FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

FIRST KANSAS FINANCIAL CORP

CIK:**1056811**| IRS No.: **481198888** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **000-24037** | Film No.: **99574996**
SIC: **6035** Savings institution, federally chartered

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1998

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ___________ to _____________.

Commission File No. 0-24037

First Kansas Financial Corporation
(Name of Small Business Issuer in Its Charter)

Kansas	48-1198888
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
600 Main Street, Osawatomie, Kansas	66064
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (913) 755-3033

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $0.10 per share
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 .

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

State issuer's revenues for its most recent fiscal year: $7.6 million.

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the average bid and asked price of the registrant's Common Stock on March 8, 1999, was $13.6 million.

As of March 8, 1999, there were issued and outstanding $1,553,938 shares of the registrant's Common Stock.

Transitional Small Business Disclosure Format (check one): YES NO X

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year ended December 31, 1998. (Part II)
2. Portions of the Proxy Statement for the Annual Meeting of Stockholders for the Fiscal Year ended December 31, 1998. (Part III)

PART I

Forward-Looking Statements

First Kansas Financial Corporation (the "Company") may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-KSB and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions, that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rates, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks resulting from these factors.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Item 1. Description of Business

General

The Company is a Kansas corporation organized in February of 1998 at the direction of First Kansas Federal Savings Association (the "Association") to acquire all of the capital stock that the Association issued in its conversion from the mutual to stock form of ownership (the "Conversion"). On June 25, 1998, the Association completed the Conversion and became a wholly owned subsidiary of the Company. Pursuant to the Conversion, First Kansas Federal Savings Association changed its name to First Kansas Federal Savings Bank (the "Bank"). The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage, provided that the Bank retains a specified amount of its assets in housing-related investments. The Company conducts no significant business or operations of its own other than holding all of the outstanding stock of the Bank and investing the Company's portion of the net proceeds obtained in the Conversion.

The Bank was originally chartered in 1899 as "The Consolidated Building and Loan Association" and commenced operations that same year. In 1938, the Bank became a member of the Federal Home Loan Bank System, obtained a federal charter and changed its name to "First Federal Savings and Loan Association of Osawatomie." In 1983, the Bank changed its name to "First Kansas Federal Savings Association."

The Bank is a federally chartered stock savings bank headquartered in Osawatomie, Kansas, with six branch offices located in the Kansas counties of Miami, Bourbon, Mitchell and Phillips. The Bank is subject to examination and comprehensive regulation by the Office of Thrift Supervision ("OTS") and its deposits are federally insured by the Savings Association Insurance Fund ("SAIF"). The Bank is a member of and owns capital stock in the FHLB of Topeka, which is one of the 12 regional banks in the FHLB System.

The Bank operates a traditional savings bank business, attracting deposit accounts from the general public and using those deposits, together with other funds, primarily to originate and invest in loans secured by single-family residential real estate.

Competition

Competition for deposits comes from other insured financial institutions such as commercial banks, thrift institutions, credit unions, finance companies, and multi-state regional banks in the Bank's market areas. Competition for funds also includes a number of insurance products sold by local agents and investment products such as mutual funds and other securities sold by local and regional brokers. Loan competition varies depending upon market conditions and comes from commercial banks, thrift institutions, credit unions and mortgage bankers.

Lending Activities

The following table sets forth information concerning the types of loans held by the Bank.

<TABLE>
<CAPTION>

	At December 31,			
	1998		1997	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Type of Loans:				
Mortgage loans:				
One- to four-family.................	37,884	91.47%	$42,853	91.29%
Multi-family.........................	0	0.00	1,045	2.23
Commercial...........................	471	1.13	535	1.14
Land.................................	264	.64	141	0.30
Construction.........................	151	.36	126	0.27
Total mortgage loans..............	38,770	93.60	44,700	95.23
Consumer loans.........................	2,115	5.10	1,728	3.68
Commercial loans.......................	537	1.30	513	1.09
Total loan portfolio..............	41,422	100.00%	46,941	100.00%
Less:				
Loans in process.....................	31		81	
Deferred fees and discounts..........	116		118	
Allowance for loan losses............	206		179	
Total loans receivable, net........	41,069		$46,563	

</TABLE>

The following table sets forth the estimated maturity of the Bank's loan portfolio at December 31, 1998. The table does not include the effects of possible prepayments or scheduled principal repayments. All mortgage loans are shown as maturing based on the date of the last payment required by the loan agreement. All commercial and consumer loans shown in the table below have fixed interest rates. The mortgage portfolio is comprised of $13,695,000 in fixed rate loans and $25,075,000 in variable rate loans.

<TABLE>
<CAPTION>

	Mortgage Loans(1)	Commercial Loans	Consumer Loans	Total Loans
	(In thousands)			
Amounts due:				
Within 1 year...................	$ 220	$ 79	$ 471	$ 770
Over 1 to 5 years...............	1,249	401	1,555	3,205
Over 5 years....................	37,301	57	89	37,447
Total amount due.............	$38,770	$ 537	$2,115	$41,442

</TABLE>

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(1) Includes construction loans.

Mortgage Loans:

One- to Four-Family Residential Loans. The Bank's primary lending activity consists of originating and purchasing one- to four-family residential mortgage loans secured by property located in the Bank's market areas. About two-thirds of the Bank's loan portfolio is comprised of adjustable-rate mortgage ("ARM") loans which the Bank retains for its portfolio. The remainder consists of fixed-rate loans which the Bank originates either to resell in the secondary market or to retain in its portfolio, depending on the yield on the loan and on its asset/liability management objectives. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or repay loans at their option.

The interest rate on the Bank's ARM loans is based on an index plus a stated margin. The Bank usually offers discounted initial interest rates on ARM loans. Borrowers qualify for the ARM loan at the initial interest rate. However, ARM loan borrowers are, for loan approval, required to meet lower income-to-debt ratios than those required for fixed-rate loans. ARM loans provide for periodic interest rate adjustments upward or downward of up to 1% per adjustment. The interest rate may not increase more than 5% over the life of the loan. The Bank's ARM loans typically reprice annually, after the initial adjustment period of one year, three years or five years, with most loans having terms to maturity of 30 years. ARM loans are offered to all applicants; however, in a relatively low interest rate environment, borrowers may prefer a fixed-rate to ARM loans. Consumer preference in the Bank's market area for ARM loans has recently been weak.

The Bank's fixed-rate loans generally have terms of 15 or 30 years with principal and interest payments calculated using up to a 30-year amortization period. Loans originated with a loan-to-value ratio in excess of 80% require private mortgage insurance. The maximum loan-to-value ratio on mortgage loans secured by nonowner occupied properties generally is limited to 80%. The Bank conforms its loans to the standards that are used in the mortgage industry allowing its loans to be readily sold in the secondary market. The Bank does not currently retain servicing rights to those loans sold in the secondary market.

ARM loans decrease the risk associated with changes in interest rates by periodically repricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying

collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the loan documents, and, therefore is potentially limited in effectiveness during periods of rapidly rising interest rates.

Mortgage loans originated and held by the Bank generally include due-on-sale clauses. This gives the Bank the right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property securing the mortgage loan without the Bank's consent.

Multi-Family and Commercial Loans. Multi-family and commercial loans generally have a loan-to-value ratio of 80% or less. These loans do not have terms greater than 30 years. The Bank's multi-family loans are secured by multiple six-plex and four-plex units. Commercial real estate loans are secured by office buildings, churches and other commercial properties.

Multi-family and commercial real estate lending entails significant additional risks compared to residential property lending. These loans typically involve large loan balances to single borrowers or groups of related borrowers. The repayment of these loans typically is dependent on the successful operation of the real estate project securing the loan. These risks can be significantly affected by supply and demand conditions in the market for office and retail space and may also be subject to adverse conditions in the economy. To minimize these risks, the Bank generally limits this type of lending to its market area and to borrowers who are otherwise well known to the Bank. Most construction loans convert to permanent loans with the Bank after 6 months.

Residential Construction Loans. The Bank makes residential construction loans/permanent loans on one- to four-family residential property to the individuals who will be the owners and occupants upon completion of construction. Only interest payments are required during construction and these are to be paid from the borrower's own funds. These loans are underwritten using the same criteria as applied in the underwriting of one- to four-family mortgage loans. The maximum loan-to-value ratio is 80%. Upon completion of construction, regular principal and interest payments commence.

Land Loans. The Bank also makes land loans which are secured by raw land in its market area, to be used for agriculture or residential construction. At December 31, 1998, land loans totalled $264,000 or .64% of the Bank's total loan portfolio.

Consumer Loans:

The Bank offers consumer loans in order to provide a wider range of financial services to its customers and because these loans provide higher interest rates and shorter terms than many of the Bank's other loans. Consumer loans totalled $2.1 million or 5.10% of the Bank's total loans at December 31, 1998. The Bank's consumer loans consist primarily of direct automobile loans.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. Repossessed collateral for a defaulted consumer loan may not be sufficient for repayment of the outstanding loan, and the remaining deficiency may not be collectible.

Commercial Loans:

The Bank's commercial loan portfolio is comprised of loans to several local businesses, and at December 31, 1998 represented $537,000, or 1.30% of the Bank's total loan portfolio.

Loan Approval Authority and Underwriting. The Bank's loan committee, which is comprised of Larry V. Bailey, Daniel G. Droste and Galen E. Graham, approves all loans. The loan committee has authority to approve loans in any category up to $400,000. Loan requests above this amount must be approved by the Board of Directors.

Upon receipt of a completed loan application from a prospective borrower, a credit report is ordered. Income and certain other information is verified. If necessary, additional financial information may be requested. An appraisal or other estimate of value of the real estate intended to be used as security for the proposed loan is obtained. Appraisals are processed by independent fee appraisers. Private mortgage insurance will also be required in certain instances.

Construction/permanent loans are made on individual properties. Funds advanced during the construction phase are held in a loans-in-process account and disbursed at various stages of completion, following physical inspection of the construction by a loan officer or appraiser.

Either title insurance or a title opinion is generally required on all real estate loans. Borrowers also must obtain fire and casualty insurance. Flood insurance is also required on loans secured by property which is located in a flood zone.

Loan Commitments. Written commitments are given to prospective borrowers on all approved real estate loans. Generally, the commitment requires acceptance within 60 days of the loan application. Loan commitments in excess of this period may be issued upon payment of a non-refundable fee or upon agreement on an interest rate float, allowing the Bank to adjust the interest rate on the loan. As of December 31, 1998, there were no outstanding mortgage commitments.

Loans to One Borrower. The maximum amount of loans which the Bank may make to any one borrower may not exceed the greater of $500,000 or 15% of its unimpaired capital and unimpaired surplus. The Bank may lend an additional 10% of its unimpaired capital and unimpaired surplus if the loan is fully secured by readily marketable collateral. The Bank's maximum loan to one borrower limit was $3.2 million at December 31, 1998. At December 31, 1998, the aggregate loans of the Bank's five largest borrowers have outstanding balances of between $266,000 and $414,000. All of these loans were performing in accordance with their terms.

Non-performing and Problem Assets

Loan Delinquencies. When a mortgage loan becomes 16 days past due, a notice of nonpayment is sent to the borrower. After the loan becomes 22 days past due, another notice of nonpayment, accompanied by a personal letter, is sent to the borrower. If the loan continues in a delinquent status for 90 days past due and no repayment plan is in effect, foreclosure proceedings will be initiated. The borrower will be notified when foreclosure is commenced.

Loans are reviewed on a monthly basis and are placed on a non-accrual status when, in management's opinion, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income. Subsequent interest payments, if any, are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan.

Non-performing Assets. The following table sets forth information regarding nonaccrual loans and real estate owned, as of the dates indicated. For the year ended December 31, 1998, interest income that would have been recorded on loans accounted for on a nonaccrual basis under the original terms of such loans was immaterial.

