FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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

STATE FINANCIAL SERVICES CORP

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SIC: **6022** State commercial banks

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4144251600

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(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

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from --------------------- to ---------------------

Commission File Number 0-18166

STATE FINANCIAL SERVICES CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN	39-1489983
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

10708 WEST JANESVILLE ROAD, HALES CORNERS, WISCONSIN 53130
(Address and zip code of principal executive offices)

(414) 425-1600
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.10 par value.

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

Yes X No

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant as of March 19, 1999 was approximately $112,182,105, based on the following assumptions: (1) the market value of the Common Stock of $13.125 per share which was equal to the closing price on the Nasdaq Stock Market on March 19, 1999; and (2) 8,547,208 shares of Common Stock held by nonaffiliates as of March 19, 1999. As of March 19, 1999, there were 10,079,892 shares of Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I and II incorporate certain information by reference from Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998, (the "Annual Report") which is filed as an Exhibit to this Report.

Part III incorporates information by reference from Registrant's definitive Proxy Statement relating to Registrant's 1999 Annual Meeting of Shareholders (the "Proxy Statement") which is filed as an Exhibit to this Report.

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PART I

ITEM 1. BUSINESS.

General and Merger with Home Bancorp of Elgin, Inc.

State Financial Services Corporation, together with its consolidated subsidiaries is hereinafter referred to as the "Company", "SFSC", or "Registrant". SFSC is a Wisconsin corporation organized in 1984 as a bank holding company headquartered in Hales Corners, Wisconsin. SFSC owns State Financial Bank (Wisconsin) ("SFB"), State Financial Bank - Waterford ("SFB - Waterford"), State Financial Bank (Illinois) ("Richmond"), and Home Federal Savings and Loan Association of Elgin ("Home") (collectively referred to as the "Banks"). The Company also operates State Financial Mortgage Company ("SFMC"), which originates fixed and variable rate mortgages to sell in the secondary market, and Lokken, Chesnut & Cape ("LCC"), an asset management and financial planning company. In 1995, SFSC acquired all of the outstanding common stock of the former Waterford Bancshares, Inc., the parent bank holding company of Waterford Bank, in exchange for a combination of the Company's common stock, cash and installment notes. Waterford Bancshares, Inc. was subsequently dissolved. Waterford Bank was renamed State Financial Bank - Waterford and is operated as a separate banking subsidiary of the Company. In 1997, SFSC acquired all of the outstanding common stock of Richmond Bancorp, Inc., the parent holding company of Richmond and State Financial Investments, Inc. ("SFI" formerly known as Richmond Financial Services, Inc.), in exchange for cash. In 1998, the Company acquired LCC in exchange for the Company's common stock.

SFB has seven full-service locations, SFB- Waterford has two full-service office locations, Richmond has two full-service office locations, and Home has five full-service office locations. Four of SFB's offices, Hales Corners, Greenfield, Glendale, and Milwaukee, are located in Milwaukee County, Wisconsin, the most populous county in the state. Three of SFB's offices; Brookfield, Muskego, and Waukesha are located in Waukesha County, Wisconsin which is immediately west of Milwaukee County. In addition, SFB also operates a loan production office providing lending outlets to Milwaukee's central city. SFB - Waterford has offices in Waterford and Burlington, each of which are located in Racine County, Wisconsin. Richmond has offices in Richmond, Illinois which is located in McHenry County, and Libertyville, Illinois which is located in Lake County. Home has offices in Elgin, South Elgin, and Bartlett, Illinois, which are located in Kane County; Roselle, Illinois, which is located in Cook County; and Crystal Lake, Illinois, which is located in McHenry County.

Effective December 15, 1998, Home Bancorp of Elgin, Inc. ("HBE"), the parent holding company of Home, was merged with and into the Company (the "Merger"). The Merger was consummated in accordance with the terms of an Agreement and Plan of Merger dated June 2, 1998 (the "Merger Agreement"), between the Company and HBE. Matters with respect to the Merger were approved by the shareholders of the Company and HBE at special meetings of shareholders of such companies held on November 5, 1998.

Under the terms of the Merger Agreement, each share of common stock, $0.01 par value of HBE (the "HBE Common Stock") issued and outstanding immediately prior to the effectiveness of the Merger was canceled and converted into the right to receive 0.914 shares of the common stock, $0.10 par value, of the Company (the "SFSC Common Stock") plus cash in lieu of any fractional share. Of the 7,009,250 share of HBE Common Stock issued and outstanding at the effective time of the Merger, 370,451 shares were canceled and the remaining 6,638,799 shares were cancelled and converted into 6,067,862 shares of the SFSC Common Stock and cash in lieu of fractional shares. Shares of SFSC Common Stock which were issued and outstanding at the time of the Merger were not affected by the Merger and remain outstanding.

Additional information regarding the Merger, including historical financial statements of HBE and certain pro form data, are included in the definitive Joint Proxy Statement/Prospectus of the Company and HBE, dated September 25, 1998, as well as in Current Reports on Form 8-K, dated December 30, 1998 and March 1, 1999, filed by the Company with the Securities and Exchange Commission in connection with the Merger.

Forward-Looking Statements

When used in this report, the words "believes," "expects," and similar expressions are intended to identify forward-looking statements. The Company's actual results may differ materially from those described in the forward-looking statements. Factors

which could cause such a variance to occur include, but are not limited to, changes in interest rates, levels of consumer bankruptcies, customer loan and deposit preferences, and other general economic conditions.

Business Strategy. SFSC is strongly committed to community banking and places a high degree of emphasis on developing full service banking relationships with its business and retail customers. To capitalize on management's knowledge of its immediate market, SFSC operates each of its offices with substantial independence, supported by centralized administrative and operational functions to promote efficiency while permitting the management responsible for each office the flexibility to concentrate on customer service and business development in its own unique market area. To be an effective community bank, SFSC believes the decision-making process must stem primarily from the Banks in their credit decisions and array of products. SFSC believes the empowerment of the day-to-day decision making to the individual office locations remains critical to its success as an effective community banking organization.

The Banks seeks to develop and enhance full-service banking relationships through a systematic calling program directed at both existing customers and referral sources from its customer base, attorneys, accountants and business people. The officers and employees of the Banks are actively involved in a variety of civic, charitable and community organizations both as an additional referral source and as a service to their respective communities.

Products and Services. Through the Banks, SFSC provides a broad range of services to individual and commercial customers. These services include accepting demand, savings and time deposits, including regular checking accounts, NOW accounts, money market accounts, certificates of deposit, individual retirement accounts and club accounts. The Company also offers a variety of annuity and insurance products through the Banks' in-house securities representatives and through its two subsidiaries, SFI and State Financial Insurance Agency, which are subsidiaries of Richmond. SFB's, SFB - Waterford's, and Richmond's lending products include secured and unsecured commercial, mortgage, construction and consumer term loans on both a fixed and variable rate basis. Historically, the terms on these loans range from one month to five years and are retained in the respective banks's portfolio. SFB, SFB - Waterford, and Richmond also provide lines of credit to commercial accounts and to individuals through home equity products.

Prior to the Merger, Home's lending products were exclusively one-to-four family residential owner-occupied mortgage loans, offering both fixed and adjustable rates. Commencing with the Merger, the Company began diversifying Home's lending products into commercial and consumer loans similar to those offered at the other Banks. Home and the Company hired two experienced commercial lenders from the Elgin and Crystal Lake communities to develop Home's commercial lending activities. On the consumer side, Home and the Company hired an experienced retail lender to head up the entire retail loan and deposit operation at Home.

Through its subsidiary SFMC, SFSC also originates residential real estate loans in the form of adjustable and long-term fixed rate first mortgages, selling these originations in the secondary mortgage market service released.

Through its subsidiary, LCC, the Company provides asset management and financial planning services to its customers and markets.

Competition and Market Environment. SFB's offices experience substantial competition from other financial institutions including savings banks, credit unions, non-bank lenders, and consumer finance companies, many of which are substantially larger than the SFB. There are numerous financial institutions within a short distance of each of SFB's offices. SFB - Waterford's offices experience substantial competition from other financial institutions including other banks, savings banks, credit unions, mortgage banking companies, and consumer finance companies located in their respective and surrounding communities. Richmond's offices experience substantial competition from other financial institutions including other banks, savings banks, credit unions, mortgage banking companies, and consumer finance companies located in their respective and surrounding communities. Home's offices experience substantial competition from other financial institutions including other savings banks, banks, credit unions, non-bank lenders, mortgage banking companies, and consumer finance companies, many of which are substantially larger than Home. There are numerous financial institutions within a short distance of each of Home's offices. The Banks compete for deposits principally by offering depositors a variety of deposit programs, convenient office locations and banking hours, 24 hour account access through telephone and personal computer delivery systems, and other services. The Banks compete for loan originations primarily through the interest rates and loan fees they charge, the efficiency and quality of services they provide borrowers, and the variety of their products. Factors affecting competition include the general and local economic conditions and current interest rate levels.

Management believes that continued changes in the local banking industry, including mergers and consolidations involving both commercial and thrift institutions, have resulted in a reduction in the level of competition for small to medium sized business customers in the Banks' market areas, as well as a reduction in the level of service provided to both retail and commercial customers. The Company and the Banks also compete for customers by emphasizing the personalized service and individualized attention each provides to both its retail and commercial customers. The Company markets itself as a full-service provider of financial products and services, as well as offering related financial products such as retail and commercial property and casualty insurance, asset management and financial planning, and brokerage activities through its other subsidiaries and representatives. Management considers its reputation for customer service as its major competitive advantage in attracting and retaining customers in its market areas . The Company also believes that it benefits from its community orientation, as well as its established deposit base and level of core deposits.

Employees. At December 31, 1998, the Company and the Banks employed 232 full-time and 114 part-time employees. The Company considers its relationships with its employees to be good. Each employee who meets the eligibility requirements is entitled to participate in the employee benefit plans of the Company and the Banks, which include plans for group life, accidental death and dismemberment, medical, dental, and long-term disability income insurances;

pension, 401(k), and an Employee Stock Ownership Plan ("ESOP"). Further information regarding executive compensation and the Company's benefit plans is incorporated by reference from the Company's definitive Proxy Statement. See Item 11 of this Form 10-K.

The Banks and Other Subsidiaries

At December 31, 1998, the SFB (consolidated with its subsidiaries) had total assets of $279.3 million, net loans of $182.5 million, total deposits of $250.1 million, stockholders' equity of $23.5 million, net income of $4.2 million, and a return on average assets of 1.55%. At December 31, 1998, SFB - Waterford (consolidated with its subsidiary) had total assets of $60.9 million, net loans of $34.2 million, total deposits of $54.5 million, stockholders' equity of $5.2 million, net income of $0.4 million, and annualized return on average assets of 0.81%. At December 31, 1998, Richmond Bancorp, Inc. (consolidated with its subsidiaries)had total assets of $83.3 million, net loans of $43.1 million, total deposits of $69.8 million, stockholders' equity of $12.4 million, a net loss of 0.1 million and a return on average assets of (0.10%). At December 31, 1998, Home had total assets of $397.4 million, net loans of $348.1 million, total deposits of $279.3 million, stockholders equity of $92.1 million, a net loss of $2.5 million, a negative return on average assets of (0.66%). Included in Home's 1998 operating results were $7.0 million in merger-related charges ($5.1 million on a tax-effected basis) incurred in conjunction with its merger with the Company. Exclusive of these merger-related charges, Home reported net income of $2.6 for the year ended December 31, 1998, representing a return on average assets of 0.69%.

State Financial Bank. SFB is engaged in the general commercial and consumer banking business and provides full-service banking to individuals and businesses including the acceptance of deposits to demand, time, and savings accounts and the servicing of such accounts; commercial, consumer, and mortgage lending; and such other banking services as are usual and customary for commercial banks. SFB also sells annuities, insurance products, and other investments through two in-house representatives. At December 31, 1998, SFB, consolidated with its subsidiaries, comprised 33.7% of SFSC's consolidated total assets. The following table sets forth SFB's full-service and loan production office locations:

<TABLE>
<CAPTION>

Community	Address	Year Originated	Year Acquired by State Financial
<S>	<C>	<C>	<C>
Hales Corners, WI	10708 West Janesville Road	1910	(1)
Muskego, WI	S76 W17655 Janesville Road	1968	(1)
Milwaukee, WI	2650 North Downer Avenue	1971	1985
Milwaukee, WI (2)	2460 North 6th Street	1994	(1)
Greenfield, WI	4811 South 76th Street	1978	1987
Glendale, WI	7020 North Port Washington Road	1990	(1)
Brookfield, WI	12600 West North Avenue	1990	1992
Waukesha, WI	400 East Broadway	1977	1993

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(1) Organized de novo by SFB or a predecessor thereof.
(2) Loan Production Office
</TABLE>

SFB has purchased approximately one and one half acres of land at the intersection of Highways 164 and Coral Drive in Waukesha for the construction of a new branch facility. SFB has applied for and received regulatory approval of this new facility from the Wisconsin Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). SFB expects construction of this new facility to begin in the second quarter of 1999 and expects to open the facility in the fourth quarter of 1999.

SFB has two wholly owned subsidiaries which are consolidated into its operations. Hales Corners Investment Corporation is a subsidiary created to manage the majority of SFB's investment portfolio to enhance the overall return on SFB's investment securities. Hales Corners Development Corporation ("HCDC") is a subsidiary which owns the real estate related to the Hales Corners and Muskego offices, eight commercial and residential rental properties located adjacent to the Hales Corners office and vacant land in New Berlin held as a potential branch site. In October, 1998, HCDC accepted an Offer to Purchase from a competing financial institution in regards to the vacant New Berlin property. Completion of the sale is contingent upon satisfaction of several contingencies. HCDC expects its sale of the New Berlin property to be completed by the end of the first quarter or the beginning of the second quarter in 1999. In February, 1999, HCDC accepted an Offer to Purchase from a local developer on the eight commercial and residential rental properties located adjacent to SFB's Hales Corners office. The developer expects to level the various properties and construct various retail outlets anchored by a newly constructed major food store. HCDC expects the sale of these properties to be completed by the beginning of the fourth quarter of 1999.

State Financial Bank - Waterford. SFB - Waterford is engaged in the general commercial and consumer banking business and provides full-service banking to individuals and businesses including the acceptance of deposits to demand, time, and savings accounts and the servicing of such accounts; commercial, consumer, and mortgage lending; and such other banking services as are usual and customary for commercial banks. SFB - Waterford also sells annuities, insurance products, and other investments through two in-house representatives. At December 31, 1998, SFB- Waterford, consolidated with its subsidiary, comprised 7.3% of SFSC's consolidated total assets. The following table sets forth SFB - Waterford's full-service office locations:

Community	Address	Year Originated	Year Acquired by State Financial
Waterford, WI	217 North Milwaukee Street	1906	1995
Burlington, WI	1050 Milwaukee Avenue	1997	(1)

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(1) Organized de novo by SFB - Waterford.

SFB - Waterford has an accepted Offer to Purchase on an existing building in Elkhorn, Wisconsin for a new branch facility. SFB - Waterford has applied for and received regulator approval of this new facility from the Wisconsin Department of Financial Institutions and the FDIC. SFB Waterford expects to begin renovation of this facility in the second quarter of 1999 and expects to open the facility in the third quarter of 1999.

SFB - Waterford has a wholly owned subsidiary, Waterford Investment Corporation, which was formed in 1995 to manage the majority of SFB - Waterford's investment portfolio to enhance the overall return on the bank's investment securities.

State Financial Bank (Illinois). Richmond is engaged in the general commercial and consumer banking business and provides full-service banking to individuals and businesses, including the acceptance of deposits to demand, time, and savings accounts and the servicing of such accounts; commercial, consumer, and mortgage lending; and such other banking services as are usual and customary for commercial banks. Richmond also sells annuities through State Financial Investments, Inc., and insurance products through its subsidiary State Financial Insurance Agency. At December 31, 1998, Richmond consolidated with its parent holding company Richmond Bancorp, Inc., its affiliate State Financial Investments, Inc., and its subsidiary State Financial Insurance Agency, comprised 10.1% of SFSC's consolidated total assets. The following table sets forth Richmond's full-service office locations:

Community	Address	Year Originated	Year Acquired by State Financial
Richmond, IL	10910 Main Street	1920	1997
Libertyville, IL	1509 North Milwaukee Avenue	1992	1997

SFI provides a variety of brokerage services including the sale of annuities, stocks, bonds, and other investment products to its customer base and customers of Richmond. Prior to its acquisition by SFSC, SFI also engaged in the sale of numerous lines of insurance products to individuals and businesses. Concurrent with the acquisition, Richmond formed State Financial Insurance Agency ("SFIA") as a wholly owned subsidiary to assume the insurance activities previously operated under SFI. Through SFIA, the Company markets retail and commercial property and casualty insurance to the Banks' customers and markets.

Home Federal Savings & Loan Association of Elgin. Home's principal business consists of attracting deposits from the public and investing those deposits, along with funds generated from operations, primarily in loans secured by mortgages on one-to-four-family residences. Following the Merger, Home introduced additional products and services such as commercial and consumer lending, commercial deposit accounts, insurance products, and brokerage activities at its five office locations. At December 31, 1998, Home comprised 50.0% of SFSC's consolidated total assets. The following table sets forth Home's full-service office locations:

Community	Address	Year Originated	Year Acquired by State Financial
Elgin, IL	16 North Spring Street	1883	1998

Bartlett, IL	200 Bartlett Avenue	1979	1998
Crystal Lake, IL	180 Virginia Street	1974	1998
Roselle, IL	56 East Irving Park Road	1975	1998
South Elgin, IL	300 North McLean Blvd.	1996	1998

In addition, Home owns a facility at 247 Fulton Street in Elgin, Il which it previously used for its check processing and record retention. In February, 1999, Home and the Company relocated these operations to Home's Elgin office at 16 N. Spring Street. Home is attempting to sell the Fulton Street facility.

State Financial Mortgage Company. SFMC was formed to expand the origination of secondary market real estate mortgages on behalf of the Company and the Banks.

Lokken, Chesnut & Cape. LCC is engaged in asset management and financial planning for commercial and individual customers. LCC also acts as an investment advisor to qualified retirement plans such as 401(k)'s and pension plans. LCC markets its services in and around its LaCrosse, Wisconsin headquarters, as well as throughout all of the Company's 16 banking locations. At December 31, 1998, LCC comprised 0.3% of SFSC's consolidated total assets.

Pending Acquisition. On March 12, 1999, the Company announced it executed a merger agreement pursuant to which a wholly-owned subsidiary of the Company would merge with and into First Waukegan Corporation. The purchase price is $28 million in cash. First Waukegan Corporation is the parent holding company of Bank of Northern Illinois, N.A., a national bank headquartered in Waukegan, Illinois that has approximately $212 million in assets. First Waukegan Corporation operates from five offices located in Waukegan, Gurnee, Libertyville and Glenview (which has two offices). The merger will be accounted for as a purchase and is subject to regulatory and shareholder approval. The transaction is expected to close no later than the third quarter of 1999.

Supervision and Regulation

Bank holding companies and financial institutions are highly regulated at both the federal and state level. Numerous statutes affect the business of SFSC and the Banks. As a bank holding company, SFSC's business activities are regulated by the Federal Reserve Board ("FRB") under the Bank Holding Company Act of 1956 as amended (the "Act"), which imposes various requirements and restrictions on its operations. As part of the this supervision, SFSC files periodic reports with and is subject to periodic examination by the FRB. The Act requires the FRB's prior approval before SFSC may acquire direct or indirect ownership or control of more than five percent of the voting shares of any bank or bank holding company. The Act limits the activities of SFSC and its banking and nonbanking subsidiaries to the business of banking and activities closely related or incidental to banking.

SFB and SFB - Waterford are state, non-member banks, chartered in Wisconsin and as such are supervised and examined by the Wisconsin Department of Financial Institutions Division of Banking and the FDIC. Richmond is a state, non-member bank chartered in Illinois and as such is supervised and examined by the Illinois Department of Banking and the FDIC. Home is a federally chartered thrift and as such is supervised and examined by the Office of Thrift Supervision ("OTS"). Additionally, the Banks' deposits are insured by the FDIC and are subject to the provisions of the Federal Deposit Insurance Act. LCC is a registered investment advisor and is regulated by the Securities and Exchange Commission.

