the allowance for loan losses gives consideration to specifically identified problem loans, the financial condition of the borrower, the fair value of the collateral, recourse to guarantors, and other factors that are discussed under "Note 1: Statement of Accounting Policies -- Allowance for Loan and Lease Losses".

As required by SFAS No. 109, the realizability of the deferred tax assets is reevaluated and the valuation allowance is adjusted so that the resulting level of deferred tax asset will, more likely than not, be realized. During 1997, an adjustment of $1.5 million to the amount of realizable deferred tax assets was recorded based on a determination that the Company is more likely than not able to utilize deferred tax assets that had previously been reserved. See additional discussion under "Note 9: Income Taxes".

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item will be furnished in the Company's definitive Proxy Statement, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after December 31, 1998, and is incorporated by reference.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item will be furnished in the Company's definitive Proxy Statement, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after December 31, 1998, and is incorporated by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item will be furnished in the Company's definitive Proxy Statement, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after December 31, 1998, and is incorporated by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will be furnished in the Company's definitive Proxy Statement, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after December 31, 1998, and is incorporated by reference.

PART IV

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

(a) 1. All financial statements.

See Index to Financial Statements on page 27.

2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the notes thereto.

3. List of Exhibits (numbered in accordance with Item 601 of

Regulation S-K):

Exhibit Number	Exhibit
3.1	Certificate of Incorporation of Bank of San Francisco (Delaware) Holding Company, dated June 23, 1988 (1)
3.2	Agreement and Plan of Merger of Bank of San Francisco (Delaware) Holding Company, a Delaware corporation and Bank of San Francisco Company Holding Company, a California Corporation, dated June 24, 1988 (1)
3.3	Certificate of Amendment of the Certificate of Incorporation of Bank of San Francisco Company Holding Company, dated May 22, 1989 (1)
3.4	Certificate of Amendment of the Certificate of Incorporation of Bank of San Francisco Company Holding Company, dated September 21, 1989 (1)
3.5	Bylaws of Bank of San Francisco (Delaware) Holding Company, dated June 23, 1988 (1)
3.6	First Amendment to Bylaws of Bank of San Francisco Company Holding Company, dated July 19, 1989 (1)
3.7	Second Amendment to Bylaws of Bank of San Francisco Company Holding Company, dated June 6, 1990 (1)
3.8	Certificate of Amendment of the Certificate of Incorporation of Bank of San Francisco Company Holding Company, dated May 23, 1994 (4)
3.9	Amended and Restated Certificate of Incorporation of The San Francisco Company, dated May 23, 1994 (4)
3.10	Certificate of Amendment of Certificate of Incorporation or The San Francisco Company, dated December 18, 1996(7)
4.1	Certificate of Designations of Rights, Preferences, Privileges and Restrictions of 8% Series B Convertible Preferred Stock of Bank of San Francisco Company Holding Company, dated July 28, 1988 (1)
4.2	Amended Certificate of Designations of Rights, Preferences, Privileges and Restrictions of 7% Series B Convertible Preferred Stock of Bank of San Francisco Company Holding Company, dated October 7, 1988 (1)
4.3	Certificate of Correction of Certificate of Incorporation, dated June 18, 1990 (1)
10.2	Lease dated November 1, 1960 between The Lurie Company and Bank of America, with respect to premises at 550 Montgomery Street (2)
10.3	Consent to Assignment of Lease, dated October 8, 1986, between The Lurie Company and Bank of San Francisco and Bank of San Francisco Realty Investors, with respect to premises at 550 Montgomery Street (2)
10.4	Assignment of Lease, dated October 17, 1986, by Bank of America to Bank of San Francisco and Bank of San Francisco Realty Investors, with respect to premises at 550 Montgomery Street (2)
10.7	Letter Agreement with the Board of Governors of the Federal Reserve Board, dated April 21, 1989 (1)

10.9 Bank of San Francisco Company Holding Company 401(k) Profit Sharing Plan (3)

10.18 Employment Agreements dated October 1, 1994 between Mr. Gilleran and The San Francisco Company and the Bank of San Francisco. (5)

10.19 Employment Agreements dated November 27, 1995 between Mr. John McGrath and the Bank of San Francisco(6)

10.20 Subscription Agreement dated as of February 26, 1996 between The San Francisco Company and Putra Masagung (6)

10.21 Amended and Restated 1993 Stock Option Plan (7)

10.22 Employment Agreements dated April 22, 1998 between Mr. James E. Gilleran and The San Francisco Company and the Bank of San Francisco. (8)

10.23 Employment Agreements dated April 22, 1998 between Mr. John McGrath and the Bank of San Francisco(8)

10.24 Employment Agreements dated April 22, 1998 between Ms. Keary Colwell and The San Francisco Company and the Bank of San Francisco. (8)

10.25 Employment Agreements dated April 22, 1998 between Ms. Joanne Haakinson and the Bank of San Francisco(8)

21 Subsidiaries of registrant (3)

23.1* Consent of Independent Auditors

____

Footnotes to List of Exhibits:

* Indicates filed herewith.

(1) Incorporated by reference from the Form S-2 (Registration No. 33-34985).

(2) Incorporated by reference from the Form 10-K for the year ended December 31, 1986.

(3) Incorporated by reference from Form 10-K for the year ended December 31, 1990.

(4) Incorporated by reference from Proxy Statement for the Special Meeting of Stockholders' held on May 23, 1994.

(5) Incorporated by reference from Form 10-K for the year ended December 31, 1994.

(6) Incorporated by reference from Form 10-K for the year ended December 31, 1995.

(7) Incorporated by reference from Proxy Statement of the 1996 Annual Meeting of Stockholders' held on December 18, 1996.

(8) Incorporated by reference from the Form 10-Q for the three and six months ended June 30, 1998.

(b) Reports on Form 8-K filed in the fourth quarter of 1998:

A Form 8-K was filed in December 1998 regarding the announcement dated December 4, 1998 of the transfer of voting control of the Company's Common Stock.

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.

The San Francisco Company

/s/ James E. Gilleran James E. Gilleran	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 24, 1999
/s/ Keary L. Colwell Keary L. Colwell	Executive Vice President Chief Financial Officer (Principal Accounting Officer)	March 24, 1999

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

Signature	Title	Date
/s/ James E. Gilleran James E. Gilleran	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 24, 1999
/s/ John McGrath John McGrath	President and Director	March 24, 1999
/s/ Willard D. Sharpe Willard D. Sharpe	Director	March 24, 1999
/s/ Gordon B. Swanson Gordon B. Swanson	Director	March 24, 1999
/s/ Kent D. Price Kent D. Price	Director	March 24, 1999

/s/ Nicholas C. Unkovic Nicholas C. Unkovic	Director	March 24, 1999
/s/ Paul Erickson Paul Erickson	Director	March 24, 1999
/s/ Gary Williams Gary Williams	Director	March 24, 1999
/s/ Peter Foo Peter Foo	Director	March 24, 1999

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
The San Francisco Company

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-24993) of The San Francisco Company and subsidiaries (the "Company") of our report dated February 11, 1999, relating to the Consolidated Statements of Financial Condition of The San Francisco Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated Statements of Operations, Changes in Shareholders' Equity and Comprehensive Income, and Cash Flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 Form 10K of The San Francisco Company.

San Francisco, California
March 24, 1999

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