	At December 31, 1998	At December 31, 1997
	(In thousands)	
Loans accounted for on a non-accrual basis:		
One- to four-family..............................	$ --	$ 75
Consumer...	5	4
Total	5	79
Accruing loans delinquent 90 days or more:		
One- to four-family..............................		--
Consumer...	--	--
Total..	--	--
Total non-performing loans...................	5	79
Foreclosed assets:		
One- to four-family..............................		--
Consumer...	--	--
Total..	--	--
Total non-performing assets........................	$ 5	$ 79
Total non-performing loans as a percentage of net loans..........................	0.01%	0.17%
Total non-performing assets as a percentage of total assets.......................	0.01%	0.08%

Classified Assets. OTS regulations provide for a classification system for problem assets of savings associations which covers all problem assets. Under this classification system, problem assets of savings institutions such as the Bank are classified as "substandard," "doubtful," or "loss." An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that the savings institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets may be designated "special mention" because of potential weakness that do not currently warrant classification in one of the aforementioned categories.

When a savings association classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When a savings association classifies problem assets as loss, it is required either to

establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. A savings association's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS, which may order the establishment of additional general or specific loss allowances. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining a savings association's regulatory capital. Specific valuation allowances for loan losses generally do not qualify as regulatory capital.

At December 31, 1998, the Bank had loans classified as special mention, substandard, doubtful and loss as follows:

	At December 31, 1998
	(In thousands)
Special mention	$ 0
Substandard	19
Doubtful assets	4
Loss assets	0
Total	$ 23

Allowances for Loan Losses. A provision for loan losses is charged to operations based on management's evaluation of the losses that may be incurred in the Bank's loan portfolio. The evaluation, including a review of all loans on which full collectibility of interest and principal may not be reasonably assured, considers: (i) the Bank's past loan loss experience, (ii) known and inherent risks in the Bank's portfolio, (iii) adverse situations that may affect the borrower's ability to repay, (iv) the estimated value of any underlying collateral, and (v) current economic conditions.

The Bank monitors its allowance for loan losses and makes additions to the allowance as economic conditions dictate. Although the Bank maintains its allowance for loan losses at a level that management considers adequate for the inherent risk of loss in the Bank's loan portfolio, future losses could exceed estimated amounts and additional provisions for loan losses could be required. In addition, management's determination as to the amount of allowance for loan losses is subject to review by the OTS, as part of its examination process. After a review of the information available, the OTS might require the establishment of an additional allowance.

The following table illustrates the allocation of the allowance for loan losses for each category of loans. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the Bank's use of the allowance to absorb losses in other loan categories.
<TABLE>
<CAPTION>

	At December 31,			
	1998		1997	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Mortgage loans				
One- to four-family	$ 155	91.47%	$137	91.29%
Multi-family	--	--	--	2.23
Commercial	--	1.13	--	1.14
Land	--	.64	--	0.30
Construction	--	.36	--	0.27
Consumer loans	51	5.10	42	3.68
Commercial loans	--	1.30	--	1.09
Total allowance	$ 206	100.00%	$179	100.00%

</TABLE>

The following table sets forth information with respect to the Bank's allowance for loan losses at the dates and for the periods indicated:

	At December 31,	
	1998	1997
	(Dollars in thousands)	

Balance at beginning of period..............	$ 179	$ 146
Charge-offs:		
One- to four-family.......................	--	
Consumer..................................	(5)	(5)
	(5)	(5)
Recoveries:		
One- to four-family.......................	--	
Consumer	2	3
	2	3
Net charge-offs.............................	(3)	(2)
Provision for loan losses...................	30	35
Balance at end of period....................	$ 206	$ 179
Allowance for loan losses to total non-performing loans at end of period.........	4,120.0%	226.58%
Allowance for loan losses to net loans at end of period....................	.50%	0.38%

Investment Activities

Investment Securities. The Bank is required under federal regulations to maintain a minimum amount of liquid assets which may be invested in specified short-term securities and certain other investments. See "Regulation -- Savings Institution Regulation -- Federal Home Loan Bank System" and "Management's Discussion and Analysis -- Liquidity and Capital Resources." The level of liquid assets varies depending upon several factors, including: (i) the yields on investment alternatives, (ii) management's judgment as to the attractiveness of the yields then available in relation to other opportunities, (iii) expectation of future yield levels, (iv) asset/liability management, and (v) the Bank's projections as to the short-term demand for funds to be used in loan origination and other activities. The Bank classifies its investment securities as "available-for-sale" or "held-to-maturity" in accordance with SFAS No. 115. At December 31, 1998, the Bank's investment portfolio policy permitted investments in instruments such as: (i) U.S. Treasury obligations, (ii) U.S. federal agency or federally sponsored agency obligations, (iii) local municipal obligations, (iv) mortgage-backed securities, (v) banker's acceptances, (vi) certificates of deposit, (vii) federal funds, including FHLB overnight and term deposits (up to six months), (viii) collateralized automobile receivables, and (ix) investment grade corporate bonds, commercial paper and mortgage derivative products. See "-- Mortgage-Backed Securities." The Board of Directors may authorize additional investments.

The Bank's investment securities "available-for-sale" and "held-to-maturity" portfolios at December 31, 1998, did not contain securities of any issuer with an aggregate book value in excess of 10% of the Bank's equity, excluding those issued by the United States government agencies.

Mortgage-Backed Securities. To supplement lending activities, the Bank has invested in residential mortgage-backed securities and collateralized mortgage obligations ("CMOs"). Mortgage-backed securities can serve as collateral for borrowings and, through sale, maturity or repayments, as a source of liquidity. Mortgage-backed securities represent a participation interest in a pool of single-family or other type of mortgages. Principal and interest payments are passed from the mortgage originators, through intermediaries (generally quasi-governmental agencies) that pool and repackage the participation interests in the form of securities, to investors such as the Bank. The quasi-governmental agencies guarantee the payment of principal and interest to investors and include the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Association ("GNMA"), and the Federal National Mortgage Association ("FNMA").

At December 31, 1998, the Bank's mortgage-backed securities portfolio classified as "available- for-sale" totalled $10.6 million, and the Bank's mortgage-backed securities portfolio classified as "held-to- maturity" totalled $3.5 million. Each security was issued by GNMA, FHLMC or FNMA. Expected maturities will differ from contractual maturities due to scheduled repayments and because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

Mortgage-backed securities typically are issued with stated principal amounts. The securities are backed by pools of mortgages that have loans with interest rates that are within a set range and have varying maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate mortgage loans. Mortgage-backed securities are generally referred to as mortgage participation certificates or pass-through certificates. The interest rate risk characteristics of the underlying pool of mortgages (i.e., fixed-rate or adjustable-rate) and the prepayment risk, are passed on to the certificate holder. The life of a mortgage-backed pass-through security is equal to the life of the underlying mortgages. Mortgage-backed securities issued by FHLMC and GNMA make up a majority of the pass-through certificates market.

CMOs have been developed in response to investor concerns regarding the uncertainty of cash flows associated with the prepayment option of the underlying mortgagor. A CMO can be collateralized directly by mortgages, but more often is collateralized by mortgage-backed securities issued or guaranteed by the GNMA, FNMA or the FHLMC and held in trust for CMO investors. In contrast to mortgage-backed securities in which the cash flow is received pro rata by all security holders, the cash flow from the mortgage loans underlying a CMO is segmented and paid in accordance with a predetermined priority to investors holding various CMO tranches. Different classes of bonds are created, each with its own stated maturity, estimated average life, coupon rate, and prepayment characteristics. Notwithstanding the importance of the CMO structure to an evaluation of timing and amount of cash flow, it is essential to understand the coupon rates on the mortgages underlying the CMO to assess the prepayment sensitivity of the CMO tranches. Most of the CMOs owned by the Bank are government agency guaranteed. A few of the CMOs consist of small private issues collateralized by mortgage loans and include extra credit enhancements sufficient to earn the highest credit ratings from independent rating agencies. At December 31, 1998, the Bank's CMO portfolio classified as "available-for-sale" had a carrying value of $16.7 million, and the Bank's CMO portfolio classified as "held-to-maturity" had a carrying value of $19.0 million.

Investment Portfolio. The following table sets forth the carrying value of the Bank's investments. See Notes 3, 4 and 5 to the Bank's Financial Statements.

	At December 31, 1998	At December 31, 1997
	(In thousands)	
Investments:		
U.S. agency securities...............................	$ 3,139	$ 3,852
Mortgage-backed securities held-to-maturity..........	22,521	20,937
Mortgage-backed securities available-for-sale........	27,282	16,833
State and municipal obligations held-to-maturity.....	624	-
Other - held-to-maturity.............................	949	-
Interest-bearing deposits............................	7,000	3,400
FHLB stock...	509	661
Total investments	$62,024	$45,683

The following table sets forth certain information regarding scheduled maturities, carrying values, approximate fair values, and weighted average yields for the Bank's investments at December 31, 1998 by contractual maturity. The following table does not take into consideration the effects of scheduled repayments or the effects of possible prepayments.

<TABLE>
<CAPTION>

	One Year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Investment Securities		
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Market Value

					(Dollars in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Investments:											
U.S. agency securities.......	$ --	--%	$1,000	6.34%	$1,000	6.30%	$ 1,139	8.05%	$ 3,139	6.95%	$ 3,148
Mortgage-backed securities...	--	--	--	--	6,021	6.45	43,781	5.71	49,802	5.80	49,926
Interest-bearing deposits....	7,000	4.75	--	--	--	--	--	--	7,000	4.75	7,000
FHLB stock...................	--	--	--	--	--	--	509	6.75	509	6.75	509
State municipal obligations..	--	--	--	--	--	--	624	4.59	624	4.59	632
Other debt securities........	--	--	--	--	--	--	949	6.60	949	6.60	949
Total investments.........	$7,000	4.75%	$1,000	6.34%	$7,021	6.43%	$47,002	5.78%	$62,023	5.75%	$62,164

</TABLE>

Sources of Funds

Deposits are the Bank's major external source of funds for lending and other investment purposes. Funds are also derived from the receipt of payments on loans and prepayment of loans and maturities of investment securities and mortgage-backed securities and, to a much lesser extent, borrowings and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

Deposits. Consumer and commercial deposits are attracted principally from within the Bank's primary market area through the offering of a selection of deposit instruments including checking accounts, regular savings accounts, money market accounts, and term certificate accounts. IRA accounts are also offered. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit, and the interest rate.

The interest rates paid by the Bank on deposits are set weekly at the direction of the Bank's senior management. Interest rates are determined based on the Bank's liquidity requirements, interest rates paid by the Bank's competitors, and the Bank's growth goals and applicable regulatory restrictions and requirements.

Non-interest bearing demand, regular savings, money market demand and NOW accounts constituted $30.8 million, or 36.5%, of the Bank's deposit portfolio at December 31, 1998 and the average interest rate paid on such interest-bearing accounts at that date was 2.50%. Certificates of deposit constituted $53.6 million, or 63.5%, of the deposit portfolio, of which $3.3 million, or 3.9%, of the deposit portfolio were certificates of deposit with balances of $100,000 or more. Such deposits are offered at negotiated rates. The average interest rates paid on certificates of deposits with deposit balances under $100,000 and over $100,000 were 5.47% and 5.48%, respectively, at December 31, 1998. As of December 31, 1998, the Bank had no brokered deposits.

The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of December 31, 1998.

Maturity Period	Certificates of Deposits
	(In thousands)
Within three months	$ 300
Three through six months	600
Six through twelve months	1,400
Over twelve months	1,000
	$3,300

Borrowings. Advances (borrowings) may be obtained from the FHLB of Topeka to supplement the Bank's supply of lendable funds. Advances from the FHLB of Topeka are typically secured by a pledge of the Bank's stock in the FHLB of Topeka, a portion of the Bank's first mortgage loans and other assets. Each FHLB credit program has its own interest rate (which may be fixed or adjustable) and range of maturities. The Bank may borrow up to $69.6 million from the FHLB of Topeka. If the need arises, the Bank may also access the Federal Reserve Bank discount window to supplement its supply of lendable funds and to meet deposit withdrawal requirements. At December 31, 1998, borrowings from the FHLB of Topeka totalled $0.7 million. The Bank had no other borrowings outstanding.

The following table sets forth the terms of the Bank's short-term FHLB advances.

	At or for the period ended	
	December 31, 1998	December 31, 1997
	(Dollars in thousands)	
Balance at year end.................	$ 650	$ 2,550
Average balance outstanding during the period.................	808	7,748
Maximum amount outstanding at any month-end during the period........................	2,550	10,350
Weighted average interest rate during the period.................	5.73%	6.71%

Personnel

At December 31, 1998, the Bank had 29 full-time employees and 12 part-time employees. None of the Bank's employees are represented by a collective bargaining group. Management believes that its relationship with the employees is good.