The Company's Common Stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, the Company is subject to the periodic reporting, proxy solicitation and tender offer rules, insider trading restrictions and other requirements under the Exchange Act.

In recent years Congress has enacted significant legislation which has substantially changed the federal deposit insurance system and the regulatory environment in which depository institutions and their holding companies operate. The enforcement powers of the federal regulatory agencies responsible for supervisory authority over SFSC and the Banks have significantly increased as a result of legislation such as the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), the Comprehensive Thrift and Bank Fraud Prosecution and Taxpayer Recovery Act of 1990 and the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). Certain parts of such legislation, most notably those which increase deposit insurance assessments, authorize further increases to recapitalize the Bank Insurance Fund and the Savings Association Insurance Funds which affect the cost of doing business for depository institutions and their holding companies. FIRREA also provides that all commonly controlled FDIC insured depository institutions may be held liable for any loss incurred by the FDIC resulting from a failure of, or any assistance given by the FDIC, to any commonly controlled institutions. Federal regulatory agencies have implemented provisions of FDICIA with respect to taking prompt corrective action when a depository institution's capital fails to meet certain defined levels. FDICIA established five capital categories ranging from "critically undercapitalized" to "well capitalized." A depository institution's failure to maintain a capital level within the top two categories will result in specific actions from the federal regulatory agencies. These actions could include the inability to pay dividends, restriction of new business activity, prohibiting bank acquisitions, asset growth limitations and other restrictions on a case by case basis. Additionally, FDICIA implemented a risk related assessment system for FDIC insurance premiums based, among other things, on the depository institution's capital adequacy. At December 31, 1998, SFSC and the Banks each met the "well-capitalized" definition of capital adequacy.

As a result of many of such regulatory changes, the nature of the banking industry in general has changed dramatically in recent years as increasing competition and a trend toward deregulation have caused the traditional distinctions among different types of financial institutions to be obscured. Further changes along these lines could permit other financially oriented businesses to offer expanded services, thereby creating greater competition for the SFSC and the Banks with respect to services currently offered or which may in the future be offered by those entities. Proposals for new legislation or rule making affecting the financial services industry are continuously being advanced and considered at both the national and state levels.

The activities and operations of banks are subject to a number of additional detailed, complex and sometimes overlapping federal and state laws and regulations. These include state usury and consumer credit laws, state laws relating to fiduciaries, the Federal Truth-in-Lending Act and Regulation Z, the Federal Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Community Reinvestment Act, anti-redlining legislation and the antitrust laws. The Community Reinvestment Act includes provisions under which the federal bank regulatory agencies must consider, in connection with applications for certain required approvals, including applications to acquie control of a bank or holding company or to establish a branch, the records of regulated financial institutions in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including those of low and moderate-income borrowers.

The Riegel-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Efficiency Act") contains provisions which amended the Bank Holding Company Act to allow an adequately-capitalized and adequately-managed bank holding company to acquire a bank located in another state. Effective June 1, 1997, the Efficiency Act also allowed interstate branching.

In addition to the impact of regulation, commercial banks and thrifts are affected significantly by the actions of the FRB as it attempts to control the money supply and credit availability in order to influence economic activity. Monetary policy changes have previously had a significant effect on operating results of financial institutions and are expected to have such an effect in the future. No prediction can be made as to possible future changes in interest rates, deposit levels, and loan demand, or their effect on the business and earnings of SFSC and the Banks.

Cross Reference to Annual Report

Certain information required by Industry Guide 3 is included in the Management's Discussion and Analysis included with the Annual Report and is incorporated herein by reference pursuant to the following schedule.

<TABLE>
<CAPTION>

	Guide 3 Heading	Annual Report Heading	Annual Report Page Number
<S>		<C>	<C>
I	Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	Income Statement Analysis	7,8, and 9
II	Investment Portfolio	Investment Activities	19
III	Loan Portfolio	Lending Activities	14
IV	Summary of Loan Loss Experience	Risk Elements in the Loan Portfolio	16

V	Deposits	Deposits	20
VI	Return on Equity and Assets	Selected Consolidated Financial Data and Capital Resources	6 and 23

</TABLE>

The following schedule of projected loan losses by category for the period January 1, 1999 through December 31, 1999, required by Industry Guide 3 is not included in Management's Discussion and Analysis in the Annual Report (dollars in thousands).

	Charge-offs	Recoveries	Net
Commercial	$ 117	$ 33	$ 84
Installment	353	43	310
Real estate	49	37	12
Other	1	0	1
TOTAL	$ 520	$ 113	$ 407

ITEM 2. PROPERTIES

The following table sets forth the locations of the Company's full-service banking offices.

<TABLE>
<CAPTION>

Office	Address	Sq. Feet	Owned/Leased	Lease Expires
<S>	<C>	<C>	<C>	<C>
Hales Corners, WI (1,2)	10708 W. Janesville Road	37,000	Owned	n/a
Muskego, WI (1)	S76 W17655 Janesville Road	2,680	Owned	n/a
Milwaukee, WI	2650 N. Downer Avenue	3,000	Leased	2000
Milwaukee, WI (3)	2460 North 6th Street	100	Leased	month to month
Greenfield, WI (4)	4811 S. 76th Street	9,000	Leased	2007
Glendale, WI (5)	7020 N. Port Washington Road	7,500	Leased	2010
Brookfield, WI	12600 W. North Avenue	4,800	Owned	n/a
Waukesha, WI	400 E. Broadway	3,300	Owned	n/a
Waterford, WI	217 N. Milwaukee Street	10,100	Owned	n/a
Burlington, WI	1050 Milwaukee Avenue	6,300	Leased	2006
Richmond, IL (6)	10910 Main Street	16,030	Owned	n/a

<CAPTION>

Office	Address	Sq. Feet	Owned/Leased	Lease Expires
<S>	<C>	<C>	<C>	<C>
Libertyville, IL (7)	1509 N. Milwaukee Avenue	2,690	Leased	2006
Elgin, IL	16 N. Spring Street	34,169	Owned	n/a
South Elgin, IL	300 North McLean Blvd.	5,200	Owned	n/a
Bartlett, IL	200 Bartlett Avenue	5,418	Owned	n/a
Crystal Lake, IL	180 Virginia Street	8,268	Owned	n/a
Roselle, IL	56 East Irving Park Road	3,800	Owned	n/a
Elgin, IL (8)	Fulton Street	9,168	Owned	n/a

1. Property is owned by SFB's wholly owned subsidiary, Hales Corners Development Corporation.
2. SFB subleases approximately 4,300 square feet of its space in Hales Corners to outside third parties.
3. Loan production office.
4. SFB leases this property from Edgewood Plaza Joint Venture. See "Item 1. Election of Directors--Certain Transactions and Other Relationships with Management Principal Shareholders" in the Company's Proxy Statement for further information.
5. SFB subleases approximately 1,200 square feet of its space in Glendale to a third party.
6. Richmond leases approximately 2,400 square feet of its space to outside third parties.
7. Richmond leases this property from Upland Farms, an entity owned by a director of Richmond, Charles F. Wonderlic.
8. Operated as a no customer service check processing, mail operation, and record retention facility of Home. The property is currently listed for sale.

</TABLE>

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and the Banks are party to legal proceedings arising out of their general lending activities and other operations. However, there are no pending legal proceedings to which the Company or the Banks are a party, or to which their property is subject, which, if determined adversely to the Company, would individually or in the aggregate have a material adverse effect on its consolidated financial position.

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

On November 5, 1998, the Company held a special meeting of its shareholders to consider and vote upon the merger of HBE with and into the Company and to amend the Company's Amended and Restated Articles of Incorporation to increase the authorized number of shares of common stock of the Company from 10,000,000 to 25,000,000 shares.

The Merger was approved by the shareholders with 2,975,306 shares voted FOR, 20,988 shares voted AGAINST, and 10,018 shares ABSTAINED. The Merger was consummated on December 15, 1998.

The amendment to the Company's Amended and Restated Articles of Incorporation was approved by the shareholders with 2,964,870 shares voted FOR, 38,413 shares voted AGAINST, and 16,633 shares ABSTAINED.

PART II

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

The information contained under the caption "Investor Information" beginning on the inside back cover of the Annual Report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information contained under the caption "Selected Consolidated Financial Data" appearing on page 4 of the Annual Report is incorporated herein by reference.

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

The information contained under this caption beginning on page 5 of the Annual Report is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

The Company's primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of the Company's transactions are denominated in U.S. currency with no specific foreign exchange exposure. The Company has a limited number of agricultural loans and accordingly has no significant exposure to changes in commodity prices. Any impacts that changes in foreign exchange rates and commodity prices would have on interest rates are assumed to be insignificant.

Interest rate risk ("IRR") is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value, however excessive levels of IRR can significantly impact the Company's earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Company's safety and soundness.

Evaluating a financial institution's exposure to interest rate changes includes assessing both the adequacy of the management process used to monitor and control IRR and the organization's quantitative exposure level. When assessing the IRR management process, the Company seeks to ensure that appropriate policies, procedures, management information systems, and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and where appropriate, asset quality.

The Federal Reserve Board, together with the Office of the Comptroller of the Currency and the FDIC, adopted a Joint Agency Policy Statement on IRR, effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing IRR, which forms the basis for an ongoing evaluation of the adequacy of IRR management at institutions under their respective supervision. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing IRR. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk management process which effectively identifies, measures, and controls IRR.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long-term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time that the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the contractual long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or, possibly, higher net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or rate sensitive assets are funded by longer-term fixed-rate liabilities in a decreasing rate environment.

An institution might use various techniques to minimize IRR. One approach used by the Company is to periodically analyze its assets and liabilities and make future financing and investment decisions based on payment streams, interest rates, contractual maturities, and estimate sensitivity to actual or potential market interest rate changes. Such activities fall under the

broad definition of asset/liability management. The Company's primary asset/liability management technique is the measurement of its asset/liability gap which is defined as the difference between the cash flow amounts of interest-sensitive assets and liabilities that will be refinanced or repriced over a given time period. For example, if the asset amount to be repriced exceeds the corresponding liability amount subject to repricing for a given day, month, year, or longer period, the institution is in an asset-sensitive gap position. In this situation, net interest income would increase if market interest rates rose and conversely decrease if market interest rates fell. Alternatively, if more liabilities than assets will reprice, the institution is in a liability-sensitive position. Accordingly, net interest income would decline when rates rose and improve when rates fell. Also, these examples assume that interest rate changes for assets and liabilities are of the same magnitude, whereas actual interest rate changes generally differ in magnitude for assets and liabilities.

Several ways an institution can manage IRR include selling existing assets or repaying certain liabilities; matching repricing periods for new assets and liabilities for example by, shortening terms of new loans or investments; and hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change IRR. Interest rate swaps, futures contracts, options on futures, and other such derivative financial instruments are often used for this purpose. Because these instruments are sensitive to interest rate changes, they require management expertise to be effective. The Company has not purchased derivative financial instruments in the past and does not presently intend to purchase such instruments.

Financial institutions are also subject to prepayment risk in falling interest rate environments. For example, mortgage loans and other financial assets may be prepaid by a debtor so that the debtor may refinance its obligations at new, lower interest rates. Prepayments of assets carrying higher rates reduce the Company's interest income and overall asset yields. Certain portions of an institution's liabilities may be short-term or due on demand, while most of its assets may be invested in long-term loans or investments. Accordingly, the Company seeks to have in place sources of cash to meet short-term demands. These funds can be obtained by increasing deposits, borrowing, or selling assets. Also, Federal Home Loan Bank advances and short-term borrows provide additional sources of liquidity for the Company.

The following table sets forth information about the Company's financial instruments that are sensitive to changes in interest rates as of December 31, 1998. The Company had no derivative financial instruments, or trading portfolio, as of that date. The expected maturity date values for loans, receivable, mortgage backed securities, and investment securities were calculated adjusting the underlying instrument's contractual maturity date for prepayment expectations. Expected maturity date values for interest-bearing core deposits were not based upon estimates of the period over which the deposits would be outstanding, but rather the opportunity for repricing. Similarly, with respect to its variable rate instruments, the Company believes that repricing dates, as opposed to maturity dates are more relevant in analyzing the value of such instruments and are reported as such in the following table. Company borrowings are also reported based on conversion or repricing dates.
<TABLE>
<CAPTION>

Quantitative Disclosures of Market Risk

	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value 12/31/98
Rate sensitive assets:								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed interest rate loans	68,769,330	48,524,461	43,547,706	18,818,197	28,093,363	295,572,774	503,325,831	504,993,590
Average interest rate	8.79%	8.83%	8.72%	8.58%	8.44%	7.90%	8.25%	
Variable interest rate loans	52,790,478	16,673,309	13,326,177	10,489,176	10,307,383	5,521,450	109,107,573	109,107,573
Average interest rate	8.15%	7.88%	7.69%	7.58%	7.63%	8.70%	7.98%	
Fixed interest rate securities	17,836,150	14,641,046	21,003,480	12,138,480	13,993,478	20,201,507	99,814,141	101,256,518
Average interest rate	6.41%	6.43%	8.20%	6.33%	6.27%	7.90%	6.33%	
Rate sensitive liabilities:								
Savings, money market & interest-bearing checking	319,563,404						319,563,404	319,583,404
Average interest rate	3.24%						3.24%	
Time deposits	171,790,683	43,114,352	13,167,291	9,181,624	14,546,591	0	251,800,541	255,462,420
Average interest rate	5.41%	6.11%	5.89%	6.07%	6.37%	0.00%	5.79%	
Variable interest rate borrows	35,866,677						35,866,677	35,866,677
Average interest rate							5.31%	

</TABLE>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements beginning on page 21 of the Annual Report are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors. The information contained under the caption "Item 1. Election of Directors--Directors" in the Proxy Statement is incorporated herein by reference.

Executive Officers. Information is provided below with respect to the executive officers of SFSC who are not directors. Each executive officer is elected annually by the Board of Directors and serves for one year or until his/her successor is appointed.
<TABLE>

<CAPTION>

Name	Age	Positions Held	Principal Position Held Since
<S>	<C>	<C>	<C>
John B. Beckwith	45	President, SFB; Senior Vice President of SFSC	1994
Philip F. Hudson	67	Senior Vice President of SFSC	1998
Daniel L. Westrope	49	President and CEO, Home; Chairman of the Board and CEO, Richmond; Senior Vice President, SFSC	1998
Thomas M. Lilly	39	President, SFB-Waterford	1998
Michael A. Reindl	39	Senior Vice President, Controller, and Chief Financial Officer; Secretary/Treasurer of SFSC; and Secretary of SFB	1995

</TABLE>

John B. Beckwith has been President of SFB since January, 1998 and is responsible for the bank's overall operation and performance. From June 1994 to December 1998, Mr. Beckwith was President of SFB's South Unit responsible for the operation and performance of SFB's offices located in Hales Corners, Muskego, and Greenfield, Wisconsin. From June 1991 to June 1994, Mr. Beckwith was President and Chief Executive Officer of SBHC (currently SFB's Hales Corners and Muskego offices). Mr. Beckwith was a director of SBHC from June 1991 to June 1994. Since June 1994, he has served as a director of SFB. Prior to June 1991, he had been Executive Vice President of SBHC since he joined the Company in 1990. Mr. Beckwith has also served as Senior Vice President of SFSC since November, 1997.

Philip F. Hudson has been a Senior Vice President of SFSC since November, 1997 and is responsible for strategic operational and acquisition activities of the Company and the Banks. From June, 1994 through December, 1998, Mr. Hudson was President of SFB's North Unit responsible for the operation and performance of SFB's offices located in Milwaukee, Glendale, Brookfield, and Waukesha, Wisconsin. From 1990 to 1994, Mr. Hudson was President and Chief Executive Officer of the Company's then separate subsidiary bank, UNB (currently SFB's Milwaukee and Glendale offices). Mr. Hudson previously served as UNB's President and Chief Executive Officer from 1975 to 1987. Mr. Hudson was a director of the former UNB from 1975 to 1987 and from 1990 to 1994. He has served as a director of SFB since June 1994 and as a director of Richmond since January, 1998.

Daniel L. Westrope has been President and Chief Executive Officer of Home since December, 1998. Since February, 1998, Mr. Westrope has been Chairman of the Board and Chief Executive Officer of Richmond Bank and is responsible for the bank's overall operation and performance. Mr. Westrope is also a Senior Vice President of SFSC providing input into the

Company's investment banking activities. Prior to joining the Company, Mr. Westrope was employed as an investment banker with Principal Financial Securities, Inc., Chicago, Illinois (now known as Everen Securities, Inc.) from 1995 through February, 1998, and as an investment banker and research analyst with Howe Barnes Investments, Inc., Chicago, Illinois from 1994 to 1995. Prior to 1994, Mr. Westrope was an officer of the Federal Reserve Bank of Chicago.

Thomas M. Lilly has been President and Chief Executive Officer and a director of SFB-Waterford since January, 1998. From June 1994 through December 1997, Mr. Lilly served as Senior Vice President of SFB. Mr. Lilly joined the Company in 1985, serving in a variety of lending and management capacities at SFB's Hales Corners and Greenfield offices. Mr. Lilly has also served as President of SFSC's wholly-owned subsidiary, State Financial Mortgage Company since its inception in December, 1996.

Michael A. Reindl has served as the Company's Senior Vice President, Controller, and Chief Financial Officer since November, 1995. In January 1997, Mr. Reindl was also named Secretary/Treasurer of SFSC and Secretary of SFB. From June 1993 through November 1995, Mr. Reindl was Vice President, Controller, and Chief Financial Officer of SFSC. From August 1990 through June 1993, Mr. Reindl was Vice President and Controller of SFSC. Mr. Reindl joined the Company in 1984.

PART 11. EXECUTIVE COMPENSATION

The information contained under the caption "Item 1. Election of Directors--Compensation of Executive Officers" in the Proxy Statement is incorporated herein by reference.

PART 12. SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS, AND BENEFICIAL OWNERS

The information contained under the caption "Item 1. Election of Directors--Security Ownership of Management and Certain Beneficial Owners" in the Proxy Statement is incorporated herein by reference.

PART 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the caption "Item 1. Election of Directors--Certain Transactions and Other Relationships with Management and Principal Shareholders" in the Proxy Statement is incorporated herein by reference.

PART IV

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

(a) Documents filed:

1. Financial Statements. The following Consolidated Financial Statements of the Company and subsidiaries, included in the Annual Report of the Registrant to its shareholders for the year ended December 31, 1998, are incorporated by reference in Item 8:

	Annual Report Page #
Report of independent auditors	25
Consolidated balance sheets -- December 31, 1998 and 1997	26
Consolidated statements of income -- Years ended December 31, 1998, 1997, and 1996	27
Consolidated statements of stockholders' equity -- Years ended December 31, 1998, 1997, and 1996	28

Consolidated statements of cash flows -- Years ended December 31, 1998, 1997, and 1996	30
Notes to Consolidated Financial Statements	31

2. Financial Statement Schedules. Schedules to the Consolidated Financial Statements required by Article 9 of Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits. See Exhibit Index, included as the last pages of this report, which is incorporated herein by reference.

(b) Reports on Form 8-K:

The Company filed on report on Form 8-K on December 30, 1998 and Amendment No. 1 thereto on March 1, 1999 in regards to its merger with Home Bancorp and Home.

(c) Exhibits:

See Exhibit Index, which is filed with this Form 10-K following the signature page and is incorporated herein by reference.

(d) Financial Statement Schedules:

None.

SIGNATURES

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

STATE FINANCIAL SERVICES CORPORATION

By: /s/Michael J. Falbo
Michael J. Falbo, President and Chief Executive Officer

Date: March 24, 1999

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. The Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Principal Executive Officers

/s/ Jerome J. Holz Jerome J. Holz	Chairman of the Board and Vice President	March 24, 1999
/s/ Michael J. Falbo Michael J. Falbo	President and Chief Executive Officer	March 24, 1999
/s/ Michael A. Reindl Michael A. Reindl	Senior Vice President, Controller, and Chief Financial Officer	March 24, 1999

Directors

/s/ Jerome J. Holz Jerome J. Holz	Director	March 24, 1999
/s/ Michael J. Falbo Michael J. Falbo	Director	March 24, 1999
/s/ Richard A. Horn Richard A. Horn	Director	March 24, 1999
/s/ Barbara E. Holz-Weis Barbara E. Holz-Weis	Director	March 24, 1999
/s/ Thomas S. Rakow Thomas S. Rakow	Director	March 24, 1999
/s/ Ulice Payne, Jr. Ulice Payne, Jr.	Director	March 24, 1999
/s/ David M. Stamm David M. Stamm	Director	March 24, 1999

signature page

STATE FINANCIAL SERVICES CORPORATION

EXHIBIT INDEX
TO
ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED December 31, 1998

NOTE: To maintain a set of exhibit reference numbers consistent with Registrant's prior filings under the Securities Act of 1933 and the Securities Act of 1934, Registrant has intentionally omitted exhibit reference numbers which pertain to exhibits which are not applicable or in effect. Except as specifically noted below, all of the exhibits identified are filed herewith.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of June 1, 1998, by and between Registrant and Home Bancorp of Elgin, Inc. (13)
3.1	Articles of Amendment to the Amended and Restated Articles of

Incorporation as filed on December 14, 1998.

3.2	Articles of Incorporation of the Registrant as Amended and Restated effective December 14, 1998.
3.3	Bylaws of Registrant, as amended and restated effective January 27, 1998. (12)
10.1	Lease between SFB (formerly State Bank, Hales Corners) and Hales Corners Development Corporation (10708 West Janesville Road, Hales Corners, Wisconsin). (2)
10.2	Lease between SFB (formerly State Bank, Hales Corners) and Hales Corners Development Corporation (S76 W17655 Janesville Road, Muskego, Wisconsin). (3)
10.3	Lease between SFB (formerly Edgewood Bank) and Edgewood Plaza Joint Venture (4811 South 76th Street, Greenfield, Wisconsin). (3)
10.6	Lease between SFB (formerly University National Bank) and Northeast Corporate Center (7020 North Port Washington Road, Milwaukee, Wisconsin). (3)
10.7	Deferred Compensation Agreement between Registrant and Jerome J. Holz dated December 6, 1980. (3)
10.10	Employee Stock Ownership Plan and Employee Stock Ownership Trust Agreement. (4)
10.13	Lease between SFB (formerly University National Bank) and Downer Investments (2650 North Downer Avenue, Milwaukee, Wisconsin) (5)
10.14	Agreement and Plan of Reorganization between Registrant and Eastbrook State Bank, dated January 22, 1992, as amended and restated. (6)
10.15	Branch Purchase and Assumption Agreement between Eastbrook State Bank and North Shore Bank, FSB, dated December 29, 1992. (1)
10.16	Agreement and Plan of Merger By and Among Registrant, WBAC, Inc., and Waterford Bancshares, Inc. dated April 12, 1995. (8)
10.17	Lease between SFB-Waterford and Mangold Investments, LLP (1050 North Milwaukee Avenue, Burlington, Wisconsin) (11)
10.18	Agreement and Plan of Merger By and Among Registrant, RBI, Inc. and Richmond Bancorp, Inc. (10)
10.19	Lease between Richmond and Upland Farms (1509 North Milwaukee Avenue, Libertyville, Illinois). (12)
10.20	Consulting Agreement by and among, Registrant and George L. Perucco (13)
10.21	State Financial Services Corporation 1990 Stock Option/Stock Appreciation Rights and Restricted Stock Plan for Key Officers and Employees, as amended on March 10, 1993. (1)
10.22	State Financial Services Corporation 1990 Director Stock Option Plan, as amended March 10, 1993. (1)
10.23	State Financial Services Corporation Supplemental Executive Retirement Plan for Michael J. Falbo effective November 22, 1994. (9)
10.24	State Financial Services Corporation 1998 Stock Incentive Plan. (12)
13	Registrant's Annual Report to security holders for the fiscal year ended December 31, 1998.
21	Subsidiaries of Registrant.
23.1	Consent of Ernst & Young LLP.
23.2	Opinion of KPMG LLP
23.3	Opinion of KPMG LLP
27.1	Financial Data Schedule
27.2	Restated Financial Data Schedule for the year ended December 31,

1997.

27.3	Restated Financial Data Schedule for the year ended December 31, 1996.
99.1	Registrant's Proxy Statement relating to its Annual Meeting of Shareholders to be held on May 5, 1999.

---

(1) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1992.

(2) Incorporated by reference from Registrant's registration statement on Form S-1, Registration Number 33-31517, dated October 11, 1989.

(3) Incorporated by reference from Amendment No. 1 to the registration statement on Form S-1, dated December 6, 1989.

(4) Incorporated by reference from Amendment No.2 to the registration statement on Form S-1, dated March 6, 1989.

(5) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1991.

(6) Incorporated by reference from Exhibit 2.1 to Amendment No. 3 to Registrant's registration statement on Form S-4, Registration Number 33-46280, dated May 3, 1992.

(7) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1993.

(8) Incorporated by reference from Amendment No. 2 to the Registrant's registration statement on Form S-4, Registration Number 33-59665, dated July 18, 1995.

(9) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1994.

(10) Incorporated by reference from Registrant's Report on Form 8-K, dated January 14, 1998.

(11) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1996.

(12) Incorporated by reference from Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1997.

(13) Incorporated by reference from Registrant's registration statement on Form S-4, Registration Number 33-64375, dated September 25, 1998.

The issuer, State Financial Services Corporation, will furnish a copy of any exhibit described above upon request and upon reimbursement to the issuer of its reasonable expenses of furnishing such exhibit, which shall be limited to a photocopying charge of $0.25 per page and, if mailed to the requesting party, the cost of first-class postage.

ARTICLES OF AMENDMENT
TO ARTICLES OF INCORPORATION OF
STATE FINANCIAL SERVICES CORPORATION

The undersigned officer of State Financial Services Corporation, a Wisconsin corporation (the "Corporation"), does hereby certify:

FIRST: That the name of the Corporation is State Financial Services Corporation.

SECOND: That Section 4.1(a) of Article IV of the Corporation's Amended and Restated Articles of Incorporation is hereby amended to provide as follows:

ARTICLE IV. Capital Stock

4.1 Number of Shares and Classes. The aggregate number of shares of capital stock which the Corporation shall have authority to issue is as follows:

(a) Common Stock. 25,000,000 shares of Common Stock, having a par value of $0.10 per share.

THIRD: That the remaining provisions of Article IV of the Corporation's Amended and Restated Articles of Incorporation shall remain unaffected by the Amendment and remain in full force and effect.

FOURTH: That the Amendment was proposed by the Corporation's Board of Directors on September 25, 1998 and adopted by the Corporation's shareholders on November 5, 1998 in accordance with the Corporation's Amended and Restated Articles of Incorporation and By-Laws, and Section 180.1003 of the Wisconsin Business Corporation Law.

Executed on behalf of the Corporation as of this ___ day of December, 1998.

STATE FINANCIAL SERVICES CORPORATION

By:
Its:

This document was drafted by, and after filing should be returned to, Gerry L. Williams, Foley & Lardner, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

Exhibit 3.2

AMENDED AND RESTATED ARTICLES OF INCORPORATION OF STATE FINANCIAL SERVICES CORPORATION

These Amended and Restated Articles of Incorporation supersede and take the place of the heretofore existing Articles of Incorporation and any amendments thereto.

ARTICLE I. NAME

The name of the Corporation is State Financial Services Corporation.

ARTICLE II. PURPOSES

The Corporation is organized under the Wisconsin Business Corporation Law. The purposes for which this Corporation is organized are to engage in any lawful activity within the purposes for which corporations may be organized under the Wisconsin business Corporation Law, provided, however, that the Corporation shall not engage in any activities prohibited by the United States Bank Holding Company Act of 1956, as amended.

ARTICLE III. DURATION

The period of existence shall be perpetual.

ARTICLE IV. CAPITAL STOCK

4.1 Number of Shares and Classes. The aggregate number of shares of capital stock which the Corporation shall have authority to issue is as follows:

(a) Common Stock. 25,000,000 shares of Common Stock, having a par value of $0.10 per share.

(b) Preferred Stock. 100,000 shares of Preferred Stock, having a par value of $1.00 per share.

4.2 Rights of Common Stock. The rights and preferences of shares of Common Stock are as follows:

(a) Voting. Each share of Common Stock shall be entitled to one vote on all matters to be voted on by Shareholders. Except as is otherwise required by Wisconsin Business Corporation Law in effect at the time of any vote, there shall be no class voting of Common Stock and Preferred Stock as separate classes.

(b) Dividends. The Board of Directors, in its discretion, may declare and authorize payment of cash dividends on the Common Stock as such times as it deems

appropriate. The Corporation may issue any type of share dividend. Shares of Common Stock may be distributed as a share dividend to holders of preferred stock and holders of Common Stock may receive a share dividend in the form of Preferred Stock.

(c) Issuing Public Corporation. The Corporation is an Issuing Public Corporation within the meaning of the Wisconsin Business Corporation Law and, except as set forth below, intends that the voting restrictions of Wisconsin Statutes ss. 180.1150, as amended from time to time, shall apply to the Corporation. Notwithstanding the foregoing, Wisconsin Statutes ss. 180.1150 shall not apply to any shares of Common Stock held by a person who was a holder of twenty percent (20%) or more of any class of the outstanding Common Stock of the Corporation immediately before the filing of these Amended and Restated Articles of Incorporation.

(d) No Other Class. There is no other class of common stock of the corporation.

(e) Other. The board of directors may, from time to time, prior to the issuance of shares, establish a series of Common Stock, having such preferences and rights as it may deem reasonably necessary to achieve or facilitate the accomplishment of lawful corporate business or financial objectives, and may take such other action as allowed in Wis. Stat. ss. 180.0602(1) as amended from time to time.

4.3 Preferred Stock. The Preferred Stock may be issued from time to time in one or more series with such designations, preferences and other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such series and adopted by the Board of Directors pursuant to the authority hereby given as provided by the Wisconsin Business Corporation Law ss. 180.0602(1) and not inconsistent with the provisions hereof. Without limiting the authority granted to the Board of Directors in this subsection, each series shall have such (a) rate of dividends; (b) price, terms and conditions pursuant to which shares may be redeemed; (c) amount payable upon shares in the event of voluntary or involuntary liquidation; (d) sinking fund provisions for the redemption or purchases of shares; (e) terms and conditions on which shares may be converted, if the shares of any series are issued with the privilege of conversion; and (f) voting rights, if any, as shall be stated or expressed in the resolution or resolutions of the Board of Directors providing for issuance thereof.

ARTICLE V. PRE-EMPTIVE RIGHTS

No holders of any stock of the corporation shall have any pre-emptive or other subscription, purchase or conversion rights of any kind, nature or description whatsoever with respect to any unissued stock or of any additional stock issued by reason of any increase of the authorized Capital Stock of this Corporation, or bonds, certificates or indebtedness, debentures or other securities whether or not convertible into stock of the Corporation.

ARTICLE VI. REGISTERED AGENT

The name of the registered agent is Michael J. Falbo whose registered office is located at 10708 West Janesville Road, Hales Corners, Wisconsin (Milwaukee County), 53130.

ARTICLE VII. DIRECTORS

The number of directors constituting the Board of Directors of the Corporation shall be fixed from time to time by the Bylaws of the corporation, provided, however, that such number shall not be less than five. The Board of Directors of the corporation shall be divided into three (3) classes. The terms of office of the Class A directors shall expire at the first annual meeting after their election, the term of office of Class B directors shall expire at the second annual meeting after their election and that of the Class C directors shall expire at the third annual meeting after their election. At each annual meeting after classification of the Board of Directors, the class of directors whose term expires at the time of such election shall be elected to hold office until the third succeeding annual meeting. The number of directors in each class shall be fixed from time to time in the Bylaws.

ARTICLE VIII. AMENDMENTS

These Articles may be amended in any manner allowed by law at the time of amendment.

EXHIBIT 13

PROFILE

The Company

State Financial Services Corporation (the "Company"), is a Wisconsin corporation headquartered in Hales Corners, Wisconsin. The Company is the parent holding company for State Financial Bank (Wisconsin) ("SFB"), State Financial Bank - Waterford ("SFBW"), State Financial Bank (Illinois) ("Richmond"), and Home Federal Savings and Loan Association of Elgin ("Home") serving Southeastern Wisconsin and Northeastern Illinois with 16 full service office locations. In addition, the Company operates State Financial Mortgage Company ("SFMC"), which originates adjustable and fixed rate mortgages, selling them into the secondary market service released; State Financial Investments, Inc.("SFII"), which conducts various brokerage activities; State Financial Insurance Agency ("SFIA"), which sells commercial and retail insurance products; and Lokken, Chesnut, & Cape ("LCC"), which provides professional asset management to commercial and retail customers.

Corporate Philosophy

The Company has positioned itself as a one-stop, full service provider of financial products and services to its customers and markets, rooted in the traditions of community banking and attentive to personalized service and individualized attention. The Company operates a successful community bank meeting the needs of our area with a wide range of quality products and services. Our goal is to provide our customers with a single source for all of their financial needs. Our customers have direct access to professionals to meet their banking, insurance, brokerage, and asset management needs through our sixteen branch office locations in Southeastern Wisconsin and Northeastern Illinois, as well as our asset management operation in LaCrosse, Wisconsin.

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<TABLE>
<CAPTION>

FINANCIAL HIGHLIGHTS

Dollars in thousands except per share data.

	1998	1998	1997	% Change 1
Operating Results	As Stated	Exclusive of merger-related charges		
<S>	<C>	<C>	<C>	<C>
Net income	$ 1,157	$ 7,093	$ 7,217	(1.72)
Return on average assets	0.15 %	0.89 %	1.09 %	(18.35)
Return on average equity	0.86 %	5.25 %	5.39 %	(2.60)
Net interest margin	4.36 %		4.75 %	(8.21)
Per Share Information				
Earnings - basic	$ 0.12	$ 0.74	$ 0.75	(1.33)
Earnings - diluted	0.12	0.73	0.74	(0.01)
Dividends2	0.48		0.40	20.00
Stated book value at year end	13.36		13.19	
Tangible book value at year end	12.40		12.41	
Market value at year end	15.38		22.40	
Financial Condition				
Total assets	$ 828,369		$ 773,873	7.04

Net loans	607,949	563,174	7.95
Total deposits	652,905	617,995	5.65
Shareholder's equity	134,637	133,763	0.65

1. The percentage change is calculated comparing the amounts "Exclusive of merger-related charge" in 1998 to 1997 actual amounts. If no information is set forth as "Exclusive of merger-related charge", the percentage change is calculated comparing the 1998 "as stated" amounts to the amounts for 1997.
2. All dividends represent the amount per share declared by the Company for each period presented. April 1999

</TABLE>

[GRAPHICS OMITTED]

TO OUR SHAREHOLDERS

Dear Shareholders:

It's been an historical year for State Financial Services Corporation, a year which brought significant changes to our company, preparing us to compete in the financial services industry of the future. The clock is ticking to the next millennium, something you'll hear a great deal about this coming year. The year 2000 introduces many challenges for the financial services industry. For our corporation, it marks the 90th anniversary of our first location in Hales Corners, Wisconsin. 1998 confirmed our commitment in developing a unique model for growth among community banks, one we believe will keep us strong.

We began the year the same way we completed it, in Illinois. January 1, 1998, was our first full day serving the Northern Illinois marketplace with the acquisition of State Financial Bank (Illinois). This acquisition included two offices and provides an opportunity to explore new markets while enhancing our community banking philosophy.

In June, State Financial Services Corporation expanded the insurance capabilities brought to us with the acquisition of State Financial Bank (Illinois). We added two experienced agents in commercial and personal insurance lines to State Financial Insurance Agency to grow this service through all of our banking markets. State Financial Insurance Agency provides a full product line for businesses and individuals.

We followed in September with the acquisition of Lokken, Chesnut, & Cape, an asset management company based in LaCrosse, Wisconsin. Both State Financial Insurance Agency and Lokken, Chesnut, & Cape signal our continued evolution in the financial services marketplace. To continue our success and position ourselves for the future, we must recognize the scope of the financial services industry. We understand the importance of providing our customers with options for all of their financial needs. Our banking customers have an established relationship with our company, and when their needs change, we want to serve them with an expanded line of products and services.

The most significant step we took in 1998 was our merger with Home Bancorp of Elgin, Inc. and its subsidiary, Home Federal Savings and Loan Association of Elgin. The merger with Home in December was the largest in our company's history, doubling our size. Home Federal has built a strong customer base delivering first residential mortgages, retail deposit products, and superior customer service. We look forward to the contributions the five locations of Home Federal Savings will make to our continued growth and welcome the new shareholders who have joined us as a result of the merger.

Because the Home merger was accounted for using the pooling-of-interest method of acquisitions accounting, all of the financial information presented in this report has been restated to include Home's figures for all periods.

1999 will be another significant year for our company. The acquisitions of the past year bring the responsibility of maximizing their potential. We have a depth of expertise in all of these companies to realize the opportunities now available and will work hard to ensure we maximize their potential. We will continue to shape State Financial Services Corporation and will explore additional opportunities for growth and to strategically deploy the capital which came with the Home merger. In addition to an expanded product line for Home Federal Savings, including home equity lines of credit and commercial banking products, we will experience a number of improvements within our data and communications systems.

As we addressed in the beginning of this letter, the year 2000 poses a significant challenge for all companies serving the financial services industry. You probably have heard many stories about the Year 2000 issue and its impact on computer systems worldwide. We would like to take this opportunity to assure you that at State Financial Services Corporation, we have been actively addressing the Year 2000 for quite some time. Our evaluation included an assessment of key vendors, service

suppliers, large credit customers, and other parties material to our operations. We are testing enhancements provided by these vendors and are developing contingency plans for all critical systems.

The acquisition of State Financial Bank (Illinois), the merger with Home Federal Savings and the year 2000 also present opportunities for improvements in all data processing and communications systems throughout our organization. A team of employees representing all financial institutions and departments of our company completed a thorough review of data processing systems and unanimously selected a data services partner for the entire corporation. New tools such as data warehousing will give us better management information. A new wide area network will improve communications within our organization by joining voice and data over a shared network, as well as enhancing our communications with our customers.

The long term decisions we have made in 1998 are strategic objectives with an eye toward the future. The diversification of our product line expands the potential of products and services available to our customers. Integrating these new products and services and translating our efforts into increased sales will be a primary focus for the short and long term. The investment of necessary resources has been made with the expectation of their contribution toward enhancing our future operating performance.

As we proceed, our dedication to community banking remains strong, rooted in superior customer service and individual attention in an ever changing industry. We believe community banking is more about philosophy than size. Today our customers interact with our banks in many different ways including PC banking, telephone banking, and loan by phone, along with one way to bank we do not think will ever change, person to person. Knowing our customers, understanding their needs, and providing the products and services to meet those needs will be our focus.

This year our long range strategic plan continues to evolve. On March 12, 1999, we announced the pending acquisition of First Waukegan Corporation and its subsidiary, Bank of Northern Illinois, N.A. In addition, we will open two new branch locations in Wisconsin. State Financial Bank (Wisconsin) will open a new location in Waukesha and State Financial Bank - Waterford, will open its third location in Elkhorn.

The acquisition of First Waukegan continues our expansion into the Illinois market and will put out company over the $1 billion mark in total assets. It provides us with three additional components to further the business plan undertaken with our merger with Home Federal Savings of Elgin - complimentary locations, the addition of trust services, and the ability to leverage our balance sheet. First Waukegan is a $212 million national bank with five offices located in Waukegan, Gurnee, Libertyville, and Glenview (which has two offices). The transaction is subject to regulatory approval and at the time of this writing, the transaction is expected to close no later than third quarter 1999.