Subsidiary Activity

The Bank is permitted to invest up to 2% of its assets in the capital stock of, or loans to, subsidiary corporations. An additional investment of 1% of assets is permitted when the additional investment is utilized primarily for community development purposes. Pursuant to these limitations, as of December 31, 1998, the Bank was authorized to invest up to approximately $2.1 million in the stock of, or loans to, service corporations (based upon the 2% limitation). The Bank has one wholly-owned service corporation, First Enterprises, Inc. ("FEI"). In recent years, FEI has been primarily utilized as an agency for the sale of credit life insurance, mortgage life insurance and certain fixed- and variable-rate annuities. However, in August 1995, the Bank purchased for development through FEI an 8.3 acre tract of land in Paola, known as Baptiste Commons, as seven commercial sites, one of which is the site of our new office building. The Bank's investment in this real estate development project will continue to decline as the remaining lots are sold. At December 31, 1998, the total investment in this real estate was $361,000.

Legal Proceedings

The Bank is, from time to time, a party to legal proceedings arising in the ordinary course of its business, including legal proceedings to enforce its rights against borrowers. The Bank is not a party to any legal proceedings which are expected to have a material adverse effect on its financial statements.

Regulation

Set forth below is a brief description of certain laws which are related to the regulation of the Company and the Bank. The following description does not purport to be complete and is qualified in its entirety by reference to all applicable laws and regulations.

Company Regulation

General. The Company is a unitary savings and loan holding company subject to regulatory oversight by the OTS. The Company files reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non- savings association subsidiaries, should such subsidiaries be formed, which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association. This regulation and oversight is intended primarily for the protection of the depositors of the Bank and not for the benefit of stockholders of the Company.

Qualified Thrift Lender Test. As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions, provided the Bank satisfies the Qualified Thrift Lender ("QTL") test. If the Company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Bank or any other savings association insured by the Savings Association Insurance Fund (SAIF")) would become subject to restrictions applicable to bank holding companies unless such other associations each also qualify as a QTL and were acquired in a supervisory acquisition.

Bank Regulation

General. As a federally chartered, SAIF-insured savings association, the Bank is subject to extensive regulation by the OTS and the Federal Deposit Insurance Corporation (the "FDIC"). Lending activities and other investments must comply with various federal statutory and regulatory requirements. The Bank is also subject to certain reserve requirements promulgated by the FRB.

The OTS, in conjunction with the FDIC, regularly examines the Bank and prepares reports for the consideration of the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal and state law, especially in such matters as the ownership of savings accounts and the form and content of the Bank's mortgage documents.

The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the SAIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulations, whether by the OTS, the FDIC, or the U.S. Congress could have a material adverse impact on the Company, the Bank, and their operations.

Insurance of Deposit Accounts. The Bank's deposit accounts are insured by the SAIF to a maximum of $100,000 for each insured member (as defined by law and regulation). Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator.

As a member of the SAIF, the Bank paid an insurance premium to the FDIC equal to a minimum of .061% of its total deposits. The FDIC also maintains another insurance fund, the Bank Insurance Fund ("BIF"), which primarily insures commercial bank deposits. Effective September 30, 1995, the FDIC lowered the insurance premium of BIF insured deposits to a range of between 0.04% and 0.31% of deposits with the result that most commercial banks would pay the lowest rate of 0.04%. Effective January 1, 1996, the annual insurance premium for most BIF members was lowered to $2,000. These reductions in insurance premiums for BIF members placed SAIF members at a competitive disadvantage to BIF members.

Effective September 30, 1996, federal law was revised to mandate a one-time special assessment on SAIF members such as the Bank of approximately .657% of deposits held on March 31, 1995. The Savings Bank recorded a $355,000 pre-tax expense for this assessment at September 30, 1996. Beginning January 1, 1997, the deposit insurance assessment for most SAIF members was reduced to approximately .065% of deposits on an annual basis through the end of 1999. During this same period, BIF members will be assessed approximately .013% of deposits. After 1999, assessments for BIF and SAIF members should be the same. It is expected that these continuing assessments for both SAIF and BIF members will be used to repay outstanding Financing Corporation bond obligations. As a result of these changes, beginning January 1, 1997, the rate of deposit insurance assessed the Bank declined by approximately 70%.

Regulatory Capital Requirements. OTS capital regulations require savings institutions to meet two capital standards: (1) a leverage ratio (core capital) equal to at least 4% of total adjusted assets, and (2) a risk-based capital requirement equal to 8.0% of total risk-weighted assets.

Dividend and Other Capital Distribution Limitations. OTS regulations require the Bank to give the OTS 30 days advance notice of any proposed declaration of dividends to the Company, and the OTS has the authority under its supervisory powers to prohibit the payment of dividends to the Company. In addition, the Bank may not declare or pay a cash dividend on its capital stock if the effect of the dividend would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established in connection with the Conversion.

OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital. The rule establishes three tiers of institutions, based primarily on an institution's capital level. An institution that exceeds all fully phased-in capital requirements before and after a proposed capital distribution ("Tier 1 institution") and has not been advised by the OTS that it is in need of more than the normal supervision can, after prior notice but without the approval of the OTS, make capital distributions during a calendar year equal to the greater of (i) 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year, or (ii) 75% of its net income over the most recent four quarter period. Any additional capital distributions require prior regulatory approval. As of December 31, 1998, the Bank was a Tier 1 institution. In the event the Bank's capital fell below its fully

phased-in requirement or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Additionally, a savings association is prohibited from making a capital distribution if, after making the distribution, the savings association would be undercapitalized (not meet either of its minimum regulatory capital requirements).

In January 1999, the OTS issued an amendment to its current regulations with respect to capital distributions by savings associations. The amended regulations will be effective April 1, 1999. Under the new regulation, savings associations that would remain at least adequately capitalized following the capital distribution, and that meet other specified requirements, would not be required to file a notice or application for capital distributions (such as cash dividends) declared below specified amounts. Under the new regulation, savings associations which are eligible for expedited treatment under current OTS regulations are not required to file a notice or an application with the OTS if (i) the savings association would remain at least adequately capitalized following the capital distribution and (ii) the amount of capital distribution does not exceed an amount equal to the savings association's net income for that year to date, plus the savings association's retained net income for the previous two years. Thus, under the new regulation, only undistributed net income for the prior two years may be distributed in addition to the current year's undistributed net income without the filing of an application with the OTS. Savings associations which do not qualify for expedited treatment or which desire to make a capital distribution in excess of the specified amount, must file an application with, and obtain the approval of, the OTS prior to making the capital distribution. A savings association that is a subsidiary of a savings and loan holding company, and under certain other circumstances, will be required to file a notice with OTS prior to making the capital distribution. The new OTS limitations on capital distributions are similar to the limitations imposed upon national banks.

Qualified Thrift Lender Test. Savings institutions must meet a QTL test or the definition of a domestic building and loan association under Section 7701 of the Internal Revenue Code (the "Code"). If the Bank maintains an appropriate level of qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-related securities) and otherwise qualifies as a QTL or a domestic building and loan association, it will continue to enjoy full borrowing privileges from the FHLB of Atlanta. The required percentage of qualified thrift investments is 65% of assets while the Code requires investments of 60% of assets.

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits.

Year 2000 Readiness. The approaching millennium is causing organizations of all types to review their computer systems for the ability to properly accommodate the year 2000. When computer systems were first developed, two digits were used to designate the year in date calculations and "19" was assumed for the century. As a result, there is significant concern about the integrity of date sensitive calculations when the calendar rolls over to January 1, 2000. An older system could interpret 01/01/00 as January 1, 1900 potentially causing major problems calculating interest, payment, delinquency or maturity dates.

In 1997, the Company initiated a review and assessment of all hardware and software to determine its Year 2000 readiness. The Company utilizes and is dependent upon data processing systems and software to conduct its business. The data processing systems and software include those developed and maintained by the Company's data processing provider and other commercial software. The Company's data processing provider and many other mission critical vendors have indicated their hardware and/or software is now Year 2000 compliant. The Company has now completed the installation of its renovated hardware and software applications and has completed the first stage of testing. A second test is planned early in the second quarter of 1999. While there will be expenses incurred during the next two years, the Company has not identified any situations at this time that will require material cost expenditures to become fully compliant. Total costs to become Year 2000 compliant are estimated to be less than $100,000. Year 2000 expenditures through December 31, 1998 aggregated approximately $12,000. A worst case Year 2000 scenario for the Company would be the absence of electrical power and/or communications to the data processing center which supports the majority of the mission critical systems to the Company . The Company has considered this and other scenarios in plans for Year 2000 readiness. The Company has developed a Contingency Plan to address mission critical systems failures caused by the Year 2000. The plan provides for procedures and resources necessary for the Company to provide continued services to its customers for a period of time under a worst case scenario.

Item 2. Description of Property

(a) Properties.

The Bank owns 4 of its 6 offices and leases 2 of them. The net book value of this real property at December 31, 1998, was $1,331,000. The Bank's total investment in office equipment had a net book value of $467,000 at December 31, 1998.

Location	Leased or Owned	Year Leased or Acquired	Year Lease Expires	Net Book Value Of Real Property at December 31, 1998
MAIN OFFICE: 600 Main Street Osawatomie, Kansas 66064	Owned	1974	N/A	$ 210,000
2205 South Main Fort Scott, Kansas 66701	Owned	1981	N/A	$ 152,000
100 West Amity Louisburg, Kansas 66053	Owned	1974	N/A	$ 52,000
125 North Mill Beloit, Kansas 67420	Leased	1984	2002	$ 2,000
762 4th Street Phillipsburg, Kansas 67661	Leased	1984	2004	$ --
1310 Baptiste Drive Paola, Kansas 66071	Owned	1998	N/A	$ 915,000

(b) Investment Policies.

See "Item 1. Business" above for a general description of the Bank's investment policies and any regulatory or Board of Directors' percentage of assets limitations regarding certain investments. The Bank's investments are primarily acquired to produce income, and to a lesser extent, possible capital gain.

(1) Investments in Real Estate or Interests in Real Estate. See "Item 1. Business - Lending Activities and - Regulation of the Bank," and "Item 2. Description of Property."

(2) Investments in Real Estate Mortgages. See "Item 1. Business - Lending Activities and - Regulation of the Bank."

(3) Investments in Securities of or Interests in Persons Primarily Engaged in Real Estate Activities. See "Item 1. Business - Lending Activities and - Regulation of the Bank."

(c) Description of Real Estate and Operating Data.

Not Applicable.

Item 3. Legal Proceedings

There are various claims and lawsuits in which the Company or the Bank are periodically involved, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the Bank's business. In the opinion of management, no material loss is expected from any of such pending claims or lawsuits.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

The information contained under the section captioned "Market Price of the Common Stock" of the Company's Annual Report to Stockholders for the fiscal year ended December 31, 1998 (the "Annual Report"), is incorporated herein by reference.

Item 6. Management's Discussion and Analysis or Plan of Operation

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report is incorporated herein by reference.

Item 7. Financial Statements

The Registrant's financial statements listed under Item 13 are incorporated herein by reference.

Item 8. Changes in and Disagreements with Accountants On Accounting and Financial Disclosure.

Not applicable.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons: Compliance with Section 16(a) of the Exchange Act.

The information contained under the sections captioned "Section 16(a) Beneficial Ownership Reporting Compliance" and "I - Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers - Election of Directors" and " - Biographical Information" in the Proxy Statement is incorporated herein by reference.

Item 10. Executive Compensation

The information contained in the section captioned "Director and Executive Officer Compensation" in the Proxy Statement is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the first chart in the section captioned "I -

Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the first chart in the section captioned "I - Information with Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers" in the Proxy Statement.

(c) Management of the Registrant knows of no arrangements, including any pledge by any person of securities of the Registrant, the operation of which may at a subsequent date result in a change in control of the Registrant.

Item 12. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the section captioned "Certain Relationships and Related Transactions" in the Proxy Statement.

Item 13. Exhibits, List, and Reports on Form 8-K

(a) Listed below are all financial statements and exhibits filed as part of this report.

1. The consolidated balance sheets of First Kansas Financial Corporation as of December 31, 1998 and 1997 and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the years in the two year period ended December 31, 1998, together with the related notes and the independent auditors' report of KPMG LLP independent certified public accountants.

2. Schedules omitted as they are not applicable.

3. The following exhibits are included in this Report or incorporated herein by reference:

(a) List of Exhibits:

3(i)	Articles of Incorporation of First Kansas Financial Corporation *
3(ii)	Bylaws of First Kansas Financial Corporation *
10	Employment Agreement with Larry V. Bailey
13	Annual Report to Stockholders for the fiscal year ended December 31, 1998
21	Subsidiaries of the Registrant
27	Financial Data Schedule (electronic filing only)

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* Incorporated by reference to the Company's Registration Statement on Form SB-2 (File No. 333- 48093) declared effective by the SEC on May 8, 1998.

(b) Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of March 25, 1999.

FIRST KANSAS FINANCIAL CORPORATION

By: /s/Larry V. Bailey

Larry V. Bailey
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 25, 1999.

/s/J. Darcy Domoney	/s/James E. Breckenridge
J. Darcy Domoney Chairman	James E. Breckenridge Director
/s/William R. Butler, Jr.	/s/Roger L. Coltrin
William R. Butler, Jr Director	Roger L. Coltrin Director
/s/Donald V. Meyer	/s/Larry V. Bailey
Donald V. Meyer Director	Larry V. Bailey Director, President, CEO and CFO

EXHIBIT 13

FIRST KANSAS FINANCIAL CORPORATION

1998 ANNUAL REPORT TO STOCKHOLDERS

FIRST KANSAS FINANCIAL CORPORATION
ANNUAL REPORT

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[LOGO] FIRST KANSAS
FINANCIAL CORPORATION

600 Main Street
P.O.Box 9
Osawatomie, KS 66064-0009
(913) 755-3033
FAX (913) 755-2795

To Our Stockholders:

On behalf of our Board of Directors and employees, we are pleased to present the first Annual Report to Stockholders of First Kansas Financial Corporation (the "Company"). As you will see from the Annual Report, 1998 was an eventful year for the Company and its wholly-owned subsidiary, First Kansas Federal Savings Bank (the "Bank").

On June 25, 1998, the Bank successfully completed its conversion from the mutual to stock form of organization and the concurrent public offering of 1,553,938 shares of the Company's common stock (the "Conversion"). Net proceeds to the Company and the Bank from the Conversion were approximately $14 million. While the Company is in the early stages of investing the net proceeds from the Conversion, we expect that the investment of these proceeds will generate increased core earnings in future periods.

For the fiscal year ended December 31, 1998, the Company earned $720,000 or $.50 per share, as compared to net income of $672,000, or $.47 per share, for the fiscal year ended December 31, 1997. Earnings per share for the twelve months ended December 31, 1998 and 1997 are pro forma as if the Conversion occurred on January 1, 1997.

At December 31, 1998, the Company's assets totalled $107.2 million, as compared to $95.6 million at December 31, 1997. Stockholders' equity was $21.4 million or $13.80 per share at December 31, 1998, as compared to retained earnings of $6.6 million at December 31, 1997. The increase in assets and stockholders' equity was primarily attributable to the net proceeds received from the Conversion.

We sincerely appreciate the confidence shown by our customers and local community during the Conversion. The goal of your Board of Directors and Management is to continuously strive to enhance your investment in the Company.

Sincerely,

/s/ Larry V. Bailey

Larry V. Bailey
President and Chief Executive Officer

Corporate Profile

The Company is a Kansas corporation organized in February of 1998 at the direction of First Kansas Federal Savings Association (the "Association") to acquire all of the capital stock that the Association issued in its conversion from the mutual to stock form of ownership (the "Conversion"). On June 25, 1998, the Association completed the Conversion and became a wholly owned subsidiary of the Company. Pursuant to the Conversion, First Kansas Federal Savings Association changed its name to First Kansas Federal Savings Bank (the "Bank"). The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage, provided that the Bank retains a specified amount of its assets in housing-related investments. The Company conducts no significant business or operations of its own other than holding all of the outstanding stock of the Bank and investing the Company's portion of the net proceeds obtained in the Conversion.

The Bank was originally chartered in 1899 as "The Consolidated Building and Loan Association" and commenced operations that same year. In 1938, the Bank became a member of the Federal Home Loan Bank System, obtained a federal charter and changed its name to "First Federal Savings and Loan Association of Osawatomie." In 1983, the Bank changed its name to "First Kansas Federal Savings Association."

The Bank is a federally chartered stock savings bank headquartered in Osawatomie, Kansas, with six branch offices located in the Kansas counties of Miami, Bourbon, Mitchell and Phillips. The Bank is subject to examination and comprehensive regulation by the Office of Thrift Supervision ("OTS") and its deposits are federally insured by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of and owns capital stock in the Federal Home Loan Bank ("FHLB") of Topeka, which is one of the 12 regional banks in the FHLB System.

The Bank operates a traditional savings bank business, attracting deposit accounts from the general public and using those deposits, together with other funds, primarily to originate and invest in loans secured by single-family residential real estate and investment securities, including mortgage-backed securities.

Stock Price Information

The Company's common stock has been traded on the Nasdaq National Market under the trading symbol of "FKAN" since it commenced trading on June 25, 1998. The following table reflects high and low sale closing prices as published by the Nasdaq National Market for the calendar quarters indicated. The prices reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions.

	High	Low
1998		
Second quarter (from June 25, 1998)...............	$13	$10
Third quarter....................................	$13	$10
Fourth quarter...................................	$11	$ 9

The number of shareholders of record of common stock as of March 8, 1999, was approximately 325. This does not reflect the number of persons or entities who held stock in nominee or "street" name through various brokerage firms. At March 8, 1999, there were 1,553,938 shares of the Company's common stock outstanding.

There were no dividends paid by the Company during the fiscal year ended December 31, 1998. The Company's ability to pay dividends to stockholders is largely dependent upon the dividends it receives from the Bank. The Bank may not declare or pay a cash dividend on any of its stock if the effect thereof would cause the Bank's regulatory capital to be reduced below (1) the amount required for the liquidation account established in connection with the Conversion, or (2) the regulatory requirements imposed by the OTS.

Selected Financial Ratios and Other Data

	At or For the Years Ended December 31,	
	1998	1997
Return on average assets.....................	0.71%	0.67%
Return on average equity.....................	4.93	10.78
Average equity to average assets ratios......	14.33	6.21
Equity to assets at period end...............	20.00	6.91
Net interest rate spread.....................	2.55	2.53
Net yield on average interest-earning assets......................................	7.00	7.15
Non-performing loans to total assets.........	.01	.08
Allowance for loan loss to total loans.......	.50	.38

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations of the Company and the Bank, and should be read in conjunction with the accompanying Consolidated Financial Statements.

General

The Company was recently formed and, therefore, its results from operations consist primarily of interest income from the investing of funds from the proceeds generated by the sale of common stock and expense incurred in the maintaining of the investment portfolio.

The Bank's results of operations depend primarily on net interest income, which is determined by (i) the difference between rates of interest the Bank earns on its interest-earning assets and the rates the Bank pays on interest-bearing liabilities (interest rate spread), and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Bank's results of operations are also affected by noninterest income, including, primarily, income from customer deposit account service charges, gains and losses from the sale of investments and mortgage-backed securities and noninterest expense, including, primarily, compensation and employee benefits, federal deposit insurance premiums, office occupancy cost, and data processing cost. The Bank's results of operations are also affected significantly by general and economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities, all of which are beyond the Bank's control.

Market Risk Analysis

Qualitative Analysis. The Bank's assets and liabilities may be analyzed by examining the extent to which they are interest rate sensitive and by monitoring the expected effects of interest rate changes on the Bank's net portfolio value.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Bank's assets mature or reprice more quickly or to a greater extent than its liabilities, the Bank's net portfolio value and net interest income would tend to increase during periods of rising interest rates but decrease during periods of falling interest rates. Conversely, if the Bank's assets mature or reprice more slowly or to a lesser extent than its liabilities, the Bank's net portfolio value and net interest income would tend to decrease during periods of rising interest rates but increase during periods of falling interest rates. The Bank's policy has been to address the interest rate risk inherent in the historical savings institution business of originating long-term loans funded by short-term deposits by maintaining sufficient liquid assets for material and prolonged changes in interest rates and by originating loans with shorter terms to maturity such as construction, commercial and consumer loans. In addition, the Bank has invested in adjustable-rate mortgage-backed securities as an interest rate risk management strategy.

Quantitative Analysis. In order to encourage savings associations to reduce their interest rate risk, the OTS adopted a rule incorporating an interest rate risk ("IRR") component into the

risk-based capital rules. The IRR component is a dollar amount that will be deducted from total capital for the purpose of calculating an institution's risk-based capital requirement and is measured in terms of the sensitivity of its net portfolio value ("NPV") to changes in interest rates. NPV is the difference between incoming and outgoing discounted cash flows from assets, liabilities, and off-balance sheet contracts. An institution's IRR is measured as the change to its NPV as a result of a hypothetical 200 basis point ("bp") change in market interest rates. A resulting change in NPV of more than 2% of the estimated present value of total assets ("PV") will require the institution to deduct from its capital 50% of that excess change. The rules provide that the OTS will calculate the IRR component quarterly for each institution. Based on the Bank's asset size and risk-based capital, the Bank has been informed by the OTS that it is exempt from this rule. Nevertheless, the following table presents the Bank's NPV at December 31, 1998, as calculated by the OTS, based on quarterly information voluntarily provided to the OTS.

Changes in Market Interest Rates	Net Portfolio Value $ Amount	$ Change	% Change	NPV Ratio(1)
(basis points)	(Dollars in Thousands)			
+400	$ 9,894,000	$(5,749,000)	-37%	9.80%
+300	$11,921,000	$(3,722,000)	-24%	11.51%
+200	$13,498,000	$(2,145,000)	-14%	12.76%
+100	$14,766,000	$(877,000)	- 6%	13.70%
0	$15,643,000	$ -	-	14.31%
-100	$16,062,000	$ 419,000	3%	14.54%
-200	$16,514,000	$ 871,000	6%	14.79%
-300	$17,255,000	$ 1,612,000	10%	15.25%
-400	$17,908,000	$ 2,265,000	14%	15.62%

(1) Calculated as the estimated NPV divided by present value of total assets.

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments and deposit run-offs and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in such computations. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react at different times and in different degrees to changes in market rates of interest. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag behind changes in market interest rates. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above. Additionally, an increased credit risk may result as many borrowers may be unable to service their debt in the event of an interest rate increase.

The Bank's board of directors reviews the Bank's asset and liability policies on an annual basis. The board of directors meets quarterly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. Management administers the policies and determinations of the board of directors with respect to the Bank's asset and liability goals and strategies. The Bank expects that its asset and liability policies and strategies will continue as described so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

Financial Condition

Total assets increased $11.5 million or 12.1% to $107.2 million at December 31, 1998 from $95.7 million at December 31, 1997. The increase was primarily attributable to an increase of $3.5 million in cash and cash equivalents, a $10.5 million increase in the Bank's mortgage-backed securities available-for-sale and a $1.6 million increase in the Bank's mortgage-backed securities held-to-maturity, partially offset by a $5.5 million decrease in the Bank's loan portfolio. Total liabilities decreased $3.2 million or 3.7% to $85.8 million at December 31, 1998 from $89.0 million at December 31, 1997. The decrease was primarily attributable to a $1.2 million decrease in deposits and a decrease of $1.9 million in borrowings from the FHLB. The growth in mortgage-backed securities resulted from the investment of proceeds received from the Bank's conversion from a mutual savings association to a federal stock savings bank. The decrease in the Bank's loan portfolio occurred despite management's efforts to grow the portfolio and was primarily the result of market competition and the declining interest rate environment.