Throughout 1999 we look forward to further integrating our recent acquisitions, the new expansions at our Wisconsin banks, and further development of our new financial products. We appreciate your support of our long term perspective.

Sincerely,

/s/J.J. Holz	/s/Michael J. Falbo
J.J. Holz	Michael J. Falbo
Chairman of the Board	President and Chief Executive Officer

GROWTH, DIVERSIFICATION AND SERVICE

What is Superior Customer Service?

The definition of "superior customer service" has been evolving for many years and is different for each customer. At one time, customer service in banks was most often measured by the amount of time you waited in a teller line. Today, speed of service remains an important criteria, but has expanded to include a variety of technology-based products and services. As we respond to the technological opportunities exploding in our industry, we continue to shape the meaning of customer service, which is rooted in a tradition of community banking that we believe sets us apart.

Clearly, State Financial Services Corporation experienced a historical year in 1998. It was a year of unparalleled growth. The addition of Home Federal Savings, the expansion of State Financial Insurance Company, Lokken, Chesnut, & Cape, and the introduction of new technology was all made possible by our shareholders, employees, and customers.

Well Beyond Checking Accounts

The Financial Services Industry is changing. We have all heard before, "time is the currency of the 90's" and we find that to be true with the services our customers request. At State Financial Services Corporation we need to respond to that market demand. Services like PC Banking, Loan by Phone, the Access Line, providing 24-hour telephone banking and cash management services for businesses are all designed to help our customers save time.

1998 confirmed our commitment in developing a unique model for growth among community banks, one we believe will keep us strong. By diversifying our products to include insurance and asset management, we can now assist our customers more fully. These services are natural complements to the traditional banking products we offer.

As customers' needs change, we can be there to help with solutions to every day life events. For example, we can now offer suggestions to a new lending customer needing insurance, a couple whose family is expanding or a long time customer who is attempting to invest a recent inheritance. Through a partnership with our customers, we can build on their trust in us.

"In an industry guided more by technology than ever before, our goal of personalized customer service and individual attention remains steadfast."

The Marketing of a Growing Company

The growth we're experiencing must be carefully assimilated with the need to promote our banks, our products and our services to distinct markets. Media alternatives and competitive circumstances are different for each of our banks. The local flavor and the desire to remain a "community bank" requires a clear knowledge of the markets we serve. We continue our goal to have decision makers at each of our offices. This is an important distinction. Our customers can walk into any one of our offices and have their needs met.

Involvement in each community and an understanding of its needs continues to be very important. Within our marketing communications plan, we must balance the priorities of the different banks while maximizing efficiencies. In Wisconsin, we continue our work with the NBC television affiliate in Milwaukee, and sponsorships of various promotions to build our name and position as a dominant community banking organization. Given the broad reach of these programs, their benefit crosses state lines and augments the name recognition of State Financial Bank in Illinois as well. In Illinois, our primary goal is the marketing of an expanded product line and the income potential it brings.

Where People Always Come First

In an industry guided more by technology than ever before, our goal of personalized customer service and individual attention remains steadfast. There are many new ways to bank today, and you'll find them with State Financial Services Corporation along with one way to bank we know will never change, person to person.

MANAGEMENT'S DISCUSSION

Selected Consolidated Financial Data

The following table sets forth selected financial data of State Financial Services Corporation (hereinafter referred to as the "Company") and its subsidiaries on a consolidated basis for the last five years (dollars in thousands, except per share data).
<TABLE>
<CAPTION>

	As of or for the years ended December 31,1				
	1998	1997	1996	1995	1994
Condensed Income Statement:					
<S>	<C>	<C>	<C>	<C>	<C>
Total interest income (taxable equivalent) 2	$ 58,397	$ 49,743	$ 45,935	$ 42,707	$ 40,370
Total interest expense	25,923	20,072	19,633	18,186	15,257

Net interest income	32,474	26,671	26,302	24,521	25,113
Provision for loan losses	690	450	330	370	360
Other income	6,965	4,664	4,281	3,631	5,592
Other expense	34,801	22,195	22,732	18,529	18,580
Income before income tax	3,948	11,690	7,521	9,253	11,765
Income tax	1,981	3,961	2,420	3,191	4,127
Less taxable equivalent adjustment	810	512	453	419	473
Net income	$ 1,157	$ 7,217	$ 4,648	$ 5,643	$ 7,165
Per share data 3:					
Basic earnings per share 4	$ 0.12	$ 0.75	$ 0.48	$ n/a	$ n/a
Diluted earnings per share 4	0.12	0.74	0.48	n/a	n/a
Cash dividends declared 5	0.48	0.40	0.33	0.28	0.24
Book value	13.36	13.19	14.10	n/a	n/a
Balance sheet totals (at period end):					
Total assets	828,369	773,873	657,557	589,558	560,534
Loans, net of unearned discount	607,949	563,174	460,369	450,196	401,294
Allowance for loan losses	4,485	4,370	3,552	3,537	2,632
Deposits	652,905	617,995	508,464	508,049	475,440
Borrowed funds	29,117	9,850	8,000	7,300	0
Subordinated debentures and long-term debt	6,750	5,300	962	5,062	115
Shareholders' equity	134,637	133,763	135,408	69,064	60,488
Financial and Regulatory Ratios:					
Asset growth	7.04%	17.69%	11.53%	5.18%	(0.09)%
Return on average assets	0.15	1.09	0.76	1.02	1.30
Return on average equity	0.86	5.40	5.05	8.63	12.39
Dividend payout ratio	457.40	49.80	27.10	17.10	11.40
Allowance for loan losses to non-performing loans	131.87	124.15	106.44	153.52	114.34
Non-performing assets to total assets	0.47	0.58	0.64	0.55	0.54
Net charge-offs to average loans	0.10	0.06	0.07	0.05	0.16

1. All financial data has been restated to reflect the Company's acquisition of Home Bancorp of Elgin, Inc. and its subsidiary, Home Federal Savings and Loan Association of Elgin, using the pooling-of-interests method of accounting. Amounts include balances and results of operations of LCC since the effective date of its acquisition by the Company on September 8, 1998. Amounts include balances and results of operations of Richmond since the effective date of its acquisition by the Company on December 31, 1997. Amounts include balances and results of operations of SFBW since the effective date of its acquisition by the Company on August 24, 1995. See Note 2 to the Consolidated Financial Statements.
2. Taxable-equivalent adjustments to interest income involve the conversion of tax-exempt sources of interest income to the equivalent amounts of interest income that would be necessary to derive the same net return if the investments had been subject to income taxes. A 34% incremental income tax rate, consistent with the Company's historical experience, is used in the conversion of tax-exempt interest income to a taxable-equivalent basis.
3. All per share information presented in this report has been retroactively restated to give effect to the 6 for 5 stock split declared in January 1998; the 6 for 5 stock split, declared in January 1997; and the 20% stock dividend, declared in January 1996, as if each had occurred as of January 1, 1994.
4. Per share information is excluded from presentation as of and for the years ended December 31, 1995 and 1994 because Home did not issue stock until September 26, 1996.
5. All dividends represent the amount per share declared by the Company for each period presented.

</TABLE>

Selected Quarterly Financial Data

The following table sets forth certain unaudited income and expense data on a quarterly basis for the periods indicated (dollars in thousands, except per share data).

<TABLE>
<CAPTION>

	1998				1997			
	12/31	9/30	6/30	3/31	12/31	9/30	6/30	3/31
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income	$ 14,451	$ 14,479	$ 14,415	$ 14,242	$ 12,494	$ 12,376	$ 12,286	$ 12,075
Interest expense	6,597	6,568	6,401	6,357	5,156	5,154	4,954	4,808
Net interest income	7,854	7,911	8,014	7,885	7,338	7,222	7,332	7,267
Provision for loan losses	172	173	172	173	113	113	112	112
Other income	1,771	1,856	1,718	1,620	1,201	1,147	1,094	1,223

Other expense	14,634	6,595	6,724	6,851	5,697	5,623	5,538	5,338
Income (loss) before income tax	(5,181)	2,999	2,836	2,481	2,729	2,633	2,776	3,040
Income tax	(975)	1,068	1,008	881	911	941	1,002	1,107
Net income (loss)	$ (4,206)	$ 1,931	$ 1,828	$ 1,600	$ 1,818	$ 1,692	$ 1,774	$ 1,933
Net income (loss) per share - basic	$ (0.44)	$ 0.20	$ 0.19	$ 0.17	$ 0.19	$ 0.18	$ 0.18	$ 0.20
Net income (loss) per share - diluted	(0.44)	0.20	0.19	0.16	0.19	0.17	0.18	0.20
Dividends per share 1	0.12	0.12	0.12	0.12	0.10	0.10	0.10	0.10

1. All dividends represent the amount per share declared by the Company for each period presented.
2. All financial data has been restated to reflect the Company's acquisition of Home Bancorp of Elgin, Inc. using the pooling-of-interests method of accounting.

</TABLE>

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion is intended as a review of the significant factors affecting the Company's financial condition and results of operations as of and for the year ended December 31, 1998, as well as providing comparisons with previous years. This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes and the selected financial data presented elsewhere in this annual report.

The financial discussion that follows refers to the impact of the Company's business combination activity detailed below and in Note 2 of the notes to the consolidated financial statements. In particular, on December 15, 1998, the Company completed its acquisition of Home Bancorp of Elgin, Inc., the parent company of Home, a $383.2 million federally chartered thrift. The acquisition was accounted for using the pooling-of-interests method of accounting. Accordingly, all financial data presented herein has been restated to include the balances and results of Home as of and for the periods presented.

On September 8, 1998, the Company completed its acquisition of LCC. The acquisition was accounted for as a purchase. The Company's Consolidated Statements of Income, and related schedules in Management's Discussion and Analysis of Financial Condition and Results of Operations include LCC's results for the period September 8, 1998 through December 31, 1998.

On December 31, 1997, the Company completed its cash acquisition of Richmond, SFII, and SFIA. Accounted for as a purchase, the Company's Consolidated Statements of Income and related schedules in Management's Discussion and Analysis of Financial Condition and Results of Operations include results for Richmond, SFII, and SFIA for the year ended December 31, 1998 only.

On August 24, 1995, the Company acquired SFBW. Accounted for as a purchase, the Company's Consolidated Statements of Income, and related schedules in Management's Discussion and Analysis of Financial Condition and Results of Operations include SFBW's results for the full year in 1998, 1997, 1996 and from August 24 through December 31 in 1995.

Income Statement Analysis

Net Interest Income

Net interest income equals the difference between interest earned on assets and the interest paid on liabilities and is a measurement of the Company's effectiveness in managing its interest rate sensitivity. For the year ended December 31, 1998, taxable-equivalent net interest income increased $2,803,000 (9.4%) to $32,474,000.

The inclusion of Richmond accounted for $2,848,000 of this change. Excluding Richmond, taxable-equivalent net interest income decreased $46,000 (0.1%) for the year ended December 31, 1998. Changes in the volume of outstanding interest-earning assets and interest-bearing liabilities accounted for $3,828,000 of the 1998 improvement in taxable-equivalent net interest income. This was offset by a reduction of $1,025,000 resulting mainly from intense commercial loan pricing competition and mortgage loan refinancing activity during the year.

Volume changes most fundamentally impacted the components of the Company's consolidated taxable-equivalent net interest income in 1998. Taxable-equivalent total interest income increased $8,654,000 in 1998 due to a $120,951,000 (19.4%) increase in the volume of average total outstanding interest-earning assets resulting from the inclusion of Richmond and internal growth at the other banks. As a result of the volume increase, total interest income improved $9,431,000 for the year ended December 31, 1998. Interest rate changes offset the volume improvement by $777,000 as the Company experienced rate declines in each category of interest-earning assets, with the exception of interest-earning deposits. This was due to the general reduction in one to five year market interest rates over the preceding twelve months and intense loan pricing competition. The combined impact of these changes resulted in a decrease in the Company's taxable-equivalent yield on interest- earning assets to 7.84% in 1998 from 7.97% in 1997. The inclusion of Richmond, and its slightly higher yield on interest-earning assets, in the Company's 1998 operating results, partially offset further yield contraction in the Company's interest-earning assets. Exclusive of Richmond, the Company's interest-earning asset yield in 1998 was 7.79%.

The Company experienced an increase in its funding costs during 1998 to 4.46% from 4.32% for the year ended December 31, 1997. The increased funding cost resulted mainly from incorporating Richmond's relatively higher cost of funds, primarily in time deposits, into the Company's consolidated operations. Exclusive of Richmond, the Company reported a cost of funds of 4.37%, a 5 basis point increase over 1997 due to comparatively higher short-term interest rates in 1998, and a greater percentage of interest-bearing liabilities in higher cost categories specifically; Money market accounts and time deposits, in 1998 as compared to 1997. Due to the general increase in short-term interest rates, the cost of money market accounts in 1998 rose to 4.38% consolidated and 4.41% exclusive of Richmond from 4.37% in 1997. For the year ended December 31, 1998, average money market accounts comprised 18.8% of the Company's average interest-bearing liabilities compared to 18.6% for 1997. Costs of time deposits increased to 5.79% in 1998 from 5.70% due to the inclusion of Richmond's higher priced portfolio during the year. Exclusive of Richmond, the average rate incurred on time deposits was 5.69% in 1998. Additionally, a greater percentage of the Company's funding came from this higher cost source in 1998 (44.9%) as compared to 1997 (43.03%).

The Company's net yield on interest-earning assets (net interest margin) contracted to 4.36% for the year ended December 31, 1998 from 4.75% for the year ended December 31, 1997 as a result of the aforementioned changes.

For the year ended December 31, 1997, taxable-equivalent net interest income increased $3,370,000 (12.8%) compared to the year ended December 31, 1996. The increase was primarily due to a $51,000,000 growth in average interest-earning assets outstanding. As a result of this volume increase, taxable-equivalent total interest income increased $3,924,000 in 1997 over 1996. Offsetting the loan volume improvement was a $116,000 contraction in the return on interest-earning assets resulting mainly from a 10 basis point reduction in loan yields due to relatively lower rates on mortgage loans during the year. For the year ended December 31, 1997, the Company reported 7.97% total taxable-equivalent yield on interest-earning assets compared to 8.02% for 1996.

The Company's 1997 cost of funds increased to 4.32% from 4.28% for the year ended December 31, 1996, mainly due to increased rates paid on money market accounts and a slightly higher percentage mix of interest-bearing liabilities in money market and time deposits in 1997 compared to 1996 (61.6% vs. 60.4%). As a result, the net interest rate spread contracted to 3.65% in 1997 from 3.74% in 1996. Although the spread contracted, the net yield on interest-earning assets improved to 4.75% in 1997 from 4.59% in 1996 due to the Company's increased level of average capital outstanding in 1997 resulting from Home's stock offering in September, 1996.

[GRAPHIC OMITTED]

The following table sets forth average balances, related interest income and expense, and effective interest yields and rates for the years ended December 31, 1998, 1997, and 1996 (dollars in thousands).

<TABLE>
<CAPTION>

	1998			1997			1996		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Interest-earning assets:									
<S> >	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Loans 1,2,3	$ 585,479	$ 48,822	8.34%	$491,482	$ 41,679	8.48%	$ 456,936	$ 39,201	8.58%
Taxable investment securities	71,801	4,381	6.10	81,671	5,044	6.18	70,483	4,005	5.68
Tax-exempt investment securities 3	29,683	2,040	6.87	17,354	1,272	7.33	15,535	1,150	7.40
Other short-term investments	8,004	459	5.73	1,542	90	5.84	2,952	170	5.76
Interest-earning deposits	38,342	2,062	5.38	29,287	1,510	5.16	22,175	1,164	5.25

Federal funds sold	11,692	633	5.41	2,714	148	5.45	4,666	245	5.28
Total interest-earning assets	745,002	58,397	7.84	624,051	49,743	7.97	572,748	45,935	8.02
Non-interest-earning assets:									
Cash and due from banks	23,031			19,964			19,686		
Premises and equipment, net	13,521			12,061			11,939		
Other assets	18,473			9,791			9,153		
Less allowance for loan losses	(4,475)			(3,672)			(3,636)		
TOTAL	$ 795,552			$662,195			$ 609,890		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
NOW accounts	$ 82,778	$ 1,890	2.28%	$ 65,453	$ 1,323	2.02%	$ 65,341	$ 1,332	2.04%
Money market accounts	109,509	4,794	4.38	86,354	3,770	4.37	79,344	3,291	4.15
Savings deposits	106,543	3,007	2.82	102,080	2,951	2.89	108,546	3,186	2.94
Time deposits	261,032	15,105	5.79	200,082	11,409	5.70	198,019	11,395	5.75
Notes payable	2,053	143	6.97	679	46	6.77	1,033	71	6.87
FHLB borrowings	10,417	519	4.98	2,917	174	5.97	667	37	5.55
Federal funds purchased	61	4	6.56	1,822	105	5.76	377	22	5.84
Securities sold under agreement to repurchase	8,690	460	5.29	5,559	293	5.27	5,737	299	5.21
Total interest-bearing liabilities	581,083	25,922	4.46	464,946	20,071	4.32	459,064	19,633	4.28
Non-interest-bearing liabilities:									
Demand deposits	72,684			58,687			54,601		
Other	6,767			4,747			4,265		
Total liabilities	660,534			528,380			517,930		
Shareholders' equity	135,018			133,815			91,960		
TOTAL	$ 795,552			$662,195			$609,890		
Net interest earnings and interest rate spread		$ 32,475	3.38%		$ 29,672	3.65%		$ 26,302	3.74%
Net yield on interest-earning assets			4.36%			4.75%			4.59%

1. For the purpose of these computations, nonaccrual loans are included in the daily average loan amounts outstanding.
2. Interest earned on loans includes loan fees (which are not material in amount) and interest income, which has been received from borrowers whose loans were removed from nonaccrual during the period indicated.
3. Taxable-equivalent adjustments are made in calculating interest income and yields using a 34% rate for all years presented.

</TABLE>

MANAGEMENT'S DISCUSSION

The following table presents the amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities (dollars in thousands). The table distinguishes between the changes related to average outstanding balances (changes in volume holding the initial rate constant) and the changes related to average interest rates (changes in average rate holding the initial balance constant). Change attributable to the combined impact of volume and rate have been allocated proportionately to change due to volume and change due to rate.

<TABLE>
<CAPTION>

	1998 Compared to 1997 Increase/(Decrease) Due to			1997 Compared to 1996 Increase/(Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest earned on:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans 1,2	$ 7,842	$ (699)	$ 7,143	$ 2,939	$ (461)	$ 2,478
Taxable investment securities	(606)	(57)	(663)	674	365	1,039
Tax-exempt investment securities 2	853	(85)	768	133	(11)	122
Other short-term investments	371	(2)	369	(82)	2	(80)
Interest-earnings deposits	485	67	552	366	(20)	346
Federal funds sold	486	(1)	485	(106)	9	(97)
Total interest-earning assets	9,431	(777)	8,654	3,924	(116)	3,808
Interest paid on:						
NOW accounts	382	185	567	2	(11)	(9)
Money market accounts	1,015	9	1,024	299	180	479
Savings deposits	128	(72)	56	(192)	(43)	(235)

Time deposits	3,533	163	3,696	116	(102)	14
Notes payable, mortgage payable, federal funds purchased and securities sold under agreement to repurchase	545	(37)	508	178	11	189
Total interest-bearing liabilities	5,603	248	5,851	403	35	438
Net interest income	$ 3,828	$ (1,025)	$ 2,803	$ 3,540	$ (171)	$ 3,370

1. Interest earned on loans includes loan fees (which are not material in amount) and interest income, which has been received from borrowers whose loans were removed from nonaccrual during the period indicated.

2. Taxable-equivalent adjustments are made in calculating interest income and yields using a 34% rate for all years presented.