Average Balance Sheet

The following table sets forth a summary of average balances of assets and liabilities as well as average yield and rate information. Average balances are based upon month-end balances, however, we do not believe the use of month-end balances differs significantly from an average based upon daily balances. There has been no tax equivalent adjustments made to yields.
<TABLE>
<CAPTION>

	At December 31, 1998		Year Ended December 31, 1998			Year Ended December 31, 1997		
	Outstanding Balance	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
			(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:								
Loans receivable(1)......................			$ 43,978	$3,528	8.02%	$ 45,491	$3,604	7.92%
Investment securities....................			3,979	259	6.51%	3,147	163	5.19
Mortgage-backed securities...............			42,240	2,570	6.08%	43,554	2,866	6.58
Interest-bearing deposits................			6,200	389	6.27%	3,586	216	6.01
FHLB stock...............................			650	48	7.38%	635	46	7.25
Total interest-earning assets(1).......			97,047	6,794	7.00%	96,413	6,895	7.15
Noninterest-earning assets.................			4,513	------	-----	4,024	------	-----
Total assets...........................			$101,560			$100,437		
Interest-bearing liabilities:								
NOW and investment deposits..............			$ 23,593	561	2.38%	$ 22,324	564	2.53
Savings and certificate accounts.........			60,901	3,185	5.23%	61,589	3,214	5.22
FHLB borrowings..........................			808	52	6.44%	7,748	461	5.95
Total interest-bearing liabilities.....			85,302	3,798	4.45%	91,660	4,239	4.62
Noninterest-bearing liabilities:...........			1,708	------	-----	2,542	------	-----
Total liabilities........................			87,010			94,202		
Equity.....................................			14,550			6,235		
Total liabilities and equity..........			$101,560			$100,437		
Net interest income........................				$2,996			$2,656	

		=====		=====	
Net interest rate spread(2)................			2.55%		2.53%
Net earning assets.........................	$ 11,745			$ 4,752	
Net yield on interest-earning assets(3).....			3.09%		2.75%
Average interest-earning assets to average interest-bearing liabilities.............			113.77%		105.18%

</TABLE>

----

(1) Includes non-accrual loans and loans held-for-sale. Calculated net of deferred loan fees, loan discounts, loans in process and loan loss reserves.
(2) Net interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average interest-earning assets.

The table below sets forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by old rate); (ii) changes in rates (changes in rate multiplied by old average volume); (iii) changes in rate-volume (changes in rate multiplied by the change in average volume).

	Year Ended December 31, 1998 vs. 1997 Increase/(Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total
	(Dollars in thousands)			
Interest-earning assets:				
Loans receivable(1)......................	$(119)	$ 45	$(2)	$(76)
Investment securities....................	43	42	11	96
Mortgage-backed securities................	(87)	(216)	7	(296)
Interest-bearing deposits.................	157	9	7	173
FHLB stock...............................	1	1	0	2
Total interest-earning assets..........	(5)	(119)	23	(101)
Interest-bearing liabilities:				
NOW and money market deposits............	32	(33)	(2)	(3)
Savings and certificate accounts..........	(36)	7	(0)	(29)
FHLB borrowings..........................	(413)	38	(34)	(409)
Total interest-bearing liabilities.....	(417)	11	(36)	(441)
Increase (decrease) in net interest income..	$412	$(130)	$58	$340

Results of Operations for the Years Ended December 31, 1998 and 1997

Net Income. Net income increased $48,000 for the year ended December 31, 1998, to $720,000 as compared to $672,000 for the year ended December 31, 1997. This increase was primarily attributable to a $340,000 increase in net interest income, partially offset by a $41,000 decrease in noninterest income and a $233,000 increase in noninterest expense.

Net Interest Income. Net interest income is the most significant component of the Bank's income from operations. Net interest income is the difference between interest we receive on interest-earning assets, primarily loans, investment and mortgage-backed securities and interest we pay on interest-bearing liabilities, primarily deposits. Net interest income depends on the volume of and rates earned on interest-earning assets and the volume of and rates paid on interest-bearing liabilities.

The Bank's net interest income increased $340,000 or 12.8% to $2,996,000 for the year ended December 31, 1998, as compared to $2,656,000 for the same period in 1997. The increase was primarily due to the decline in average interest-bearing liabilities to $85.3 million in 1998 from $91.7 million in 1997 and a growth in interest rate spread of 2.55% in 1998 from 2.53% in 1997.

The decrease in average interest-bearing liabilities of $6.4 million primarily reflects the decrease of $6.9 million in balance of average FHLB borrowings.

The Bank's net interest rate spread increased slightly for the year ended December 31, 1998 compared to the same period in 1997 primarily due to a decrease in average cost on interest-bearing liabilities of 4.45% in 1998 compared to 4.62% in 1997, partially offset by a decrease in average yield on interest-earning assets of 7.00% in 1998 compared to 7.15% in 1997.

Provision for Loan Losses. The provision for loan losses was $30,000 for the year ended December 31, 1998 compared to $35,000 for the same period in 1997. The allowance for loan losses was $206,000 or .50% of net loans outstanding at December 31, 1998 compared to $179,000 or .38% of gross loans outstanding at December 31, 1997.

Historically, the Bank has emphasized loss experience over other factors in establishing the provision for loan losses. Management of the Bank review's the allowance for loan losses in relation to (i) past loan loss experience, (ii) known and inherent risks in the Bank's portfolio, (iii) adverse situations that may affect the borrower's ability to repay, (iv) the estimated value of any underlying collateral, and (v) current economic conditions. Management believes the allowance for loan losses is at a level that is adequate to provide for estimated losses. However, there can be no assurance that further additions will not be made to the allowance and that such losses will not exceed the estimated amount.

Noninterest income. Noninterest income decreased $41,000 or 4.81% from $852,000 in 1997 to $811,000 in 1998. This decrease in noninterest income was due to decreases of $54,000 in gain on sale of loans, $52,000 in gain on sales of mortgage-backed securities and $19,000 in other noninterest income accounts, partially offset by an increase of $84,000 in deposit account service fees. Gain on the sale of loans decreased as the result of less originations in the Bank's mortgage banking operation. Deposit account service fees increased due to a higher number of accounts and the continued growth of fee income generated by the totally free checking program.

Noninterest expense. Noninterest expense increased $233,000 or 9.91% from $2,352,000 in 1997 to $2,585,000 in 1998. The increase in noninterest expense was due primarily to a $111,000 increase in compensation and benefits and $49,000 increase in occupancy and equipment. Costs

associated with the Company's employee stock ownership plan was the primarily component of the increase in compensation and benefits. Occupancy and equipment increased due to expenses associated with the addition of a new branch facility.

Income Tax Expense. Income tax expense increased $23,000 from $449,000 in 1997 to $472,000 in 1998. Income tax expense increased due to the $71,000 increase in pretax income to $1,192,000 for the year ended December 31, 1998 compared to $1,121,000 for the same period in 1997. The Company's effective tax rate was 39.60% and 40.50% for the years ended December 31, 1998 and 1997, respectively.

Liquidity and Capital Resources

The Bank is required to maintain minimum levels of liquid assets as defined by OTS regulations. This requirement, which varies from time to time depending upon economic conditions and deposit flows, is based upon a percentage of deposits and short-term borrowings. The required ratio currently is 4% and the Bank's regulatory liquidity ratio average was 26.67% and 5.68% at December 31, 1998 and 1997, respectively.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed securities, maturities of investment securities and interest-bearing deposits with other banks, advances from the FHLB of Topeka, and funds provided by operations. While scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments, maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, to maintain liquidity, and to meet operating expenses.

Net cash provided by operating activities (the cash effects of transactions that enter into our determination of net income e.g., non-cash items, amortization and depreciation, provision for loan losses) for the year ended December 31, 1998 was $757,000 as compared to $1.1 million for the year ended December 31, 1997.

Net cash used in investing activities (i.e., cash payments and cash receipts, primarily from investment securities and mortgage-backed securities portfolios and loan portfolio) for the year ended December 31, 1998 totaled $7.9 million, a change of $14.0 million from December 31, 1997. The change was primarily attributable to purchases of investment and mortgage-backed securities of $28.7 million in 1998 as compared to $1 million in 1997 and a decrease in proceeds from sales of mortgage-backed securities from $4.7 million in 1997 to $1.4 million in 1998. The change was partially offset by a $5.7 million net decrease in loans as compared to a $900,000 net increase in 1997. In addition, paydowns, maturities, and calls of investment securities and mortgage-backed securities were $14.6 million in 1998 as compared to $6.4 million in 1997 and loans purchased decreased $2.7 million from $2.9 million in 1997 to $200,000 in 1998. The large amount of investment purchases during 1998 was the result of the deployment of proceeds received from the stock conversion and the reinvestment of paydowns from the Bank's loan and investment portfolio.

Net cash provided by financing activities for 1998 totaled $10.7 million, an increase of $17.6 million from December 31, 1997. The increase was primarily attributable to $13.8 million in proceeds received from the issuance of common stock in the conversion, net of costs and a $6.9 million decrease in the repayment of borrowings from the FHLB from $8.8 million of repayments in 1997 to $1.9 million in 1998. The increase in cash provided by financing activities was partially offset by a $1.2 million net

decrease in deposits for the year ended December 31, 1998 as compared to a $1.9 million net increase for the same period in 1997.

Year 2000 Readiness. The approaching millennium is causing organizations of all types to review their computer systems for the ability to properly accommodate the year 2000. When computer systems were first developed, two digits were used to designate the year in date calculations and "19" was assumed for the century. As a result, there is significant concern about the integrity of date sensitive calculations when the calendar rolls over to January 1, 2000. An older system could interpret 01/01/00 as January 1, 1900 potentially causing major problems calculating interest, payment, delinquency or maturity dates.

In 1997, the Company initiated a review and assessment of all hardware and software to determine its Year 2000 readiness. The Company utilizes and is dependent upon data processing systems and software to conduct its business. The data processing systems and software include those developed and maintained by the Company's data processing provider and other commercial software. The Company's data processing provider and many other mission critical vendors have indicated their hardware and/or software is now Year 2000 compliant. The Company has now completed the installation of its renovated hardware and software applications and has completed the first stage of testing. A second test is planned early in the second quarter of 1999. While there will be expenses incurred during the next two years, the Company has not identified any situations at this time that will require material cost expenditures to become fully compliant. Total costs to become Year 2000 compliant are estimated to be less than $100,000. Year 2000 expenditures through December 31, 1998 aggregated approximately $12,000. A worst case Year 2000 scenario for the Company would be the absence of electrical power and/or communications to the data processing center which supports the majority of the mission critical systems to the Company . The Company has considered this and other scenarios in plans for Year 2000 readiness. The Company has developed a Contingency Plan to address mission critical systems failures caused by the Year 2000. The plan provides for procedures and resources necessary for the Company to provide continued services to its customers for a period of time under a worst case scenario.

Independent Auditors' Report

The Board of Directors
First Kansas Financial Corporation:

We have audited the accompanying consolidated balance sheets of First Kansas Financial Corporation and subsidiary (the Company) as of December 31, 1998 and 1997 and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 First Kansas Financial Corporation and subsidiary as of December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Kansas City, Missouri
March 5, 1999

FIRST KANSAS FINANCIAL CORPORATION AND SUBSIDIARY
OSAWATOMIE, KANSAS

Consolidated Balance Sheets

December 31, 1998 and 1997
(In thousands)

<TABLE>
<CAPTION>

Assets	1998	1997
<S>	<C>	<C>
Cash and cash equivalents (note 3)	$ 8,143	4,600
Investment securities held-to-maturity (note 4)	4,712	3,852
Mortgage-backed securities available-for-sale (note 5)	27,282	16,833
Mortgage-backed securities held-to-maturity (note 5)	22,521	20,937
Loans receivable, net (note 6)	41,069	46,563
Stock in Federal Home Loan Bank (FHLB) of Topeka, at cost	509	661
Premises and equipment, net (note 7)	1,775	990
Real estate held for development (note 8)	361	355
Accrued interest receivable:		
Investment and mortgage-backed securities	295	244
Loans receivable	190	246
Prepaid expenses and other assets	359	374
Total assets	$ 107,216	95,655
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits (note 10)	$ 84,436	85,651
Advances from borrowers for property taxes and insurance	134	128

Borrowings from FHLB of Topeka (note 11)	650	2,550
Accrued interest payable and other liabilities (note 12)	556	716
Total liabilities	85,776	89,045
Stockholders' equity (note 13):		
Common stock, $.10 par value; 8,000,000 shares authorized, 1,553,938 shares issued and outstanding at December 31, 1998	155	--
Additional paid-in capital	14,834	--
Retained earnings	7,655	6,935
Unearned compensation	(1,181)	--
Accumulated other comprehensive income	(23)	(325)
Total stockholders' equity	21,440	6,610
Commitments (note 6)		
Total liabilities and stockholders' equity	$ 107,216	95,655

</TABLE>

See accompanying notes to consolidated financial statements.

FIRST KANSAS FINANCIAL CORPORATION AND SUBSIDIARY
OSAWATOMIE, KANSAS

Consolidated Statements of Earnings

Years ended December 31, 1998 and 1997
(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Interest income:		
Loans	$ 3,528	3,604
Investment securities	259	163
Mortgage-backed securities	2,570	2,866
Interest-bearing deposits	389	216
Dividends on FHLB stock	48	46
Total interest income	6,794	6,895
Interest expense:		
Deposits (note 10)	3,746	3,778
Borrowings	52	461
Total interest expense	3,798	4,239
Net interest income	2,996	2,656
Provision for loan losses (note 6)	30	35
Net interest income after provision for loan losses	2,966	2,621
Noninterest income:		
Deposit account service fees	671	587
Gain on sales of loans	13	67
Gain on sales of available-for-sale mortgage-backed securities	55	
Other	124	143
(note 5)		
Total noninterest income	811	852
Noninterest expense:		

Compensation and benefits (note 13)	1,304	1,193
Occupancy and equipment	301	252
Federal deposit insurance premiums and assessments	85	75
Data processing	188	167
Deposit account processing fees	196	175
Amortization of premium on deposits assumed	61	61
Supplies expense	76	82
Advertising	160	154
Other	214	193
Total noninterest expense	2,585	2,352
Earnings before income tax expense	1,192	1,121
Income tax expense (note 12)	472	449
Net earnings	$ 720	672
Net earnings per share - basic and diluted	$ 0.50	0.47

</TABLE>

See accompanying notes to consolidated financial statements.

FIRST KANSAS FINANCIAL CORPORATION AND SUBSIDIARY
OSAWATOMIE, KANSAS

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1998 and 1997
(In thousands)

<TABLE>
<CAPTION>

	Common stock	Additional paid-in capital	Retained earnings	Unearned compen-sation	Accumu-lated other compre-hensive income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1996	$ --	--	6,263	--	(468)	5,795
Net earnings			672			672
Change in unrealized gain on available-for-sale securities, net of taxes					143	143
Total comprehensive income						815
Balance, December 31, 1997	--	--	6,935	--	(325)	6,610
Proceeds from issuance of common stock	155	14,833		(1,243)		13,745
Net earnings			720			720
Change in unrealized gain on available-for-sale securities, net of tax					302	302
Total comprehensive income						1,022
Reduction of unearned compensation		1		62		63

Balance, December 31, 1998	$	155	14,834	7,655	(1,181)	(23)	21,440

</TABLE>

See accompanying notes to consolidated financial statements.

FIRST KANSAS FINANCIAL CORPORATION AND SUBSIDIARY
OSAWATOMIE, KANSAS

Consolidated Statements of Cash Flows

Years ended December 31, 1998 and 1997
(In thousands)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Cash flows from operating activities:		
Net earnings	$ 720	672
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	30	35
Depreciation	139	110
Amortization of premium on deposits assumed	61	61
FHLB stock dividends	(48)	(46)
Amortization of loan fees	(56)	(35)
Accretion of discounts and amortization of premiums on investment and mortgage-backed securities, net	207	(37)
Gain on sales of loans, net	(13)	(67)
Gain on sales of mortgage-backed securities available-for-sale	(3)	(55)
Release of unallocated of ESOP shares	63	--
Proceeds from sales of loans	798	3,451
Origination of loans for sale	(785)	(3,384)
Change in accrued interest receivable, prepaids, and other assets	(41)	31
Change in accrued interest payable and other liabilities	(315)	371
Net cash provided by operating activities	757	1,107
Cash flows from investing activities:		
Decrease (increase) in loans, net	5,733	(858)
Loans purchased	(213)	(2,878)
Maturities/calls of investment securities held-to-maturity	3,800	--
Paydowns and maturities of mortgage-backed securities available-for-sale	3,991	2,503
Paydowns and maturities of mortgage-backed securities held-to-maturity	6,817	3,933
Proceeds from sales of mortgage-backed securities available-for-sale	1,430	4,668
Purchases of investment securities held-to-maturity	(4,587)	(1,031)
Purchases of mortgage-backed securities available-for-sale	(15,571)	--
Purchases of mortgage-backed securities held-to-maturity	(8,519)	--
Redemption of FHLB stock	200	--
Increase in real estate held for development	(6)	(99)
Proceeds from sale of real estate held for development	--	214
Additions of premises and equipment, net	(925)	(295)
Net cash (used in) provided by investing activities	$ (7,850)	6,157

</TABLE>

(Continued)

Consolidated Statements of Cash Flows, Continued

Years ended December 31, 1998 and 1997
(In thousands)

	1998	1997
Cash flows from financing activities:		
Net (decrease) increase in deposits	$ (1,215)	1,928
Repayment of borrowings from FHLB	(1,900)	(8,800)
Proceeds from issuance of common stock, net of costs	13,745	--
Net decrease (increase) in advances from borrowers for taxes and insurance	6	(14)
Net cash provided by (used in) financing activities	10,636	(6,886)
Net increase in cash and cash equivalents	3,543	378
Cash and cash equivalents at beginning of year	4,600	4,222
Cash and cash equivalents at end of year	$ 8,143	4,600
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	$ 854	116
Cash paid during the year for interest	$ 3,846	4,218

See accompanying notes to consolidated financial statements.

FIRST KANSAS FINANCIAL CORPORATION AND SUBSIDIARY
OSAWATOMIE, KANSAS

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of First Kansas Financial Corporation (the Company) and its wholly-owned subsidiary, First Kansas Federal Savings Bank (the Bank). Intercompany balances and transactions have been eliminated. The Company is principally engaged in single family home lending in the State of Kansas. The Company also makes consumer and commercial loans depending on the demand and management's assessment of the quality of such loans.

(b) Cash Equivalents

Cash equivalents consist of interest-bearing deposits in the Federal Home Loan Bank (FHLB) of Topeka and other financial institutions with an original maturity of three months or less.

(c) Investment Securities

The Company accounts for its investment securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, investments are classified as held-to-maturity, which are carried at amortized cost, or available-for-sale, which are carried at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of related income taxes.

Amortization and accretion of premiums and discounts are computed using the interest method over the estimated life of the related security and are recorded as an adjustment of interest income. Gains and losses on sales are calculated using the specific identification method.

(d) Loans

Loans receivable that management has the intent and ability to hold until maturity or pay off are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

The Company determines at the time of origination whether mortgage loans will be held for the Company's portfolio or sold in the secondary market. Loans originated and intended for sale in the secondary market are recorded at the lower of aggregate cost or estimated market value. Fees received on such loans are deferred and recognized in income as part of the gain or loss on sale.

Loan origination, commitment and related fees, and certain direct origination costs related to loans for the Company's portfolio are deferred. The deferred fees and costs are amortized as an adjustment of yield over the contractual term of the individual loans using the interest method.

(Continued)

(e) Mortgage Banking Activities

At December 31, 1998 and 1997, the Company was servicing loans for others amounting to $663,000 and $1,435,000, respectively. Loan servicing fees include servicing fees from investors and certain charges collected from borrowers, such as late payment fees, which are recorded when received. The amount of escrow balances held for borrowers at December 31, 1998 and 1997 was insignificant.

Originated servicing rights are not recorded as assets of the Company. Statement of Financial Accounting Standards (SFAS) No. 122, Accounting for Mortgage Servicing Rights, as amended by SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, requires that originated servicing rights be valued and recorded as assets when the loan is originated, and subsequently amortized as a component of servicing cost over the expected life of the loan. Because the Company did not retain any servicing rights on loans originated and sold during 1998 and 1997, SFAS No. 122 and SFAS No. 125 had no effect on the Company's consolidated financial statements.

(f) Provisions for Losses on Loans and Interest Receivable

Provisions for losses on loans receivable are based upon management's estimate of the amount required to maintain an adequate allowance for losses, relative to the risks in the loan portfolio. This estimate is based on reviews of the loan portfolio, including assessment of the estimated net realizable value of the related underlying collateral, and consideration of historical loss experience, current economic conditions, and such other factors which, in the opinion of management, deserve current recognition. Loans are charged off when the probability of loss is established, taking into consideration such factors as the borrower's financial condition, underlying collateral, and guarantees. Loans are also subject to periodic examination by regulatory agencies. Such agencies may require charge-offs or additions to the allowance based upon their judgments about information available at the time of their examination.

Accrual of interest income on loans is discontinued for those loans with interest more than ninety days delinquent or sooner if management believes collectibility of the interest is not probable. Management's assessment of collectibility is primarily based on a comparison of the estimated value of underlying collateral to the related loan and accrued interest receivable balances. When interest accrual is discontinued, all unpaid accrued interest is reversed. Nonaccruing loans are returned to accrual status when principal and interest is reasonably assured and a consistent record of performance has been demonstrated. Payments received on impaired or nonaccrual loans are applied to principal and interest in accordance with the contractual terms of the loan unless full payment of principal is not expected, in which case both principal and interest payments received are applied as a reduction of the carrying value of the loan.

(Continued)

A loan is considered impaired when it is probable the Company will be unable to collect all amounts due - both principal and interest - according to the contractual terms of the loan agreement. When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Impairment may also be measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Regardless of the historical measurement method used, the Company measures impairment based on the fair value of the collateral when it determines foreclosure is probable. Additionally, impairment of a restructured loan is measured by discounting the total expected future cash flows at the loan's effective rate of interest as stated in the original loan agreement.

The Company applies the methods described above to multifamily real estate loans, commercial real estate loans, and restructured loans. Smaller balance, homogeneous loans, including one-to-four-family residential and construction loans and consumer loans, are collectively evaluated for impairment.

(g) Real Estate Owned and Held for Development

Real estate properties acquired through foreclosure are initially recorded at the lower of cost or estimated fair value, less selling costs, at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas holding costs are expensed when incurred. Valuations are periodically performed by management and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less selling costs.

Real estate held for development consists of a parcel of land and improvements zoned for commercial development. Such development is carried at cost which is less than the estimated market value. Direct costs, including interest, are capitalized as property costs during the development period. Gains on sales are recognized by allocating costs to parcels sold using the relative fair value method.

(h) Stock in FHLB of Topeka

The Company is a member of the FHLB system. As a member, the Company is required to purchase and hold stock in the FHLB of Topeka in an amount equal to the greater of (a) 1% of unpaid residential loans, (b) 5% of outstanding FHLB advances, or (c) .3% of total assets. FHLB stock is carried at cost in the accompanying consolidated balance sheets.

(i) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided using both straight-line and accelerated methods over the estimated useful lives of the assets, which range from three to thirty-five years. Major replacements and betterments are capitalized while normal maintenance and repairs are charged to expense when incurred. Gains or losses on dispositions are reflected in current operations.

(Continued)

(j) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

(k) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(l) Accounting Changes

The Company adopted Financial Accounting Standards Board (FASB) No. 130, Reporting Comprehensive Income, (SFAS No. 130) effective January 1, 1998. SFAS No. 130 establishes standards for reporting comprehensive income and its components (revenues, expenses, gains, and losses). Components of comprehensive income are net income and all other nonowner changes in equity. The statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement, and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The only component of comprehensive income consists of unrealized holding gains and losses on available-for-sale investment securities.

The Company adopted FASB Statement No. 131, Disclosures About Segments of an Enterprise and Related Information, (SFAS No. 131) effective January 1, 1998. This statement establishes standards for reporting information about segments in annual and interim financial statements. SFAS No. 131 introduces a new model for segment reporting called the "management approach." The management approach is based on the way the chief operating decision-maker organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, and any other in which management disaggregates a company. Based on the "management approach" model, the Company has determined that its business is comprised of a single operating segment and that SFAS No. 131, therefore, has no impact on its consolidated financial statements.