</TABLE>

Provision for Loan Losses

The provision for loan losses charged to earnings results from a quarterly analysis of the Company's loan portfolio, including the amount of net charge-offs incurred during the period, collateral value, the remaining balance in the allowance, and management's analysis of risk inherent in the portfolio. Management's risk analysis incorporates loan classifications assigned by lending personnel and as the result of examinations conducted by the Company's internal loan review officer. The Company's lending personnel and internal loan review officer review all significant nonhomogeneous loans for adverse situations that may affect the borrower's ability to repay. If it appears probable that the borrower will be unable to make scheduled principal and interest payments, an allowance is established based on the difference between the carrying value and the anticipated cash flows discounted at the loan's initial effective interest rate or the fair value of the collateral for collateral dependent loans. For homogeneous loans, the allowance is based on the loan classification and historical loss experience for each classification. The provisions for loan losses were $690,000, $450,000, and $330,000, for the years ended December 31, 1998, 1997, and 1996, respectively. The increase in 1998 provisions was solely the impact of the full year inclusion of Richmond in the Company's operating results. For the year ended December 31, 1997, the Company increased its provision for loan losses $120,000 to recognize the general growth in the Company's loan portfolio.

Other Income

In 1998, other income increased $2,301,000 (49.3%). The first year inclusion of Richmond in 1998 accounted for $1,224,000 of this increase, and the inclusion of LCC from September 1998 accounted for $168,000 of this increase. Exclusive of Richmond and LCC, other income increased $909,000 (19.5%) due to investment security gains realized at State Financial Services Corporation, increases in mortgage origination gains, and the implementation of ATM surcharges at the Banks during the fourth quarter of 1997. Other income increased $383,000 (8.9%) in 1997 as compared to 1996 due to increased gains from mortgage originations resulting from volume growth and the curtailment of Home's defined benefit pension plan.

For the year ended December 31, 1998, service charges on deposit accounts increased $285,000 (17.1%) compared to 1997, of

The composition of other income is shown in the following table (dollars in thousands).

	Years ended December 31,		
	1998	1997	1996
Service charges on deposit accounts	$ 1,956	$ 1,671	$ 1,828
Merchant services	1,270	1,161	1,033
Building rent	279	310	284
ATM service charges	760	491	433
Security transaction commissions	370	122	150
Asset management commissions	164	0	0
Gains on mortgage origination sales	962	225	76
Investment securities gains (losses)	421	(1)	0
Other	783	685	477
Total other income	$ 6,965	$ 4,664	$ 4,281

which $301,000 was due to the inclusion of Richmond's results. Exclusive of Richmond, service charges on deposit accounts decreased $16,000 (1.0%) the majority of which was due to reduced income from service charges to business deposit accounts. Service charges on deposit accounts for the year ended December 31, 1997 decreased $157,000 (8.6%) as compared to the year ended

December 31, 1996 due to reduced service charge income at Home resulting from changes made to NOW account pricing structures and ATM transaction fees for competitive purposes.

Merchant services are the fees the Company charges businesses for processing credit card payments. Income in this category increased $109,000 (9.4%) in 1998 and $128,000 (12.4%) in 1997. Both the 1998 and 1997 increases were due to volume increases and rate adjustments during each respective year.

Building rent income decreased $31,000 (10.0%) in 1998 due to a reduction in space occupied at the Company's Greenfield office of SFB which was previously sublet to an unrelated tenant. As a result of this space reduction, the Company no longer sublets any space at its Greenfield office. In August, 1998, the Company sublet approximately one-third of the space at SFBW's Burlington office to an unrelated party, partially offsetting the decline in rental income at the Greenfield location. Building rental income increased $26,000 (9.2%) in 1997 compared to 1996 mainly due to a full year inclusion of the rental property acquired in May 1996.

ATM service charges are the terminal usage fees charged to non-customers for their use of the Company's ATMs and the fees received from other institutions resulting from their customers' usage of the Company's automated teller machines. The Company began charging terminal usage fees to non-customers in November 1997. For the year ended December 31, 1998, ATM service charges increased $299,000 (64.9%) in total and $232,000 (50.3%) exclusive of Richmond due to the implementation of the terminal usage fees at the end of 1997. For the year ended December 31, 1997, ATM service charges increased $28,000 (6.5%), all of which was related to the new terminal usage fees.

Security transaction commissions are the fees received from the Company's investment services and brokerage activities. In 1998, security transaction commissions increased $248,000 which included $182,000 from Richmond. Exclusive of Richmond, security transaction commissions increased $66,000 (54.1%) due to increased volume at SFB and SFBW. For the year ended December 31, 1997, security transaction commissions decreased $28,000 (18.7%).

Asset management commissions represent the fees charged by LCC for its services, and for 1998 represents the amounts collected from the effective date of LCC's acquisition (September 8, 1998) by the Company.

Gains on mortgage origination sales increased $737,000 (327.6%) in 1998 compared to 1997. The inclusion of Richmond accounted for $467,000 of this increase. Absent Richmond, mortgage origination gains increased $270,000 (119.6%) due to the continued growth of SFMC impacted by the Company's marketing efforts and the favorable mortgage refinancing market experienced during 1998. For the year ended December 31, 1997, mortgage origination gains increased $149,000 (196.1%) due to the first full year of operation of SFMC.

For the year ended December 31, 1998, the Company realized $400,000 in gains from the sale of marketable equity securities and $21,000 in gains from investment security sales. During 1997, the Company incurred a small loss on the sale of two investment securities to help fund the Richmond acquisition.

Other income increased $98,000 (14.3%) in 1998 and $208,000 (43.6%) in 1997. The increase in 1998 was mainly due to the inclusion of Richmond's $144,000 in other income, which included $90,000 in insurance commissions from SFIA. Exclusive of Richmond, other income decreased $46,000. This net decrease was comprised primarily of an increase of $147,000 related to the sale of SFB's & SFBW's credit card portfolio and $16,000 in increased dividends on corporate life insurance in 1998. These were offset by a decline of $27,000 in other real estate gains and $182,000 in excess funds realized from the curtailment of Home's defined benefit pension plan in 1997. The $208,000 increase in other income during 1997 was mainly the result of the $182,000 increase realized at Home from the pension curtailment, a $15,000 increase in corporate life dividends, and a $14,000 increase in other real estate gains.

Other Expense

Other expense increased $12,606,000 (56.8%) for the year ended December 31, 1998 which included $3,731,000 for expenses at Richmond and $7,917,000 in merger-related charges related to the Home acquisition. Exclusive of Richmond and the merger-related charges, other expense was $23,154,000, an increase of $958,000 (4.3%) from the year ended December 31, 1997. For the year ended December 31, 1997, other expense decreased $537,000 (2.4%). The major components of other expense are detailed in the following table (dollars in thousands).

	Years ended December 31,		
	1998	1997	1996

Salaries and employee benefits	$ 12,907	$ 10,195	$ 9,403
Occupancy and equipment	4,004	3,713	3,616
Data processing	1,978	1,698	1,599
Legal and professional	1,141	994	543
Merchant services	949	917	871
ATM	630	621	619
Advertising	901	806	746
Goodwill amortization	633	151	156
Merger-related charge	7,917	0	0
Other	3,742	3,101	5,180
Total other expense	$ 34,802	$ 22,196	$ 22,733

Salaries and employee benefits increased $2,712,000 in 1998, of which the inclusion of Richmond comprised $1,795,000. Exclusive of Richmond, salaries and employee benefits increased $918,000 (9.0%) in 1998. This increase was due to normal salary adjustments, the full year inclusion of personnel costs of SFBW's Burlington office, increased costs for Home's ESOP, Recognition and Retention Plan, and rate increases on employee medical and dental insurance benefits. For the year ended December 31, 1997, salaries and employee benefits increased $792,000 (8.4%) due to increased costs related to Home's implementation of its Recognition and Retention Plan and the opening of SFBW's Burlington office in May, 1997 and the additional staffing related thereto.

Occupancy and equipment expense increased $291,000 in 1998, of which the inclusion of Richmond accounted for $458,000 of the increase. Without the Richmond impact, occupancy and equipment expense decreased $168,000 (4.5%) for the year ended 1998 due to lower rent expense resulting from reduced space occupied by SFB's Greenfield office. For the year ended December 31, 1997, occupancy and equipment expense increased $98,000 (2.7%) due to the opening of SFBW's Burlington office and increases in real estate taxes and equipment maintenance expenses.

During 1998, data processing expense increased $280,000 in total and $127,000 (7.5%) exclusive of Richmond due to rate adjustments from the Company's service provider and increased services utilized by SFB and SFBW during the year. For the year ended December 31, 1997, data processing expense increased $99,000 (6.2%) due to rate adjustments from the Company's service provider, additional costs incurred related to converting ATM cards to debit cards, and additional costs related to the introduction of PC Banking products.

Legal and professional fees increased $147,000 in 1998, of which Richmond and LCC accounted for $101,000 of the increase. Exclusive of Richmond and LCC, legal and professional fees increased $46,000 (4.6%) mainly due to increased legal costs incurred at the Banks during 1998 and additional outside consulting services used by Home. For the year ended December 31, 1997, legal and professional fees increased $451,000 (83.1%) in 1997, virtually all of which was due to additional costs incurred by Home related to their first full year operating as a publicly traded company.

Merchant services expense results from providing the Company's business customers the ability to accept credit cards in payment for goods and services. The $32,000 (3.5%) increase in 1998 and the $46,000 (5.3%) increase in 1997 were the result of growth in the Company's customer base in this product line and rate adjustments enacted by the Company's service provider during each year.

ATM expense are the fees charged by the Company's service provider for the Company's customers use of automated teller machines that are not owned by the Company. For the year ended December 31, 1998, ATM expense increased $9,000 (1.4%) compared to the year ended December 31, 1997. ATM expense increased $2,000 (0.3%) in 1997 compared to 1996. The modest increases in both years are due to increased volume and increased rates by the service provider.

Advertising expense increased $95,000 in 1998, of which $81,000 was due to the inclusion of Richmond and LCC. Absent acquisition impacts, advertising expense increased $14,000 (1.7%) in 1998 mainly due to additional marketing to business customers during the year. For the year ended December 31, 1997, advertising expense increased $60,000 (8.0%) due to increased television advertising to enhance SFB's name recognition and promotions related to opening the Burlington office.

Goodwill amortization increased $482,000 in 1998 due to a full year amortization related to the Richmond acquisition and four months of amortization related to the LCC acquisition. Richmond accounted for $424,000 of this increase with LCC representing the remaining $58,000. Both Richmond's and LCC's goodwill is being written off over 15 years.

In 1998, the Company recognized $7,918,000 in merger-related charges related to its acquisition of Home. The merger-related charge represented costs incurred for legal, professional, and investment banking fees of $2,638,000, dissolution of Home's Recognition and Retention Plan of $3,149,000, payments made under severance agreements of $1,297,000, and $834,000 in various expenses associated with merging the two companies. This included adjustments made to conform Home with the Company's accounting methods, regulatory filing fees, and various costs associated with each company's special shareholders' meeting held to consider the merger. The Company and Home had estimated merger-related charges at $12,497,000. This estimate included $4,498,000 in expenses related to the termination of Home's Employee Stock Ownership Plan. No expense for this termination was recognized in 1998 as the ESOP had not yet terminated as of December 31, 1998, which is the main reason that merger-related expenses recognized in 1998 were less than projected. Additionally, estimates for the termination of Home's Recognition and Retention Program ("RRP") and severance payments on employment contracts were $300,000 and $803,000, respectively, less than the amounts actually incurred. The expense for the RRP termination was based on the Company's market value per share at the time of termination. Actual expense for the RRP termination was less than projected due to the decline in the Company's per share market value at the time of termination compared to the value assumed in the estimate. The expense for severance payments were less than projected as the Company assumed that three senior executives would be paid on their employment agreements whereas only two executives retired effective with the merger. Additionally, the Company assumed these payments would require a gross-up adjustment to indemnify the executives for income tax implications arising under the terms of their respective employment agreements and Section 280(g) of the Internal Revenue Code. The Company has requested a ruling from the IRS regarding the requirement to gross-up these payments pursuant to Section 280(g). Based upon the advice of its counsel and its own research, the Company believes that it is not required to gross-up these severance payments due to the facts and circumstances surrounding the merger between the Company and Home. Accordingly, the expense recognized did not adjust for the potential gross-up implications resulting from the payments made under the employment agreements. In the event that the IRS denies the Company's ruling request, the Company will be required to indemnify the two executives by grossing-up their severance payments for amounts resulting from application of IRS Section 280(g). In this event, the Company would recognize an additional $625,000 in expense related to these severance payments at the time the IRS delivers its ruling. The Company expects the IRS to rule in favor of the Company's request.

Professional fees and other expenses related to the merger were $1,021,000 greater than projected, offsetting the benefits described in the preceding paragraph. Expenses for legal, professional, and investment banking fees came in $188,000 greater than projected. Additionally, the Company did not include in its estimate of merger-related charges any of the various expenses associated with merging the two companies. This included adjustments made to conform Home with the Company's accounting methods, regulatory filing fees, and various costs associated with each company's special shareholders meeting held to consider the merger which accounts for another $834,000 in expenses actually recognized compared to amounts projected.

Management of the Company currently expects that the Home ESOP will sell a sufficient number of shares to repay the Home ESOP debt of $3,970,000 in the first quarter of 1999, which may result in additional compensation expense. Shares remaining in the Home ESOP after repayment of the ESOP debt will be allocated to Home ESOP participants. The amount of the additional expense will be dependent upon the market value of the Company's common stock at the time the Home ESOP is dissolved. Management estimates the amount of the additional compensation expense related to the termination will range between $1,000,000 and $1,500,000, based on an estimated range of market value of State Financial stock of $13.625 and $15.00, respectively.

Additional employment severance payments, not recorded as of December 31, 1998, and ranging from $835,000 to $1,100,000 may be incurred should five certain Home employees who have contractual severance arrangements all choose to terminate their employment with the Company prior to December 15, 2000. The actual amount of expense incurred, if any, is dependent upon the number of these employees choosing to terminate their employment with the Company and the point in time at which this election is made. The amount of payment actually paid to any one of these five employees will be reduced by the applicable employee's pro rata monthly salary multiplied by the number of months between the merger date (December 15, 1998) and the month in which the employee notifies the Company if his/her desire to terminate their employment. The Company will recognize any expense resulting from these severance agreements as additional merger-related charges in the period notification is received from one of these Home employees. The Company has received no notice from the employees that they intend to terminate their employment with the Company.

Other expense increased $641,000 in 1998, including $162,000 in expenses at Richmond and LCC. Exclusive of Richmond and LCC, other expense increased $479,000 (15.4%) due to increases in correspondent bank fees due to reduced compensating balances maintained by the Banks, postage and delivery cost increases at SFB related to volume increases during the year, increased telephone expense related to the Company's geographic expansion, and increased regulatory assessments resulting from deposit growth over the preceding year. For the year ended December 31, 1997, other expenses decreased $2,079,000, virtually all of which was due to reduced regulatory assessment costs from 1996, as 1996 included additional FDIC insurance assessments in resolution of the agency's funding of the Savings Association Insurance Fund.

Income Tax

The Company's consolidated income tax rate varies from statutory rates principally due to interest income from tax-exempt securities and loans. Additionally, 1998's consolidated income tax rate was impacted by approximately $2.7 million of the merger-related charges which were not deductible for income tax purposes. The Company recorded provisions for income tax of $1,981,000 in 1998, $3,961,000 in 1997, and $2,420,000 in 1996. Income tax expense decreased $1,980,000 in 1998 as the Company's pre-tax income declined $8,040,000, mainly due to the recognition of the merger-related charges associated with the Home acquisition. Income tax expense increased $1,541,000 in 1997 due to a $4,111,000 increase in the Company's pretax income. The Company's effective tax rate for 1998 was 63.1% compared to 35.4% for 1997. The Company's higher effective tax rate in 1998 was due to the nondeductibility of certain merger-related charges associated with the Home acquisition. Exclusive of the merger-related charges, and the related tax implications, the Company reported a 35.8% effective tax rate in 1998.

Net Income and Dividends

For the years ended December 31, 1998, 1997, and 1996, the Company reported net income of $1,157,000, $7,217,000, and $4,647,000, respectively. Impacting 1998 earnings were $7.9 million in merger-related charges associated with the Company's Home acquisition. Excluding these charges on a tax-effected basis, the Company reported net income of $7,093,000 for the year ended 1998. The Company's return on average assets for the years ended December 31, 1998, 1997, and 1996 was 0.15%, 1.09%, and 0.76%, respectively. Return on average equity for the same periods was 0.86%, 5.39%, and 5.05%. Exclusive of the tax-effected merger-related charges, return on average assets and return on average equity were 0.89% and 5.25%, respectively, for the year ended December 31, 1998. On a per share basis, basic earnings were $0.12 as stated and $0.74 exclusive of the merger-related charge for 1998, $0.75 for 1997, and $0.48 for 1996. The Company paid per share dividends of $0.48, $0.40, and $0.33 for the years ended December 31, 1998, 1997, and 1996. These dividend rates do not include the amounts paid by Home in each respective year, prior to its acquisition by the Company.

[GRAPHIC OMITTED]

Balance Sheet Analysis

The composition of assets and liabilities are generally the result of strategic management decisions influenced by market forces. At December 31, 1998 and 1997, the Company reported total assets of $828,369,000 and $773,873,000 respectively. This $54,496,000 (7.0%) increase in total assets was due to internal growth over the preceding twelve months. Between 1996 and 1997, total assets increased $116,316,000 (17.7%), of which $93,413,000 was due to the Richmond acquisition. Exclusive of Richmond, the Company's total assets increased $22,903,000 (3.5%) in 1997 due to internal growth and the opening of SFBW's new Burlington office in May, 1997.

Lending Activities

The Company's largest single asset category continues to be loans. The Company's gross loans, as a percentage of total deposits, were 93.8% at December 31, 1998 compared to 91.8% at December 31, 1997.

The following table shows the Company's loan portfolio composition on the dates indicated (dollars in thousands).

<TABLE>
<CAPTION>

	At December 31,									
	1998		1997		1996		1995		1994	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 56,675	9.2%	$ 56,030	9.9%	$ 44,088	9.5%	$ 46,323	10.2%	$ 39,231	9.4%
Real Estate	506,844	82.8	461,700	81.4	375,985	81.0	372,399	82.1	346,922	83.1
Installment	37,519	6.1	37,496	6.6	30,619	6.6	22,624	5.0	19,733	4.7
Other	11,395	1.9	12,318	2.1	13,230	2.9	12,387	2.7	11,616	2.8
Total Loans	$ 612,433		$ 567,544		$ 463,922		$ 453,733		$ 417,502	

</TABLE>

Total loans outstanding increased $44,889,000 (7.9%) in 1998 mainly due to Home's mortgage loan growth during the year.

Real estate loans represent the Company's largest loan category, comprising 82.8% of the loan portfolio at December 31, 1998. Real estate loans increased $45,144,000 (9.8%) from year end 1997 to 1998. Home experienced $50,045,000 in loan growth during 1998. All of Home's mortgage loans are secured by 1-4 family owner-occupied residential mortgages. A decrease of $5,000,000 in Richmond's mortgage loans offset the growth in Home's loan portfolio as the Company tightened Richmond's underwriting standards following the acquisition.

Historically, Home wrote its 1-4 family mortgage loans on both adjustable and fixed rate terms with amortization terms of up to 30 years, retaining all loan originations in portfolio. The Company writes its residential real estate mortgages on balloon notes, generally up to five year maturities with amortization periods of up to thirty years. As part of integrating Home into the Company's operations, management desires to modify Home's mortgage activities by selling off new fixed rate originations into the secondary market and retaining the servicing rights, as well as beginning to offer terms similar to those offered at SFB, SFBW, and Richmond. Additionally, management wishes to diversify Home's lending activities into commercial and consumer loans to enhance the yield on Home's loan portfolio and diversify lending concentrations. To the extent allowable, the Company will also look to sell off a portion of Home's previous mortgage originations into the secondary market, servicing retained.