(Continued)

(m) New Accounting Pronouncements

The FASB issued SFAS No. 133, Accounting for Derivative Financial

Instruments and Hedging Activities, in June 1998. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning June 15, 1999, may be adopted early for periods beginning after issuance of the statement, and may not be applied retroactively. The Company does not expect to adopt SFAS No. 133 early. 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, in October 1998. This statement amends SFAS No. 65 and requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. SFAS No. 134 is effective for the first fiscal quarter beginning after December 15, 1998. The adoption of SFAS No. 133 and SFAS No. 134 is not expected to have a material impact on the Company's consolidated financial statements.

(n) Earnings Per Common Share

Basic earnings per share is based upon the weighted average number of common shares outstanding during the periods presented. Earnings per share for the twelve months ended December 31, 1998 and 1997 are pro forma as if the conversion and acquisition occurred on January 1, 1997. Unallocated shares of common stock held by the employee stock ownership plan are not included in the weighted average shares outstanding computation. For the years ended December 31, 1998 and 1997, there were no dilutive potential common shares outstanding. Average shares outstanding used in the computation of earnings per share for 1998 and 1997 were 1,429,640 and 1,429,623, respectively.

(2) Initial Public Offering

On June 25, 1998, the Company completed an initial public offering selling 1,553,938 shares of its common stock at $10.00 per share. Total expenses of the offering approximated $548,000.

(3) Cash and Cash Equivalents

A summary of cash and cash equivalents follows (in thousands):

	1998	1997
Cash on hand	$ 644	651
Deposits at other financial institutions	499	549
Overnight FHLB deposits	7,000	3,400
	$ 8,143	4,600

(Continued)

(4) Investment Securities

A summary of investment securities held-to-maturity and information relating to amortized cost, approximate fair values, and unrealized gains (losses) at December 31, 1998 and 1997 is as follows (in thousands):

<TABLE>
<CAPTION>

1998	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<S>	<C>	<C>	<C>	<C>
U.S. government and agency obligations maturing after one year but within five years	$ 1,000	4	--	1,004

U.S. government and agency obligations maturing after five years but within ten years	1,000	--	--	1,000
U.S. government and agency obligations maturing after ten years	1,139	5	--	1,144
State and municipal obligations maturing after ten years	624	8	--	632
Other debt securities maturing after ten years	949	--	--	949
	$ 4,712	17	--	4,729
1997				
U.S. government and agency obligations maturing within one year	$ 800	--	(1)	799
U.S. government and agency obligations maturing after one year but within five years	2,000	--	(4)	1,996
U.S. government and agency obligations maturing after ten years	1,052	105	--	1,157
	$ 3,852	105	(5)	3,952

</TABLE>

(Continued)

(5) Mortgage-backed Securities

A summary of mortgage-backed securities and information relating to amortized cost, approximate fair values, and unrealized gains (losses) at December 31, 1998 and 1997 is as follows (in thousands):

<TABLE>
<CAPTION>

1998	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<S>	<C>	<C>	<C>	<C>
Available-for-sale:				
Government agency mortgage-backed securities:				
Federal Home Loan Mortgage Corporation (FHLMC)	$ 2,121	21	(2)	2,140
Federal National Mortgage Association (FNMA)	4,303	11	(15)	4,299
Government National Mortgage Association (GNMA)	4,128	27	--	4,155
Collateralized mortgage obligations	16,765	33	(110)	16,688
	$ 27,317	92	(127)	27,282
Held-to-maturity:				
Government agency mortgage-backed securities:				
FHLMC	$ 90	2	--	92
FNMA	3,092	43	(1)	3,134
GNMA	339	25	--	364
Collateralized mortgage obligations	19,000	95	(41)	19,054
	$ 22,521	165	(42)	22,644

</TABLE>

(Continued)

<TABLE>
<CAPTION>

1997	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<S>	<C>	<C>	<C>	<C>
Available-for-sale:				
Government agency mortgage-backed securities:				
FHLMC	$ 331	--	--	331
FNMA	552	23	--	575
GNMA	1,927	60	--	1,987
Collateralized mortgage obligations	14,515	35	(610)	13,940
	$ 17,325	118	(610)	16,833
Held-to-maturity:				
Government agency mortgage-backed securities:				
FHLMC	$ 162	5	--	167
FNMA	2,543	39	(2)	2,580
GNMA	500	43	--	543
Collateralized mortgage obligations	17,732	23	(150)	17,605
	$ 20,937	110	(152)	20,895

</TABLE>

The Company's portfolio of government agency mortgage-backed securities and federal agency-backed collateralized mortgage obligations consists primarily of first and second tranche securities with expected maturities of three to five years. At December 31, 1998, the government agency mortgage-backed securities had a carrying value of $14,115,000 and consisted of approximately $2,410,000 of fixed rate securities and $11,705,000 of variable rate securities. The collateralized mortgage obligations had a carrying value of $35,688,000 and consisted of approximately $21,458,000 of fixed rate securities and $14,230,000 of variable rate securities. Collateralized mortgage obligations of the Company are generally government agency guaranteed.

The proceeds from sales of government agency mortgage-backed securities during 1998 were $1,430,000. Gross gains of $3,000 were realized on those sales. The proceeds from sales of investment securities during 1997 were $4,668,000. Gross gains of $55,000 were realized on those sales.

At December 31, 1998 and 1997, government agency mortgage-backed securities with a carrying value of approximately $1,850,000 and $2,550,000, respectively, were pledged to secure public funds on deposit.

(Continued)

(6) Loans Receivable

Loans receivable consist of the following at December 31, 1998 and 1997 (in thousands):

	1998	1997
Mortgage loans:		
One-to-four-family	$ 37,884	42,853
Multifamily	--	1,045
Commercial	471	535
Land	264	141
Construction	151	126
Total mortgage loans	38,770	44,700
Consumer loans	2,115	1,728
Commercial loans	537	513
Total	41,422	46,941
Less:		
Unearned discounts and deferred fees	116	118
Allowance for loan losses	206	179
Undisbursed portion of loans in process	31	81
Total, net	$ 41,069	46,563

The Company evaluates each customer's creditworthiness on a case-by-case basis. Residential loans with a loan-to-value ratio exceeding 80% are required to have private mortgage insurance. The Company's primary lending area is in the State of Kansas.

The weighted average annual interest rates on mortgage loans approximated 7.51% and 7.69% at December 31, 1998 and 1997. Adjustable rate loans have interest rate adjustment limitations and are generally indexed to the national average cost of funds. Future market factors may affect the correlation of the interest rate adjustment with the rates the Company pays on the short-term deposits that have been primarily utilized to fund these loans.

At December 31, 1998, the Company did not have any outstanding commitments to originate mortgage loans or to purchase loans.

(Continued)

Loans made to directors and executive officers of the Company approximated $579,000 and $375,000 at December 31, 1998 and 1997, respectively. Such loans were made in the ordinary course of business. Changes in such loans for 1998 are as follows (in thousands):

Balance at January 1, 1998	$ 375
Additions	391
Amounts collected	(187)
Balance at December 31, 1998	$ 579

A summary of the activity in the allowance for loan losses follows (in thousands):

	1998	1997
Balance at beginning of year	$ 179	146
Provision	30	35
Charge-offs	(5)	(5)
Recoveries	2	3

Balance at end of year	$ 206	179

Loans delinquent ninety days or more at December 31, 1998 and 1997 aggregated $5,000 and $80,000, respectively. Impaired loans, exclusive of delinquent loans, were insignificant at December 31, 1998 and 1997.

(7) Premises and Equipment

Premises and equipment consist of the following (in thousands):

	1998	1997
Land	$ 217	217
Buildings and improvements	1,688	1,077
Construction in progress	38	241
Furniture and equipment	1,114	766
Total	3,057	2,301
Less accumulated depreciation	1,282	1,311
Total	$ 1,775	990

(Continued)

(8) Real Estate Held for Development

The Company's subsidiary acquired a parcel of land in 1996 in Paola, Kansas for the purpose of development and sale. Total cost incurred through December 31, 1998, including capitalized interest of $37,000, aggregated $658,000. There were no sales or transfers associated with the parcel of land during 1998. During 1997, one lot with an allocated cost of $118,000 was transferred to the Company for the purpose of building a new branch facility. Additionally, two lots with allocated cost aggregating $179,000 were sold during 1997, resulting in gains on those sales totaling $35,000.

(9) Premium on Deposits Assumed

In accordance with the FSLIC Transfer Agreement dated November 19, 1982, the Company assumed certain deposits of the former North Kansas Savings Company, paying a premium on deposits assumed of $1,212,000. The Company is amortizing the premium over twenty years on the straight-line method. Accumulated depreciation on such premium was $973,000 and $912,000, respectively, at December 31, 1998 and 1997.

(10) Deposits

Deposits are summarized as follows (dollars in thousands):

	1998	1997
Noninterest bearing demand	$ 2,477	1,927
Savings and interest-bearing demand	28,312	27,461
Time	53,647	56,263
	$ 84,436	85,651

The weighted average interest rates on deposits approximated 4.68% and 4.66% at December 31, 1998 and 1997, respectively.

Scheduled maturities of time deposits at December 31, 1998 are as follows (in thousands):

1999	$ 36,631
2000	9,159
2001	4,903
2002	1,090
2003	1,338
Thereafter	526
Total	$ 53,647

(Continued)

A summary of interest expense is as follows (in thousands):

	1998	1997
Passbook and certificate accounts	$ 3,185	3,214
NOW	561	564
	$ 3,746	3,778

Certificates of deposit in amounts greater than or equal to $100,000 amounted to $3,300,000 and $3,100,000 at December 31, 1998 and 1997, respectively. Individual deposit amounts in excess of $100,000 are not federally insured.

(11) Borrowings from FHLB of Topeka

Borrowings outstanding from the FHLB of Topeka at December 31, 1998 totaled $650,000, with an adjustable interest rate based on the one-month LIBOR rate and maturing in 2002. Borrowings at December 31, 1997 totaled $2,550,000, including individual advances and $1,900,000 borrowed under an $8,000,000 line of credit with an adjustable interest rate based on the fed funds rate and maturing in 1999. Weighted average interest rates for the years ended December 31, 1998 and 1997 were 5.73% and 6.71%, respectively, on such borrowings.

FHLB borrowings are secured by all unpledged single and multifamily first mortgage loans, mortgage-backed securities, United States government and agency obligations, interest-bearing deposits in other financial institutions, stock in FHLB, and FHLB overnight deposits.

In January 1999, the Company purchased $20,000,000 of mortgage-backed securities with proceeds received from two $10,000,000 advances from the FHLB. The assets purchased and their underlying liabilities are fixed rated through five years.

(12) Income Taxes

The components of income tax expense from operations are as follows (in thousands):

	Federal	State	Total
Year ended December 31, 1998:			
Current	$ 452	67	519
Deferred	(34)	(13)	(47)
	$ 418	54	472
Year ended December 31, 1997:			
Current	$ 385	65	450
Deferred	(1)	--	(1)
	$ 384	65	449

The reasons for the differences between the effective tax rates and the expected federal income tax rate of 34% are as follows:

	Percentage of earnings before income taxes 1998	1997
Expected federal income tax rate	34.0 %	34.0
State taxes, net of federal tax benefit	3.0	3.8
Other, net	2.6	2.3
Effective income tax rate	39.6 %	40.1

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities at December 31, 1998 and 1997 are as follows (in thousands):

	1998	1997
Unrealized loss on available-for-sale securities	$ 12	167
Loan origination fees	7	12
Other, net	14	--
Deferred tax asset	33	179
Premises and equipment	(85)	(88)
FHLB dividends	(125)	(109)
Allowance for loan losses	(70)	(108)
State taxes	(21)	(34)
Deferred tax liability	(301)	(339)
Net deferred tax liability, included in other liabilities	$ (268)	(160)

There was no valuation allowance required for deferred tax assets at December 31, 1998 or 1997. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Prior to 1996, the Company was allowed to deduct the greater of an experience method bad debt deduction based on actual charge-offs or a statutory bad debt deduction based on a percentage (8%) of taxable income before such deduction. For income tax purposes, the Company used the experience methods in 1997 and 1998. Under the Small Business Job

Projection Act (the Act) of 1996, the allowable deduction under the percentage of taxable income method was terminated for tax years beginning after 1995 and will not be available to the Company for future years. The Act also provides that federal income tax bad debt reserves accumulated since 1988 (the base year reserve) must be recaptured and included in taxable income over a six-year inclusion period beginning 1998. Included in the deferred income tax liability at December 31, 1998 and 1997 is $140,000 and $168,000, respectively, for this recapture.