[GRAPHIC OMITTED]

The Company continues to emphasize commercial real estate lending. Commercial real estate activity was relatively flat during 1998 due to intense pricing competition in the Company's markets during the year. The Company's commercial real estate loans continue to be generally secured by owner occupied, improved property such as office buildings, warehouses, small manufacturing operations, and retail facilities located in the Company's primary market areas subject to a maximum 75% loan to value ratio pursuant to its loan policy. Loans for construction and land development are generally secured by the property under construction or development up to a maximum loan value of 75% of estimated cost or appraisal value of the completed project, whichever is less. The Company further monitors construction and land development credits by disbursing draws under the credit commitment upon satisfactory title company inspections of construction progress and evidence of proper lien waivers. The borrower's creditworthiness and the economic feasibility and cash flow abilities of the project are fundamental concerns in the Company's commercial real estate and construction/land development lending. Loans secured by commercial property, whether existing or under construction, and land development are generally larger in size and involve greater risks than residential mortgage loans because payments on loans secured by commercial property are dependent upon the successful operation and management of these properties, businesses, or developments. As a result, the value of properties securing such loans are likely to be subject to the local real estate market and general economic conditions, including movements in interest rates. The Company generally writes commercial real estate loans for maturities up to five years although the total amortization period may be as long as twenty years, amortized monthly. The Company generally writes construction and land development loans on terms up to a maximum of 24 months and requires the borrower to make defined principal reductions at stated intervals during that term. The Company additionally attempts to have construction credits further supported by end mortgage commitments wherever possible. The Company will generally reserve credit extensions for land development projects for experienced, strong borrowers with adequate outside liquidity to support the project in the event the actual project performance is slower than projection.

The Company's real estate loans, like all of the Company's loans, are underwritten according to its written loan policy. The loan policy sets forth the term, debt service capacity, credit extension, and loan to value guidelines which the Company considers acceptable to recognize the level of risk associated with each specific loan category. The following table sets forth the percentage composition of the real estate loan portfolio as of December 31, 1998.

Commercial real estate	13.28%
1-4 family first liens on residential real estate	77.40
Multifamily residential	2.89
1-4 family junior liens on residential real estate (including home equity lines of credit)	4.16
Construction, land development, and farmland	2.27

Commercial loans increased $645,000 (1.2%) in 1998. Commercial loans are also underwritten according to the Company's loan policy which sets forth the amount of credit which can be extended based upon the borrower's cash flow, debt service capacity, and discounted collateral value. Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the business. As a result, the availability of funds for the repayment of commercial loans may be dependent on the success of the business itself, which, in turn, is likely to be dependent upon the general economic environment. In recognition of this risk, the Company emphasizes capacity to repay the loan, adequacy of the borrower's capital, an evaluation of the industry conditions affecting the borrower, and current credit file documentation. The Company's commercial loans are typically secured by the borrower's business assets such as inventory, accounts receivable, fixtures, and equipment. Generally, commercial loans carry the personal guaranties of the principals.

Installment loans remained virtually unchanged in 1998 compared to 1997 as indirect auto loan originations were impacted by reduced car sales resulting mainly from various work stoppages encountered by auto manufacturers during the year. The Company cultivates installment loans primarily through the purchase of loan contracts from its network of auto dealers developed over the years. The Company continues to pursue additional auto dealer contacts to build this network of loan referrals. The Company's indirect auto loan underwriting emphasizes the purchase of the highest quality loan contracts to minimize risk of loss in this lending activity.

Other loans decreased $923,000 (7.5%) in 1998 as the Company sold off its $3.3 million credit card portfolio in July, 1998 due to the competitive nature of and risk associated with that product line. An increase of $2.4 million in municipal loans and industrial revenue bond financing offset the decline in other loans related to the credit card portfolio sale.

The following table shows the maturity of loans (excluding residential mortgages on one-to-four-family residences, installment loans, and lease financing) outstanding as of December 31, 1998 (dollars in thousands). Also provided are the amounts due after one year classified according to the sensitivity to changes in interest rates.

	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial	$ 30,705	$ 24,190	$ 1,013	$ 55,909
Real Estate	27,467	55,089	4,781	87,337
	$ 58,172	$ 79,279	$ 5,795	$ 143,246
Loans Maturing after one year with:				
Fixed Interest Rates		$ 71,084	$ 3,836	
Variable Interest Rates		8,431	1,958	
TOTAL		$ 79,515	$ 5,795	

Risk Elements in the Loan Portfolio

Certain risks are inherent in the lending function. These risks include a borrower's subsequent inability to pay, insufficient collateral coverage, and changes in interest rates. The Company attempts to reduce these risks by adherence to a written set of loan policies and procedures. Included in these policies and procedures are underwriting practices covering debt-service coverage, loan-to-value ratios, and loan term. Evidence of a specific repayment source is required on each credit extension, with documentation of the borrower's repayment capacity. Generally, this repayment source is the borrower's cash flow, which must demonstrate the ability to service the debt based upon historical results and conservative projections of future performance.

Management maintains the allowance for loan losses (the "Allowance") at a level considered adequate to provide for future loan losses. The Allowance is increased by provisions charged to earnings, and is reduced by charge-offs, net of recoveries. At December 31, 1998, the Allowance was $4,485,000, an increase of $115,000 from the balance at December 31, 1997 due to loan loss provisions exceeding net charge-offs during the year. As a percentage of total loans, the allowance was 0.73% at the end of 1998 compared to 0.79% at the end of 1997. The lower percentage was due to the overall growth in Home's loan portfolio during 1998. Historically, Home has experienced a very low incidence of charge-offs from its loan originations. Based on its analyses, management considers the Allowance adequate to recognize the risk inherent in the consolidated loan portfolio at December 31, 1998.

The allowance for loan losses is composed of specific and general valuation allowances. The Company establishes specific valuation allowances on commercial and income-producing real estate loans considered impaired. A loan is considered impaired (and a specific valuation allowance established for an amount equal to the impairment) when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loan's original effective interest rate, or the fair value of the underlying collateral. General valuation allowances are based on an evaluation of the various risk components that are inherent in the credit portfolio.

The risk components that are evaluated include past loan loss experience; the level of nonperforming and classified assets; current economic conditions; volume, growth and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; peer group comparisons; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. Management may transfer reserves between specific and general valuation allowances as considered necessary. The adequacy of the allowance for loan losses is approved quarterly by the Company's board of directors. The allowance reflects management's best estimate of the reserves needed to provide for the impairment of commercial and income-producing real estate loans, as well as other credit risks of the Banks and is based on a risk model developed and implemented by management and approved by the Company's board of directors. However, actual results could differ from this estimate and future additions to the allowance may be necessary based on unforeseen changes in economic conditions. In addition, federal regulators periodically review the Banks' allowance for loan losses. Such regulators have the authority to require the Banks to recognize additions to the allowance at the time of their examination.

A substantial portion of the Banks' loans are to customers located in Southeastern Wisconsin and Northeastern Illinois. Accordingly, the ultimate collectibility of a substantial portion of the Banks' loan portfolio is susceptible to changes in market conditions in that area.

The balance of the Allowance and actual loan loss experience for the last five years is summarized in the following table (dollars in thousands).
<TABLE>
<CAPTION>

	Years ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period	$ 4,370	$ 3,553	$ 3,537	$ 2,632	$ 2,493
Charge-offs:					
Commercial	146	123	122	70	115
Real estate	39	40	100	82	59
Installment	465	71	46	82	68
Other	149	147	118	78	38
Total charge-offs	799	381	386	312	280
Recoveries:					
Commercial	79	8	19	58	18
Real estate	59	29	2	12	0
Installment	60	16	26	34	24
Other	26	17	25	9	17
Total recoveries	224	70	72	113	59
Net charge-offs	575	311	314	199	221
Balance of acquired allowance at date of acquisition	0	678	0	734	0
Additions charged to operations	690	450	330	370	360
Balance at end of period	$ 4,485	$ 4,370	$ 3,553	$ 3,537	$ 2,632
Ratios:					
Net charge-offs to average loans outstanding	0.10%	0.06%	0.07%	0.05%	0.16%
Net charge-offs to total allowance	12.82	7.12	8.84	5.63	11.14
Allowance to year end loans outstanding	0.73	0.77	0.77	0.78	0.63

</TABLE>

When in the opinion of management, serious doubt exists as to the collectibility of a loan, the loan is placed on nonaccrual status. At the time a loan is classified as nonaccrual, interest previously credited to income in the current year is reversed and interest income accrued in the prior year is charged to the Allowance. The Company generally does not recognize income on loans past due 90 days or more.

[GRAPHICS OMITTED]

<TABLE>

<CAPTION>

The following table summarizes non-performing assets on the dates indicated (dollars in thousands).

	At or for the years ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Nonaccrual loans	$ 3,245	$ 3,500	$ 3,300	$ 2,302	$ 2,297
Accruing loans past due 90 days or more	106	20	38	2	5
Total non-performing	3,351	3,520	3,338	2,304	2,302
Other real estate owned	572	620	895	956	733
Total non-performing assets	$ 3,923	$ 4,140	$ 4,233	$ 3,260	$ 3,035
Ratios:					
Non-performing loans to total loans	0.55%	0.62%	0.72%	0.51%	0.55%
Allowance to non-performing loans	133.84	124.15	106.44	153.52	114.34
Non-performing assets to total assets	0.47	0.58	0.64	0.55	0.54
Interest income that would have been recorded on nonaccrual loans under original terms	$ 286	$ 270	$ 309	$ 288	$ 312
Interest income recorded during the period on nonaccrual loans	158	145	145	141	147

Effective January 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan" ("Statement No. 114"). Under the new standard, the 1998, 1997, and 1996 allowance for loan losses related to loans that are identified for evaluation in accordance with Statement No. 114 is primarily based on the fair value of the collateral for certain collateral dependent loans. For certain noncollateral dependent loans, the Allowance is established based on the expected cash flows discounted at the loan's initial effective interest rate. Prior to 1996, the allowance for loan losses related to these loans was based on undiscounted cash flows or the fair value of the collateral for collateral dependent loans. At December 31, 1998, the Company identified approximately $407,000 in loans which are considered impaired. These loans are included as part of the nonaccrual loans set forth in the table above and represent 0.07% of the Company's gross loan portfolio. Based upon the analysis of the underlying collateral value of these loans and the low percentage of these loans in relation to the gross loan portfolio, management believes the allowance is adequately funded to provide for the inherent risk associated with these loans.

At December 31, 1998, there were no loans to borrowers where available information would indicate that such loans were likely to later be included as nonaccrual, impaired (as defined in SFAS No. 114), past due, or restructured.
</TABLE>

Investment Activities

Debt securities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost. Debt securities that the Company does not have either the positive intent and/or the ability to hold to maturity and all marketable equity securities must be classified as available-for-sale or trading and carried at their respective fair market value. Unrealized holding gains and losses on securities classified as available-for-sale, net of related tax effects, are carried as a component of shareholders' equity. The company has no assets classified as trading. See note 4 to the Consolidated Financial Statements for more information.

Total investment securities outstanding at December 31, 1998 increased $6,966,000. The Banks deployed these funds and 1998 investment maturities primarily in obligations of states and political subdivisions and mortgage-related securities to take advantage of the comparatively more attractive yields on these investment securities as opposed to U.S. Treasury and agency obligations. The following table presents the combined amortized cost of the Company's held-to-maturity and available-for-sale investment securities on the dates indicated (dollars in thousands).
<TABLE>
<CAPTION>

	At December 31,					
	1998		1997		1996	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasury securities and obligations of U.S. government agencies	$ 41,200	39.9%	$ 46,822	48.6%	$ 87,946	70.8%
Obligations of states and political subdivisions	30,828	29.8	25,922	26.9	15,015	12.1

Mortgage-related securities	21,792	21.1	17,242	17.9	16,753	13.5
Other securities	9,509	9.2	6,377	6.6	4,516	3.6
TOTAL	$ 103,329		$ 96,363		$ 124,230	

</TABLE>

The composition of the Company's investment securities has been influenced by the general market conditions prevalent during 1998. U.S. Treasury securities and obligations of U.S. government agencies ("Treasuries/Agencies") decreased $5,622,000 in 1998 due to the Company's decision to increase the amount of investments deployed in obligations of states and political subdivisions and mortgage-related securities to take advantage of the comparatively higher yields available on these investment products. As a result of this decline, the percentage of the Company's investment portfolio invested in Treasuries/Agencies decreased to 39.9% at December 31, 1998 from 48.6% at December 31, 1997.

Obligations of states and political subdivisions increased $4,906,000 at December 31, 1997 compared to December 31, 1996 due to the Company reinvesting Treasuries/Agencies maturities in municipal investments to enhance its portfolio yield. At December 31, 1998, obligations of states and political subdivisions increased to 29.8% of the Company's investment portfolio from 26.9% at December 31, 1997.

[GRAPHIC OMITTED]

During 1998, balances in mortgage-related securities increased $4,550,000 as maturing Treasuries/Agencies were reinvested in this category. The Company's mortgage-related securities represent balances outstanding on fixed-rate collateralized-mortgage obligations ("CMOs") supported by one-to-four family residential mortgage securities issued by the Federal National Mortgage Association ("FNMA")or the Federal Home Loan Mortgage Corporation ("FHLMC"). To avoid exposure to prepayments, wide market value fluctuations, and recoverability, the Company purchases only the conservative early trances of the respective CMOs. These investments closely resemble treasury securities in their shorter maturities, marketability, and repayment predictability, and, accordingly are the least volatile to the impact of market interest rate fluctuations. At December 31, 1998, the remaining average life of the Company's mortgage-related securities was slightly less than three years. Due to the short remaining assumed maturities of these investments and its historical experience with these investments, management does not consider the Company to be exposed to significant interest rate risk or recoverability related to these investments. At December 31, 1998, mortgage-related securities accounted for 21.1% of the Company's investment portfolio compared to 17.93% at December 31, 1997.

Other securities increased $3,132,000 in 1998, mainly due to the Company's purchase of additional marketable equity securities during the year and $638,000 in increased investments in Federal Reserve Bank stock and Federal Home Loan Bank stock. In October, 1998, the Company took advantage of the relative weakness in bank and thrift stocks by investing approximately $3 million in the stock of ten different financial institutions. Also during 1998, the Company sold approximately $506,000 in marketable equity securities to take advantage of price appreciation in these securities. At December 31, 1998, other securities represented 9.2% of the Company's investment portfolio compared to 6.6% at December 31, 1997.

The maturities and weighted-average yield of the Company's investment securities at December 31, 1998 are presented in the following table (dollars in thousands, Equity Securities are included in the "within one year" column). Taxable-equivalent adjustments (using a 34% rate) have been made in calculating the yields on obligations of states and political subdivisions.

<TABLE>
<CAPTION>

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		Within Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasury securities and obligations of U.S. government agencies	$ 7,168	6.21%	$ 26,533	5.91%	$ 7,499	6.17%	$ 0	0.00%
Obligations of states and political subdivisions	3,597	6.06	14,728	6.68	11,721	7.20	782	8.02
Mortgage-related securities	3,077	6.81	18,715	6.28	0	0.00	0	0.00
Other securities	7,509	3.55	1,800	6.68	200	8.90	0	0.00

TOTAL	$21,351	5.33%	$ 61,776	6.26%	$ 19,420	6.82%	$ 782	8.02%

At December 31, 1998, the Company had $189,000 in net unrealized gains on its held-to-maturity securities and $1,666,000 in net unrealized gains on its available-for-sale securities. Of the unrealized gain on the Company's available-for-sale securities at December 31, 1998, $465,000 was the result of price appreciation on marketable equity securities acquired at the beginning of 1997 and in the fourth quarter of 1998, and $1,201,000 was the result of price appreciation on the investment securities. Unrealized gains and losses resulting from marketable equity securities are impacted by the current market price quoted for the underlying security in relation to the price at which the security was acquired by the Company. Unrealized gains and losses on investment securities are the result of changes in market interest rates and the relationship of the Company's investments to those rates for comparable maturities. Unrealized gains generally result from the interest rates on the Company's portfolio of investment securities exceeding market rates for comparable maturities. Conversely, unrealized losses generally result from the interest rates on the Company's portfolio of investment securities falling below market rates for comparable maturities. If material, unrealized losses could negatively impact the Company's future performance as earnings from these investments would be less than alternative investments currently available and may not provide as wide a spread between earnings and funding costs. The Company does not consider its investment portfolios exposed to material adverse impact to future operating performance resulting from market interest rate fluctuations.

Deposits

Deposits are the Company's principal funding source. Deposit inflows and outflows are significantly influenced by general interest rates, money market conditions, market competition, and the overall condition of the economy. For the year ended December 31, 1998, total average deposits increased $119,890,000 (23.4%) due to the inclusion of Richmond and internal deposit growth at SFB, SFBW, & Home. As the Richmond acquisition was consummated on December 31, 1997, no averages for Richmond are included in any average deposit information for the years 1997 and 1996.

The following table sets forth the average amount of and the average rate paid by the Company on deposits by deposit category (dollars in thousands).

	Years ended December 31,								
	1998			1997			1996		
	Average Amount	Average Rate	% of Total	Average Amount	Average Rate	% of Total	Average Amount	Average Rate	% of Total
Demand deposits	$ 72,684	0.00%	11.5%	$ 58,687	0.00%	11.4%	$ 54,601	0.00%	10.8%
NOW accounts	82,778	2.28	13.1	65,453	2.02	12.8	65,341	2.04	12.9
Money market deposits	109,509	4.38	17.3	86,354	4.37	16.8	79,344	4.15	15.7
Savings	106,543	2.82	16.8	102,080	2.89	19.9	108,546	2.94	21.5
Time deposits	261,032	5.79	41.3	200,082	5.70	39.0	198,019	5.75	39.1
TOTAL	$ 632,546	3.92%		$ 512,656	3.79%		$ 505,851	3.80%	

For the year ended December 31, 1998, average non-interest bearing demand deposits increased $13,997,000 (23.9%). The first year inclusion of Richmond in the Company's averages accounted for $7,026,000 of this increase. Exclusive of Richmond, average non-interest bearing demand deposits increased $6,971,000 (11.9%) mainly due to internal growth in both personal and business account relationships during the year. Non-interest bearing demand deposits represent 11.5% of the Company's average deposit portfolio at December 31, 1998 compared to 11.4% at December 31, 1997.

[GRAPHIC OMITTED]

Average NOW accounts increased $17,325,000 (26.5%) for the year ended December 31, 1998 over 1997. Richmond accounted for $17,138,000 of this increase. Exclusive of Richmond, average NOW accounts increased $187,000 (0.3%). At December 31, 1998, NOW accounts represent 13.1% of the Company's average total deposits compared to 12.8% at December 31, 1997.

Average money market deposits increased $23,155,000 (26.8%) in total and $20,236,000 (23.4%) exclusive of Richmond for the year ended December 31, 1998. The Company continues to experience growth from this funding source due to the popularity of the Money Market Index Account. At December 31, 1998, average money market balances of the Company, represent 17.3% of average total deposits compared to 16.8% at December 31, 1997.

Average savings balances increased $4,463,000 (4.4%). The inclusion of Richmond added $8,072,000 to the Company's average savings balances. Exclusive of Richmond, average savings balances decreased $3,609,000 (3.5%) due to the declining popularity of this deposit instrument given customers' desire for more attractive interest rates which the Company offers in money market and time deposit accounts. Average savings balances represent 16.8% of average total deposits at December 31, 1998 compared to 19.9% at December 31, 1997.

Average time deposit balances increased $60,950,000 (30.5%) in total, and $20,994,000 (10.5%) exclusive of Richmond for the year ended December 31, 1998 compared to the year ended December 31, 1997. This increase was mainly due to time deposit growth at Home during the year. At December 31, 1998, average time deposits represent 41.3% of average total deposits compared to 39.0% at December 31, 1997.

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 1998 are summarized as follows (dollars in thousands).

3 months or less	$ 18,736
Over 3 through 6 months	6,096
Over 6 through 12 months	9,035
Over 12 months	11,744
TOTAL	$ 45,611

Approximately 5.5% of the Company's total assets at December 31, 1998 were supported by time deposits with balances in excess of $100,000 as compared to 7.2% at December 31, 1997.

Liquidity

The primary functions of asset/liability management are to assure adequate liquidity and to maintain an appropriate balance between interest-earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet the cash flow requirements of depositors and borrowers.

The Company's primary funding sources are deposits, loan principal repayments, and maturities of loans and investment securities. Contractual maturities and amortization of loans and investments are a predictable funding source, whereas deposit flows and loan prepayments are impacted by market interest rates, economic conditions, and competition.

The Company's primary investment activity is loan origination. For the year ended December 31, 1998, the Company reported a $45,465,000 increase in net loans. Advances from the Federal Home Loan Bank funded $20,000,000 of the net loan increase with the balance funded by deposit growth. Deposits increased $34,910,000 in total, of which $25,465,000 went to fund loan growth. The remaining $9,445,000 in 1998 deposit growth combined with $6,454,000 in cash provided by operating activities and $1,245,000 in net notes payable proceeds, repayments on the Company's ESOP and proceeds from stock option exercises to fund $6,685,000 in net investment securities increases, purchase treasury stock at Home, pay cash dividends, and net increases in cash and cash equivalents. Additionally, the Company issued $2,410,000 in its common stock to fund the LCC acquisition in September, 1998.

For the year ended December 31, 1997, the Company reported a $52,933,000 net increase in loans exclusive of the Richmond acquisition. Funding for the 1997 loan increase came from $54,103,000 in net investment security maturities during the year.

The residual investment maturities combined with deposit growth, cash provided by operating activities and increases in securities sold under agreements to repurchase were used to reduce federal fund borrowing, purchase additional shares for the Company's ESOP, pay dividends, payoff the installment notes payable incurred in 1995 with the Waterford acquisition, and purchase fixed assets. In 1997, the Company completed its cash acquisition of Richmond, funding the transaction through a combination of cash, investment securities maturities and sales, and notes payable advances.

Cash and cash equivalents are generally the Company's most liquid assets. The Company's level of operating, financing, and investing activities during a given period impact the resultant level of cash and cash equivalents reported. The Company had liquid assets of $82,230,000 and $80,585,000 at December 31, 1998 and 1997, respectively. Liquid assets in excess of necessary cash reserves are generally invested in short-term investments such as federal funds sold, commercial paper, and interest-earning deposits.

Interest Rate Sensitivity

Interest rate risk is an inherent part of the banking business as financial institutions gather deposits and borrow other funds to finance earning assets. Interest rate risk results when repricing of rates paid on deposits and other borrowing does not coincide with the repricing of interest-earning assets. Interest rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing interest rates. The following table shows the estimated maturity and repricing structure of the Company's interest-earning assets and interest-bearing liabilities for three different independent and cumulative time intervals as of December 31, 1998 (dollars in millions). For purposes of presentation in the following table, the Company used the national deposit decay rate assumptions published by its regulators as of December 31, 1998, which, for NOW accounts, money market accounts, and savings deposits in the one year or less category were 59%, 65%, and 80%, respectively. The table does not necessarily indicate the impact general interest rate movements may have on the Company's net interest income as the actual repricing experience of certain assets and liabilities, such as loan prepayments and deposit withdrawals, is beyond the Company's control. As a result, certain assets and liabilities may reprice at intervals different from the maturities assumed in the following table given the general movement in interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates.

<TABLE>
<CAPTION>

	0-30 Days	31-90 Days	91-365 Days	Total 0-365 Days
ASSETS				
Loans				
<S>	<C>	<C>	<C>	<C>
Fixed	$ 17.2	$ 10.6	$ 42.1	$ 69.9
Variable	103.7	0.0	0.0	103.7
Investments	23.5	6.1	11.7	41.3
Federal funds	8.5	0.0	0.0	8.5
Total	$ 152.9	$ 16.7	$ 53.8	$ 223.4
LIABILITIES				
Savings deposits	$ 7.0	$ 14.1	$ 63.3	$ 84.4
NOW deposits	4.6	9.2	41.5	55.3
Time deposits	21.2	42.2	107.7	171.1
Money market deposits	6.5	13.0	58.6	78.2
Other interest-bearing liabilities	25.0	2.5	6.8	34.3
Total	$ 64.4	$ 81.0	$ 277.8	$ 423.2
Interest sensitivity gap	$ 88.6	$ (64.3)	$ (224.0)	$ (199.8)
Cumulative interest sensitivity gap	88.6	24.2	(199.8)	(199.8)
Cumulative interest sensitivity gap as a percentage of total earning assets	11.6%	3.2%	(26.1)%	(26.1)%
Cumulative total interest-earning assets as a percentage of cumulative interest-bearing liabilities	237.4	116.6	52.8	52.8

</TABLE>

At December 31, 1998, interest-sensitive assets and interest-sensitive liabilities subject to repricing within one year, as a percentage of total assets were 26.7% and 51.1%, respectively. Variable rate and maturing fixed rate loans are the primary interest-sensitive assets repricing within one year. Time deposits are the most significant liabilities subject to repricing within one year on the funding side of the balance sheet. The table above demonstrates the Company is liability-sensitive at December 31, 1998, which would normally indicate that the Company's net interest margin would improve if rates decreased and contract if interest rates increased. The consolidation with Home increased the Company's liability sensitive position due to the concentration of Home's loan portfolio in long-term, fixed-rate mortgage loans.

Previously, Home retained all of its fixed rate mortgage originations in its loan portfolio. The Company expects to reduce the average maturity of Home's loan portfolio by selling newly originated mortgages into the secondary market, and by diversifying its lending practices into commercial and consumer loans which will add variable rate loan products to Home's portfolio and reduce the average loan maturity of the fixed rate portfolio.

Capital Resources

Total shareholders' equity increased $873,000 in 1998, decreased $1,644,000 in 1997, and increased $66,343,000 in 1996. The increase in 1998 was mainly due to the retirement of Home's Recognition and Retention Plan commensurate with the merger and the annual allocation of ESOP shares in both State's and Home's respective plans. Total shareholders' equity decreased in 1997 due to Home's acquisition of treasury shares and the formation of the Recognition and Retention Plan exceeding the amount of net earnings retention during the year. The 1996 increase was primarily the result of the capital Home raised in its conversion from a mutual to a stock organization. The following table illustrates historical internal growth trends for the years indicated.

Years ended December 31,

	1998		1997	1996
	As stated	Exclusive of merger-related charge		
Return on assets	0.15%	0.89%	1.09%	0.76%
Return on equity	0.86	5.25	5.40	5.05
Earnings retained	(357.40)	25.40	50.20	72.90
Dividend payout ratio	457.40	74.60	49.80	27.10
Average equity to average assets	16.97		20.21	15.08
Asset growth	7.04		17.69	11.53

There are certain regulatory constraints which affect the Company's capital levels. At December 31, 1998, the Company exceeded all of the regulatory capital requirements. See Note 9 and Note 12 to the consolidated financial statements for additional explanation of these regulatory constraints.

Impact of Inflation and Changing Prices

The Company's Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time impacted by inflation. The impact of inflation is reflected in the company's other expenses which tend to rise during periods of general inflation. The majority of the Company's assets and liabilities are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Consequently, interest rates have a greater impact on the Company's performance than do the general levels of inflation. Management believes the most significant impact on the Company's financial results is its ability to react to interest rate changes and endeavors to maintain an essentially balanced position between interest sensitive assets and liabilities in order to protect against wide fluctuations in the Company's net interest margin.

Impact of Year 2000

At midnight on December 31, 1999, unless the proper modifications have been made, the program logic in many computer systems will start to produce erroneous results because, among other things, the systems will incorrectly read the date "01/01/00" as being January 1 of the year 1900 or another incorrect date. In addition, certain systems may fail to detect that the year 2000 is a leap year. Problems can also arise earlier than January 1, 2000 as dates in the next millennium are entered into non-Year 2000 compliant programs (collectively, such issues are referred to herein as the "Year 2000 Problem"). Like most financial service providers, the Company may be significantly affected by the Year 2000 Problem due to the nature of financial information.

Compliance Program. In order to address the Year 2000 Problem and to minimize its potential adverse impact, in 1997 the Company initiated a corporate wide project to address the impact of the Year 2000 Problem on its computer application systems, information technology ("IT") related equipment, system software, building controls, and non-IT embedded systems found in such equipment as security systems, currency counters, and elevators. The evaluation of Year 2000 issues included an assessment of the potential impact of the Year 2000 Problem on the Company, including monitoring significant customers, key vendors, service suppliers and other parties material to the Company's operations testing changes provided by these vendors; and developing contingency plans for any critical systems that are not effectively reprogrammed. In the course of this evaluation, the Company has sought written assurances from such third parties as to their state of Year 2000 readiness. The Company's Year 2000 Compliance Program is divided into five phases: (1) awareness; (2) assessment; (3) renovation; (4) validation; and (5) implementation.

The Company's State of Readiness. Work on the Year 2000 Compliance Program has been prioritized in accordance with risk. The highest priority has been assigned to activities that would disrupt the accuracy and delivery of the Company's banking services to its customers; next is an assessment of the potential credit risk to the Company resulting from its credit customers' state of Year 2000 readiness, or lack thereof, and the potential impact of those efforts on the customers' ability to meet contractual payment obligations; the lowest priority has been assigned to activities that would cause inconvenience or productivity loss in normal business operations such as issues related to internal office machinery, heating and air conditioning systems, and elevators.

The Company has substantially completed the first two phases of the plan and is currently working internally and with external vendors on the final three phases. Because the Company outsources its data processing, a significant component of the Year 2000 Compliance Program is working with external vendors to test and certify that their systems are Year 2000 compliant. During the weekend of October 3, 1998, the Company's primary data service provider converted State Financial Bank (Wisconsin) and State Financial Bank - Waterford to its Year 2000-ready platform. As part of the conversion, the Company performed a variety of tests to determine the proper functionality of the new platform. No problems were encountered. The Company's other external vendors have surveyed their programs to inventory the necessary changes and have begun correcting the applicable computer programs and replacing equipment so that the Company's information systems will be Year 2000 compliant prior to March 31, 1999. This will enable the Company to devote substantial time to the testing of the upgraded systems prior to the arrival of the new millennium. The Company expects to complete its timetable for carrying out its plans to address Year 2000 issues, and to finish initial testing by March 31, 1999.

The Company has also conducted a survey of its significant credit customers to determine their state of Year 2000 readiness. Surveys were mailed to all customers whose outstanding loan balance or loan commitment exceeded $200,000. In addition, as part of its ongoing credit underwriting practices, all new and renewed loans must have a Year 2000 risk assessment completed and reported as part of the loan approval process. Based upon the information received from these surveys, the Company does not expect to experience any material collection problems resulting from its customers' Year 2000 readiness, or lack thereof.

Cost to Address Year 2000 Compliance Issues. Managing the Year 2000 Compliance Program will result in additional direct and indirect costs to the Company. Based upon current internal studies, as well as recently solicited bids from various computer hardware and software vendors, the Company estimates that the total direct cost of resolving the Year 2000 Problem will not exceed $900,000. This estimate includes approximately $471,100 in hardware purchases that the Company expects to capitalize. To date, the Company has incurred approximately $324,000 in costs related to addressing the Year 2000 Problem. The majority of the remaining costs related to resolving the Year 2000 Problem are expected to be incurred in 1999. The Company expects to fund these expenditures through internal sources.

The estimated costs of, and timetable for, becoming Year 2000 compliant constitute "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such estimates are based on numerous assumptions by management, including assumptions regarding the continued availability of certain resources, the accuracy of representations made by third parties concerning their compliance with Year 2000 issues, and other factors. The estimated costs of Year 2000 compliance also do not give effect to any future corporate acquisitions made by the Company or its subsidiaries.

Risk of Non-Compliance and Contingency Plans. The major applications which pose the greatest risk to the Company if the implementation of the Year 2000 Compliance Program is not successful are the Company's data services systems supported by third party vendors, loan customers ability to meet contractual payment obligations in the event the Year 2000 Problem has a significant negative impact on their business, internal computer networks, and items processing equipment which renders customers' bank statements and banking transactions. The potential problems which could result from the inability of these applications to correctly process the Year 2000 are the inaccurate calculation of interest income and expense, service delivery interruptions to the Company's banking customers, credit losses resulting from the Company's loan customers inability to make contractual credit obligations, interrupted financial data gathering, and poor customer relations resulting from inaccurate or delayed transaction processing.

Although the Company intends to complete all Year 2000 remediation and testing activities by March 31, 1999, and although the Company has initiated Year 2000 communications with significant customers, key vendors, service providers, and other parties material to the Company's operations and is diligently monitoring the progress of such third parties in their Year 2000 compliance, such third parties nonetheless represent a risk that cannot be assessed with precision or controlled with certainty. For that reason, the Company intends to develop contingency plans to address alternatives in the event that Year 2000 failures of automatic systems and equipment occur. Preliminary discussions have been held regarding the contingency plan and a final contingency plan is scheduled to be completed by the end of the second quarter of 1999.

Pending Accounting Changes

Pending accounting changes for 1999 are set forth in detail as Note 1 to the Notes to the Consolidated Financial Statements contained herein.

Forward Looking Statements

When used in this report, the words "believes," "expects," and similar expressions are intended to identify forward-looking statements. The Company's actual results may differ materially from those described in the forward-looking statements. Factors which could cause such a variance to occur include, but are not limited to, changes in interest rates, levels of consumer bankruptcies, customer loan and deposit preferences, and other general economic conditions.

REPORT OF MANAGEMENT AND INDEPENDENT AUDITORS

Report of Management

The management of State Financial Services Corporation is responsible for the preparation and integrity of the Consolidated Financial Statements and other financial information included in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and include amounts that are based upon informed judgements and estimates by management. The other financial information in this Annual Report is consistent with the financial statements.

The Company maintains a system of internal accounting controls. Management believes that the internal accounting controls provide reasonable assurance that transactions are executed and recorded in accordance with Company policy and procedures and that the accounting records may be relied on as a basis for preparation of the financial statements and other financial information.

The Company's independent auditors were engaged to perform an audit of the Consolidated Financial Statements, and the auditor's report expresses their opinion as to the fair presentation of the consolidated financial statements in conformity with generally accepted accounting principles.

The Audit Committee of the Board of Directors, comprised of directors who are not employees of the Company, meets periodically with management, the internal auditors, and the independent auditors to discuss the adequacy of the internal accounting controls. Both the independent auditors and the internal auditors have full and free access to the Audit Committee.

Michael J. Falbo	Michael A. Reindl
/s/Michael J. Flabo	/s/Michael A. Reindl
President and Chief Executive Officer	Senior Vice President, Controller, and Chief Financial Officer

Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Shareholders
State Financial Services Corporation

We have audited the accompanying consolidated balance sheets of State Financial Services Corporation and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Home Federal Savings and Loan Association of Elgin for the year ended December 31, 1998, or the consolidated financial statements of Home Bancorp of Elgin, Inc. and subsidiary for the years ended December 31, 1997 and 1996, which statements reflect total assets of $383,231,000 in 1998 and $352,595,000 in 1997, and total interest income of $24,359,000 in 1998, $25,029,000 in 1997 and $23,059,000 in 1996. Those statements were audited by other accountants whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Home Federal Savings and Loan Association of Elgin and Home Federal Bancorp, Inc. and subsidiary, is based solely on the reports of other accountants.

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

In our opinion, based on our audits and the reports of KPMG Peat Marwick LLP, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1998 and 1997, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/S/ERNST & YOUNG LLP

January 22, 1999, except for Note 2, as to which the date is March 12, 1999.

<TABLE>
<CAPTION>

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

<S>	December 31, 1998 <C>	1997 <C>
Assets		
Cash and due from banks	$ 31,028,203	$ 34,358,642
Interest-bearing bank balances	29,793,241	34,952,407
Federal funds sold	8,508,387	11,273,835
Commercial Paper	12,900,000	-
Cash and cash equivalents	82,229,831	80,584,884
Investment securities:		
Held-to-maturity (fair value of $10,479,402-1998 and $21,301,412-1997)	10,290,241	21,088,641
Available-for-sale (at fair value)	94,704,827	76,616,660
Loans (net of allowance for loans losses of $4,484,504-1998 and $4,370,209-1997)	607,948,900	563,174,035
Premises and equipment	13,333,369	14,027,570
Accrued interest receivable	4,485,332	4,380,576
Other assets	15,376,023	14,000,545
	$828,368,523	$773,872,911
Liabilities and shareholders' equity Deposits:		
Demand	$ 81,540,940	$ 75,205,534
Savings	199,266,311	189,641,548
Money market	120,297,093	106,531,817
Time deposits in excess of $100,000	45,610,283	32,137,325
Other time deposits	206,190,258	214,478,505
Total deposits	652,904,885	617,994,729
Notes payable	6,750,000	5,300,000
Securities sold under agreement to repurchase	4,116,677	4,850,000
Federal Home Loan Bank advances	25,000,000	5,000,000
Accrued expenses and other liabilities	3,270,762	4,934,465
Accrued interest payable	1,688,920	2,030,367
Total liabilities	693,731,244	640,109,561
Shareholders' equity:		
Preferred stock $1 par value; authorized-100,000 shares; issued and outstanding-none - Common stock, $ 0.10 par value; authorized-25,000,000 shares; 10,076,017 shares issued and outstanding in 1998 and 10,279,007 issued and 10,138,753 outstanding in 1997	1,007,602	1,027,901
Additional paid-in capital	94,153,564	96,718,054

Retained earnings	43,748,273	47,882,792
Accumulated other comprehensive income	1,080,549	888,649
Unearned shares held by ESOP	(5,352,709)	(6,385,962)
Unearned shares acquired by Recognition and Retention Plan	-	(3,898,482)
Treasury stock	-	(2,469,602)
Total shareholders' equity	134,637,279	133,763,350
	$ 828,368,523	$773,872,911

See accompanying notes.
</TABLE>

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Interest Income:			
Loans	$ 48,705,672	$41,599,154	$ 39,138,477
Investment securities:			
Taxable	6,902,230	6,644,283	5,338,766
Tax-exempt	1,346,350	839,358	758,689
Interest-bearing bank balances:			
Federal funds sold and other short-term investments	632,586	148,152	246,412
Total interest income	57,586,838	49,230,947	45,482,344
Interest expense:			
Deposits	24,795,930	19,453,399	19,203,627
Notes payable and other borrowings	1,126,660	618,079	429,593
Total interest expense	25,922,590	20,071,478	19,633,220
Net interest income	31,664,248	29,159,469	25,849,124
Provision for loan losses	690,000	450,000	330,000
Net interest income after provision for loan losses	30,974,248	28,709,469	25,519,124
Other income:			
Service charges on deposit accounts	1,955,905	1,670,515	1,827,563
ATM service charges	760,362	490,708	432,984
Gain on sale of loans	961,517	225,108	76,314
Merchant services	1,270,240	1,160,692	1,032,587
Building rent	278,418	310,014	284,456
Security transaction commissions	534,462	122,382	150,611
Investment securities gains (losses), net	420,817	(649)	-
Other	783,007	685,489	476,265
	6,964,728	4,664,259	4,280,780
Other expenses:			
Salaries and employee benefits	12,907,315	10,194,853	9,402,692
Net occupancy expense	1,216,761	1,213,368	1,052,363
Equipment rentals, depreciation and maintenance	2,786,845	2,500,073	2,563,398
Data Processing	1,977,794	1,698,200	1,599,132
Legal and professional	1,140,723	993,799	543,428
ATMfees	630,449	620,345	618,792
Merchant services	948,651	917,216	871,237
Merger-related charges	7,917,613	-	-
Advertising	900,604	806,037	745,690
Goodwill amortization	632,837	151,426	155,765
Other	3,741,876	3,100,526	5,180,404
	34,801,468	22,195,843	22,732,901
Income before income taxes	3,137,508	11,177,885	7,067,003
Income taxes	1,980,595	3,961,080	2,419,712
Net income	$ 1,156,913	$ 7,216,805	$ 4,647,291
Basic earnings per share	$ .12	$ .75	$ .48
Diluted earnings per share	.12	.74	.48

See accompanying notes.