Retained earnings at December 31, 1998 and 1997 includes approximately $718,000 for which no provision for federal income tax has been made. This amount represents allocations of income to bad debt deductions in years prior to 1988 for tax purposes only. Reduction of amounts allocated for purposes other than tax bad debt losses will create income for tax purposes only, which will be subject to the then current corporate income tax rate.

(13) Benefit Plans

The Company participates in a multiemployer, noncontributory defined benefit pension plan which covers all employees who have met eligibility requirements. Because of the multiemployer plan status, the Company does not make disclosures similar to those of single-employer plans. Qualified part-time and full-time employees over age twenty-one are eligible for participation after one year of service. Pension costs associated with the plan amounted to $2,000 and $3,000 for the years ended December 31, 1998 and 1997, respectively.

The Company has a defined contribution plan that covers substantially all employees. Employees may contribute up to 15% of their salary, subject to limitations under the Internal Revenue Code, and the Company matches 50% of the employee's contribution up to 6% of compensation. The Company's expense under the plan for 1998 and 1997 was $22,000 and $23,000, respectively. In addition, the Company made discretionary contributions to the plan of $21,000 and $55,000 for the years ended December 31, 1998 and 1997, respectively.

In December 1997, the Company implemented a supplemental executive retirement plan ("SERP") for the benefit of the Company's president which will provide enhanced benefits at retirement. Accruals under the SERP commenced during 1998, resulting in an expense of $29,000 for the year ended December 31, 1998.

In connection with the offering described in note 2, the Company established an employee stock ownership plan (ESOP). Through a loan from the Company, the ESOP acquired 124,315 shares of the Company's common stock. Employees age twenty-one or older who have completed one year of service with the Company are eligible to participate in the ESOP. Participants become 100% vested after five years. Contributions made by the Company to the ESOP will be used to repay the loan, and shares are allocated to participants by a formula based on total compensation. The cost of unallocated shares is presented as unearned compensation in the accompanying December 31, 1998 consolidated balance sheet. The Company recognizes additional compensation expense equal to the fair value of shares allocated. During 1998, in connection with a principal reduction on the ESOP loan, 6,200 shares were released and the Company recognized $63,000 of compensation expense.

(Continued)

In February 1999, the Company instituted a stock option plan and a restricted stock plan. Pursuant to the stock option plan, the Company granted options to acquire 132,079 shares of common stock to certain key officers and directors. The options are exercisable at $10.75 per share, vest over five years, and expire 2008. Pursuant to the restricted stock plan, 52,826 shares will be awarded to certain key officers and directors. The fair value of such shares will be recorded as unearned compensation and subsequently expensed over the five-year vesting period.

(14) Regulatory Capital Requirements

The Financial Institution Reform, Recovery and Enforcement Act of 1989

(FIRREA) and the capital regulations of the Office of Thrift Supervision (OTS) promulgated thereunder require institutions to have a minimum regulatory tangible capital equal to 1.5% of total assets, a minimum 4% leverage capital ratio, and a minimum 8% risk-based capital ratio. These capital standards set forth in the capital regulations must generally be no less stringent than the capital standards applicable to national banks. FIRREA also specifies the required ratio of housing-related assets in order to qualify as a savings institution.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established additional capital requirements which require regulatory action against depository institutions in one of the undercapitalized categories defined in implementing regulations. Institutions such as the Company, which are defined as well capitalized, must generally have a leverage (core) capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. FDICIA also provides for increased supervision by federal regulatory agencies, increased reporting requirements for insured depository institutions, and other changes in the legal and regulatory environment for such institutions.

The Bank met all regulatory capital requirements at December 31, 1998 and 1997. The Bank's actual and required capital amounts and ratios as of December 31, 1998 were as follows (dollars in thousands):

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective actions provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tangible capital (to tangible assets)	$ 13,268	12.44 %	$ 1,600	1.50 %	$ --	-- %
Tier 1 leverage (core) capital (to adjusted tangible assets)	13,268	12.44	4,266	4.00	5,333	5.00
Risk-based capital (to risk-weighted assets)	13,470	37.53	2,872	8.00	3,590	10.00
Tier 1 leverage risk-based capital (to risk-weighted assets)	13,268	36.96	--	--	2,154	6.00

(Continued)

At the time of conversion, the Bank established a liquidation account in an amount equal to $7,038,000. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their deposit accounts in the Bank after conversion. In the event of a complete liquidation of the Bank, and only in such an event, eligible depositors who continue to maintain accounts shall be entitled to receive a distribution from the liquidation account before any liquidation may be made with respect to common stock. The Bank may not declare or pay a cash dividend if the effect thereof would cause its net worth to be reduced below either the amount required for the liquidation account discussed below, or the regulatory capital requirements imposed by the OTS.

(15) Comprehensive Income

The Company adopted SFAS No. 130, Reporting Comprehensive Income, in the first quarter of 1998. SFAS No. 130 requires the reporting of comprehensive income and its components. Comprehensive income is defined as the change in equity from transactions and other events and circumstances from nonowner sources, and excludes investments by and distributions to owners. Comprehensive income includes net income and other items of comprehensive income meeting the above criteria. The Company's only component of other comprehensive income is the unrealized holding gains and losses on available-for-sale securities.

	For the twelve months ended December 31,	
	1998	1997
	(In thousands)	
Unrealized holding gains	$ 460	272
Less reclassification adjustment for gains included in net income	3	55
Net unrealized gains on securities	457	217
Income taxes	(155)	(74)
Other comprehensive income	$ 302	143

(16) Financial Instruments With Off-balance Sheet Risk and Concentrations of Credit Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet customer financing needs. These financial instruments consist principally of commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. The Company does not generally require collateral or other security on unfunded loan commitments until such time that loans are funded.

(Continued)

In addition to financial instruments with off-balance sheet risk, the Company is exposed to varying risks associated with concentrations of credit relating primarily to lending activities in specific geographic areas. The Company's primary lending area consists of the State of Kansas, and substantially all of the Company's loans are to residents of or secured by properties located in its principal lending area. Accordingly, the ultimate collectibility of the Company's loan portfolio is dependent upon market conditions in that area. This geographic concentration is considered in management's establishment of the allowance for loan losses.

The Company grants mortgage and consumer loans to customers primarily throughout its target market of the State of Kansas. Although the Company has a diversified loan portfolio, a substantial portion of the borrower's ability to honor their contracts is dependent upon the general economic condition of the target market.

(17) Fair Value of Financial Instruments

SFAS No. 107, Disclosures About Fair Value of Financial Instruments, and SFAS No. 119, Disclosure About Derivative Financial Instruments and Fair Value of Financial Instruments, require that the Company disclose estimated fair values for its financial instruments, both assets and liabilities recognized and not recognized in the consolidated financial statements. Fair value estimates have been made as of December 31, 1997 based on then current economic conditions, risk characteristics of the various financial instruments, and other subjective factors.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Cash and Cash Equivalents

The carrying amounts approximate fair value because of the short maturity of these instruments.

Investment and Mortgage-backed Securities

The fair values of investment securities are estimated based on published bid prices or bid quotations received from securities dealers.

Loans Receivable

The fair values of loans receivable are estimated using the option-based approach. Cash flows consist of scheduled principal, interest, and prepaid principal. Loans with similar characteristics were aggregated for purposes of these calculations.

Accrued Interest

The carrying amount of accrued interest is assumed to be its carrying value because of the short-term nature of these items.

Stock of FHLB

The carrying amount of such stock is estimated to approximate fair value.

(Continued)

Deposits

The fair values of deposits with no stated maturity are deemed to be equivalent to amounts payable on demand. The fair values of certificates of deposit are estimated based on the static discounted cash flow approach using rates currently offered for deposits of similar remaining maturities.

Borrowings From FHLB of Topeka

The fair values of FHLB advances are estimated based on discounted values of contractual cash flows using the rates currently available to the Company on advances of similar remaining maturities.

The approximate carrying value and estimated fair value of the Company's financial instruments are as follows (in thousands):

	December 31, 1998	
	Carrying value	Fair value
Financial assets:		
Cash and interest-bearing deposits in other financial institutions	$ 8,143	8,143
Investment securities (see note 4)	4,712	4,729
Mortgage-backed securities (see note 5)	49,803	49,926
Loans receivable	41,069	41,524
Stock in FHLB	509	509
Financial liabilities:		
Deposits	84,436	84,858
FHLB borrowings	650	650

	December 31, 1997	
	Carrying value	Fair value
Financial assets:		
Cash and interest-bearing deposits in other financial institutions	$ 4,600	4,600

Investment securities (see note 4)	3,852	3,952
Mortgage-backed securities (see note 5)	37,770	37,728
Loans receivable	46,563	47,171
Stock in FHLB	661	661
Financial liabilities:		
Deposits	85,651	85,628
FHLB borrowings	2,550	2,550

(Continued)

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

(18) Parent Company Condensed Financial Statements

Condensed Balance Sheet
December 31, 1998
(In thousands)

Assets	
Cash and cash equivalents	$ 279
Loan to ESOP	1,181
Investment in and loan to subsidiary	20,044
Total assets	$ 21,504
Liabilities and Stockholders' Equity	
Accrued interest payable and other liabilities	$ 65
Stockholders' equity	21,439
Total liabilities and stockholders' equity	$ 21,504

(Continued)

Condensed Statement of Income
Year ended December 31, 1998
(In thousands)

Income:

Equity in earnings of subsidiary	$ 619
Interest on loans	148
Interest on deposits	54
Total income	821
Expense, including income tax expense	101
Net income	$ 720

Condensed Statement of Cash Flows
Year ended December 31, 1998
(In thousands)

Operating activities:	
Net income	$ 720
Less equity in earnings of subsidiary	(619)
Adjustments to reconcile net income to net cash provided by operating activities - increase in payables	65
Net cash provided by operating activities	166
Investing activities:	
Investment in and loan to subsidiary	(13,695)
Loan to ESOP, net of repayment	(1,181)
Net cash used in investing activities	(14,876)
Financing activities - proceeds from issuance of common stock	14,989
Increase in cash	279
Cash at beginning of year	--
Cash at end of year	$ 279

Corporate Information

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Board of Directors

J. Darcy Domoney
Chairman of the Board

Larry V. Bailey
President and Chief Executive Officer

Donald V. Meyer
Director

James E. Breckendridge
Director

William R. Butler, Jr. Director	Roger L. Coltrin Director

Executive Officers

Larry V. Bailey
President and Chief Executive Officer

Daniel G. Droste
Senior Vice President and Treasurer

Galen E. Graham
Senior Vice President and Secretary

Local Counsel Winkler, Lee, Tetwiler, Domoney & Schultz 133 South Pearl Street Paola, Kansas 66071	Independent Auditor KPMG LLP 1600 Commerce Bank Building Kansas City, Missouri 64106
Special Counsel Malizia, Spidi, Sloane & Fisch, P.C. One Franklin Square 1301 K Street, N.W., Suite 700 East Washington, D.C. 20005	Transfer Agent and Registrar American Securities Transfer & Trust, Inc. 1825 Lawrence Street, Suite 444 Denver, Colorado 80201

The Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998 is available without charge upon written request. For a copy of the Form 10-KSB, please write or call the Company's Corporate Secretary at the Company's main office. The Annual Meeting of Stockholders will be held on April 20, 1999 at 1:00 p.m. at the Company's office.

EXHIBIT 21

Subsidiaries of the Registrant

First Kansas Federal Savings Bank - incorporated under the laws of the United States

First Enterprises, Inc.* - incorporated under the laws of the State of Kansas

----
* a subsidiary of First Kansas Federal Savings Bank

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION DERIVED FROM THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL INFORMATION.
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