</TABLE>

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings <C>	Accumulated Other Comprehensive Income <C>	Unearned Shares Held by ESOP <C>	Unearned Shares Acquired by Recognition and Retention Plan <C>	Treasury Stock <C>	Total <C>
Balances at January 1, 1996	$ 264,912	$28,568,137	$ 40,870,220	$ (114,357)	$ (524,893)	$ -	$ -	$69,064,019
Comprehensive income:								
Net income	-	-	4,647,291	-	-	-	-	4,647,291
Other comprehensive income - Change in net unrealized gain on securities available -for-sale, net of income taxes of $91,255	-	-	-	177,085	-	-	-	177,085
Total comprehensive income	-	-	4,647,291	177,085	-	-	-	4,824,376
Cash dividends declared by pooled companies:								
State Financial - $0.12 per share	-	-	(1,260,273)	-	-	-	-	(1,260,273)
Issuance of 16,092 shares under stock plans	1,610	172,801	-	-	-	-	-	174,411
Issuance of 6,406,455 shares in stock conversion of Home	640,645	67,333,737	-	-	(5,607,400)	-	-	62,366,982
ESOP shares earned	-	49,066	-	-	188,813	-	-	237,879
Six-for-five stock split	53,304	(53,304)	-	-	-	-	-	-
Balances at December 31, 1996	960,471	96,070,437	44,257,238	62,728	(5,943,480)	-	-	135,407,394
Comprehensive income:								
Net income	-	-	7,216,805	-	-	-	-	7,216,805
Other comprehensive income - Change in net unrealized gain onsecurities available-for-sale, net of income taxes of $421,151	-	-	-	825,921	-	-	-	825,921
Total comprehensive income	-	-	7,216,805	825,921	-	-	-	8,042,726

See accompanying notes.

</TABLE>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (CONTINUED)

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings <C>	Accumulated Other Comprehensive Income <C>	Unearned Shares Held by ESOP <C>	Unearned Shares Acquired by Recognition and Retention Plan <C>	Treasury Stock <C>	Total <C>
Cash dividends declared by pooled companies:								
State Financial - $0.12 per share	$ -	$ -	$(1,519,166)	$ -	$ -	$ -	$ -	$(1,519,166)
Home Bancorp - $0.10 per share	-	-	(2,072,085)	-	-	-	-	(2,072,085)
Issuance of 17,007 shares under stock plans	1,700	137,608	-	-	-	-	_	139,308
Issuance of 11,868 shares under								

Dividend Reinvestment Plan	1,187	203,630	-	-	-	-	-	204,817
Purchase of 140,254 shares of treasury stock - Home Bancorp	-	-	-	-	-	-	(2,469,602)	(2,469,602)
Purchase of Recognition and Retention Plan stock	-	-	-	-	-	(4,498,249)	-	(4,498,249)
Amortization of award of Recognition and Retention Plan stock	-	-	-	-	-	599,767	-	599,767
ESOP shares earned	-	370,922	-	-	626,268	-	-	997,190
Acquisition of additional unearned ESOP shares	-	-	-	-	(1,068,750)	-	-	(1,068,750)
Six-for-five stock split	64,543	(64,543)	-	-	-	-	-	-
Balances at December 31, 1997	1,027,901	96,718,054	47,882,792	888,649	(6,385,962)	(3,898,482)	(2,469,602)	133,763,350
Comprehensive income:								
Net income	-	-	1,156,913	-	-	-	-	1,156,913
Other comprehensive income - Change in net unrealized gain on securities available-for-sale, net of income taxes of $132,068	-	-	-	191,900	-	-	-	191,900
Total comprehensive income	-	-	1,156,913	191,900	-	-	-	1,348,813
Cash dividends declared by pooled companies:								
State Financial - $0.12 per share	-	-	(2,581,561)	-	-	-	-	(2,581,561)
Home Bancorp - $0.10 per share	-	-	(2,709,871)	-	-		-	(2,709,871)
Issuance of 22,360 shares under stock plans	2,236	237,417	-	-	-	-	_	239,653
Issuance of 113,241shares in acquisition of LCC	11,324	2,398,875	-	-	-	-	-	2,410,199
Purchase of 198,338 shares of Treasury stock - Home Bancorp	-	-	-	-	-	-	(3,287,456)	(3,287,456)
Retirement of 338,593 shares of Treasury stock - Home Bancorp	(33,859)	(5,723,199)	-	-	-	-	5,757,058	-
Earned Recognition and Retention Plan stock	-	-	-	-	-	3,898,482	-	3,898,482
ESOP shares earned	-	522,417	-	-	1,033,253	-	-	1,555,670
Balances at December 31, 1998	$1,007,602	$94,153,564	$43,748,273	$1,080,549	$(5,352,709)	$ -	$ -	$134,637,279

See accompanying notes.

</TABLE>

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	1998	1997	1996
Operating activities			
<S>	<C>	<C>	<C>
Net income	$ 1,156,913	$ 7,216,805	$ 4,647,291
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	690,000	450,000	330,000
Provision for depreciation	1,539,644	1,425,949	1,501,376
Amortization of investment securities premiums and accretion of discounts, net	139,712	(558,770)	(101,766)
Amortization of goodwill	632,837	151,426	155,765
Amortization of branch acquisition premium	-	49,442	29,665
Deferred income tax provision	(25,653)	(157,006)	39,014
Market adjustment for committed ESOP shares	522,417	370,922	49,066
Cost of Recognition and Retention Plan	3,898,481	599,767	-
Decrease (Increase) in interest receivable	(104,756)	84,666	(266,835)
Increase (Decrease) in interest payable	(341,447)	235,551	(248,386)
Realized investment securities losses (gains)	(420,817)	649	-
Other	(1,232,918)	(566,195)	(844,157)
Net cash provided by operating activities	$ 6,454,413	$ 9,303,206	$ 5,291,033
Investing activities			
Proceeds from maturity or principal payments of held-to-maturity investment securities	10,757,979	64,644,921	14,461,261
Purchases of held-to-maturity investment securities	-	-	(49,225,323)

Purchases of securities available-for-sale	(53,575,276)	(27,550,247)	(28,578,265)
Maturities and sales of securities available-for-sale	36,132,603	17,008,319	10,571,805
Net increase in loans before business acquisition	(45,464,865)	(52,932,908)	(10,535,774)
Net purchases of premises and equipment	(777,257)	(1,065,555)	(2,043,248)
Business acquisition, net of cash and cash equivalents acquired of $1,400 and $7,673,036 in 1998 and 1997:			
Loans	-	(50,340,430)	-
Investment securities available-for-sale	-	(25,627,465)	-
Premises and equipment	(68,186)	(2,131,733)	-
Goodwill	(2,584,691)	(6,258,137)	-
Deposits	-	79,921,649	-
Notes payable	204,902	1,400,000	-
Other, net	39,176	(156,310)	-
Net cash used by investing activities	$(55,335,615)	$(3,087,896)	$(65,349,544)

See accompanying notes.
</TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

<TABLE>
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
Financing activities			
<S>	<C>	<C>	<C>
Net increase in deposits before business acquisitions	$ 34,910,317	$29,609,088	$ 414,352
Repayment of notes payable	(204,902)	(961,844)	(100,000)
Proceeds of notes payable	1,450,000	3,900,000	-
Net decrease (increase) in guaranteed ESOP obligation	1,033,253	(442,482)	188,813
Net change in securities sold under agreements to repurchase	(733,483)	2,450,000	(900,000)
Increase (decrease) in Federal Home Loan Bank advances	20,000,000	5,000,000	(4,000,000)
Cash dividends	(5,291,432)	(3,591,252)	(1,260,272)
Proceeds (repayments) of federal funds purchased	-	(5,600,000)	5,600,000
Purchase of Recognition and Retention Plan stock	-	(4,498,248)	-
Shares issued in acquisition	2,410,199	-	-
Purchase of treasury stock	(3,287,457)	(2,469,602)	-
Issuance of common stock under Dividend Reinvestment Plan	-	204,818	-
Proceeds from sale of stock	-	-	62,366,982
Proceeds from exercise of stock options	239,654	126,183	174,409
Net cash provided by financing activities	50,526,149	23,726,661	62,484,284
Increase in cash and cash equivalents	1,644,947	29,941,971	2,425,773
Cash and cash equivalents at beginning of year	80,584,884	50,642,913	48,217,140
Cash and cash equivalents at end of year	$ 82,229,831	$80,584,884	$ 50,642,913
Supplementary information:			
Interest paid	$ 26,265,360	$19,836,509	$ 19,881,232
Income taxes paid	2,403,500	3,450,040	2,910,975
Non cash transactions - Retirement of treasury stock	5,757,058	-	-

See accompanying notes.

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-DECEMBER 31, 1998

1. Accounting Policies

The accounting policies followed by State Financial Services Corporation (the Company) and the methods of applying those principles which materially affect the determination of its financial position, cash flows or results of operations are summarized below.

Organization

The Company is a multibank holding company headquartered in Hales Corners, Wisconsin. Through its wholly owned banking subsidiaries; State Financial Bank (Wisconsin), State Financial Bank - Waterford, State Financial Bank (Illinois) and Home Federal Savings and Loan Association of Elgin, (collectively, the Banks), the Company provides retail and commercial banking services, brokerage activities and mortgage lending services through its 16 branch locations. The Banks have 9 branch locations in Wisconsin serving Milwaukee, Waukesha and Racine counties and 7 branch locations in Illinois serving McHenry, Lake and Cook counties. The Company is also the parent holding company of State Financial Mortgage Company, which originates fixed and variable rate secondary market mortgage loans selling them service released; State Financial Insurance Agency, a subsidiary of State Financial Bank (Illinois) which sells retail and commercial property and casualty insurance; and Lokken, Chesnut & Cape which provides asset management and financial planning services to the Banks' customers and markets.

The Banks and the Company's other subsidiaries are subject to competition from other financial institutions and financial service providers and are subject to the regulations of certain federal, State of Wisconsin and State of Illinois agencies and undergo periodic banking examinations by those regulatory agencies.

Consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Business Combinations

In business combinations accounted for using the purchase method of accounting, the net assets of the companies acquired are recorded at fair value at the date of acquisition. Goodwill is amortized on a straight-line basis over the estimated periods benefited generally 15 years. The results of operations of acquired companies are included since the date of acquisition.

1. Accounting Policies (continued)

In business combinations accounted for as poolings-of-interests, the financial position and results of operations and cash flows of the respective companies are restated as though the companies were combined for all historical periods. Certain amounts for 1997 and 1996 have been restated to conform with the 1998 presentation.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing bank balances, federal funds sold and other commercial paper investments with an original maturity of three months or less.

Share Data

Share data and per share information have been restated for all periods to give effect to the January 28, 1997, six-for-five stock split and the January 27, 1998, six-for-five stock split.

Investment Securities

Debt securities that the Company does not have a positive intent and ability to hold to maturity and equity securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-related securities, over the estimated life of the security. Such amortization is calculated using the level-yield method, adjusted for prepayments, and is included in interest income from investments. Realized gains and losses, and declines in value judged to be other than temporary are included in net securities gains and losses. The cost of securities is based on the specific identification method.

Interest on Loans

Interest income on loans is accrued and credited to operations based on the principal amount outstanding. The accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest and/or when, in the opinion of management, full collection is unlikely. When interest accruals are discontinued, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in the prior year is charged to the allowance for loan losses. Management may elect to continue the accrual of interest when the loan is in the process of collection and the fair value of collateral is sufficient to cover the principal balance and accrued interest. Interest received on nonaccrual loans is either applied against principal or reported as interest income according to management's judgment regarding the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Loan Fees and Related Costs

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amounts are amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts using the level-yield method over the contractual life of the related loans. Fees related to standby letters of credit are recognized over the commitment period.

Allowance for Loan Losses

The allowance for loan losses is composed of specific and general valuation allowances. The Company establishes specific valuation allowances on income-producing real estate loans considered impaired. A loan is considered impaired (and a specific valuation allowance established for an amount equal to the impairment) when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loans original effective interest rate, or the fair value of the underlying collateral.

General valuation allowances are based on an evaluation of the various risk components that are inherent in the credit portfolio.

The risk components that are evaluated include past loan loss experience; the level of nonperforming and classified assets; current economic conditions; volume, growth and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; peer group comparisons; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. Management may transfer reserves between specific and general valuation allowances as considered necessary. The adequacy of the allowance for loan losses is approved quarterly by the Company's board of directors. The allowance reflects management's best estimate of the reserves needed to provide for the impairment of commercial and income-producing real estate loans, as well as other credit risks of the Banks and is based on a risk model developed and implemented by management and approved by the Company's board of directors. However, actual results could differ from this estimate and future additions to the allowance may be necessary based on unforeseen changes in economic conditions. In addition, federal regulators periodically review the Banks' allowance for loan losses. Such regulators have the authority to require the Banks to recognize additions to the allowance at the time of their examination.

A substantial portion of the Banks' loans are to customers located in Southeastern Wisconsin and Northeastern Illinois. Accordingly, the ultimate collectibility of a substantial portion of the Banks' loan portfolios is susceptible to changes in market conditions in that area.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. The provision for depreciation is computed using both accelerated and straight-line methods over the estimated useful lives of the respective assets. Leasehold improvements are amortized using both accelerated and straight-line methods over the shorter of the useful life of the leasehold asset or lease term.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average common shares outstanding less unearned ESOP shares. Diluted earnings per share is computed by dividing net income by the weighted-average common shares outstanding less unallocated ESOP shares plus the assumed conversion of all potentially dilutive securities. Weighted-average shares outstanding for 1996 assume that Home Bancorp of Elgin, Inc. shares were outstanding for the entire year.

The denominators for the earnings per share amounts are as follows.

	1998	1997	1996
Basic:			
Weighted-average number of shares outstanding	10,109,059	10,193,642	10,236,643
Less: weighted-average number of unearned ESOP shares	(503,182)	(553,635)	(566,580)
Denominator for basic earnings per share	9,605,877	9,640,007	9,670,063
Fully diluted:			
Denominator for basic earnings per share	9,605,877	9,640,007	9,670,063
Add: assumed conversion of stock options using the treasury stock method	74,089	89,832	39,326
Denominator for fully diluted earnings per share	9,679,966	9,729,839	9,709,389

Income Taxes

The Company accounts for income taxes using the liability method. Deferred income tax assets and liabilities are adjusted regularly to amounts estimated to be receivable or payable based on current tax law and the Company's tax status. Valuation allowances are established for deferred tax assets for amounts for which it is more likely than not that they will be realized.

Stock Option Plan

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 allows entities to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made as if the fair value based method defined in SFAS No. 123 had been applied. The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense is recorded for stock options only to the extent that the current market price of the underlying stock exceeded the exercise price on the date of grant. The Company elected to apply the provisions of APB Opinion No. 25 because the alternative requires use of option valuation models that were not developed for use in valuing employee stock options similar to the Company's. The fair value of the stock options granted was not material for the years ended December 31, 1998 and 1997.

Employee Stock Ownership Plan (ESOP)

Compensation expense under the ESOP is equal to the fair value of common shares released or committed to be released to participants in the ESOP in each respective period. Common stock purchased by the ESOP and not committed to be released to participants is included in the consolidated balance sheet at cost as a reduction of shareholders' equity.

Accounting Changes

The Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as of January 1, 1997, which provides new accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on a consistent application of the financial-components approach that focuses on control. There was no material impact on the financial statements of the Company.

As of January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Statement No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement No. 130 requires unrealized gains or losses on the Company's available-for-sale securities, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of Statement No. 130.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (continued)

Effective January 1, 1998, the Company adopted Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." Statement No. 131 establishes standards for the reporting of financial information from operating segments in annual and interim financial statements. This Statement requires that financial information be reported on the basis that it is reported internally for evaluating segment performance and deciding how to allocate resources to segments. Because this Statement addresses how supplemental financial information is disclosed in annual and interim reports, the adoption had no material impact on the financial statements. The Company evaluates segment performance based on geographic location - State Financial Bank (Wisconsin), State Financial Bank - Waterford, State Financial Bank (Illinois) and Home Federal Savings and Loan Association of Elgin.

Pending Accounting Changes

Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. The new Statement resolves inconsistencies that currently exist with respect to derivatives accounting and dramatically changes the way many derivative transactions and hedged items are reported. Statement No. 133 is effective for years beginning after June 15, 1998. The Statement is not expected to have an impact on the Company.

2. Acquisitions

On December 15, 1998, the Company merged with Home Bancorp of Elgin, Inc. (Home Bancorp). During the combination, Home Bancorp was merged into State Financial Services Corporation and its wholly owned subsidiary bank, Home, became a wholly owned subsidiary of the Company. Each outstanding share of Home Bancorp common stock was converted into and exchanged for .914 shares of the Company's common stock, resulting in the issuance of 6,067,862 shares. The acquisition was accounted for as a pooling-of-interests and, accordingly, all historical financial information and share data for the Company has been restated to include Home for all periods presented herein. Certain reclassifications were made to the Home financial statements to conform to the Company's presentations. Charges totaling $201,245 were recorded to conform Home's accounting policies for fixed assets and contributions.

In connection with the merger, the Company recorded charges of $7,917,613 for merger-related costs. Management of the Company currently expects that the Home ESOP will sell a sufficient number of shares to repay the ESOP debt of $3,970,000 in the first quarter of 1999, which may result in additional compensation expense. Shares remaining in the Home ESOP after repayment of the ESOP debt will be allocated to Home ESOP participants. The amount of the additional expense will be dependent upon the market value of the Company's common stock at the time the ESOP is dissolved. Management estimates the amount of the additional compensation expense related to the termination will range between $1,000,000 and $1,500,000, based on an estimated range of market value of the Company's stock of $13.625 and $15.00, respectively.

Additional employment severance payments, not recorded as of December 31, 1998, and ranging from $835,000 to $1,100,000, may be incurred should five certain Home employees who have contractual severance arrangements all choose to terminate their employment with the Company prior to December 15, 2000. The actual amount of expense incurred, if any, is dependent upon the number of these employees choosing to terminate their employment with the Company and the point in time at which this election is made. The amount of payment actually paid to any one of these five employees will be reduced by the applicable employee's pro rata monthly salary multiplied by the number of months between the merger date (December 15, 1998) and the month in which the employee notifies the Company if higher desire to terminate employment. The Company will recognize any expense resulting from these severance agreements as additional merger-related charges in the period notification is received from one of these Home employees. The Company has received no notice from the employees that they intend to terminate their employment with the Company. Details of the merger-related costs follow:

	1998 Provision
Legal, accounting and professional fees	$ 2,638,342
RRPtermination	3,148,773
Severance	1,297,498
Other	833,000
	$ 7,917,613

The pretax impact of the merger-related charges on basic and diluted earnings per share was $0.62 in 1998 of the $7,917,613 in merger-related charges recognized in 1998, $7,517,477 was actually paid during the year. The remaining $400,136 of merger-related expenses recognized in 1998 will be paid in 1999.

On September 8, 1998, the Company completed its acquisition of Lokken, Chesnut and Cape (LCC), an asset management firm located in La Crosse, Wisconsin. The Company purchased the outstanding common stock of LCC in exchange for 113,241 shares of its common stock valued at $21.19 per share on the transaction date. An additional 28,310 shares of common stock may be issued on January 31, 2000, subject to LCC meeting or exceeding certain operating performance targets in 1999, 2000 and 2001. Such additional shares will be recorded as an adjustment of the purchase price. The acquisition was recorded as a purchase. Proforma data to include LCC financial results is not presented as the effect is immaterial.

2. Acquisitions (continued)

On December 31, 1997, the Company completed its acquisition of Richmond Bancorp, Inc. (Bancorp), Richmond, Illinois. The Company purchased the outstanding common stock of Bancorp for $10,787,495 in cash. In connection with the acquisition, the Company borrowed $3,900,000 on its line of credit and assumed $1,400,000 of Bancorp's outstanding debt. The acquisition was recorded using purchase accounting.

On a pro forma basis, total income, net income, basic earnings per share and diluted earnings per share for the year ended December 31, 1997, after giving effect to the acquisition of Richmond as if it occurred on January 1, 1997, follow.

Total income	$ 61,664
Net income	6,539
Basic earnings per share	0.68
Diluted earnings per share	0.67

On March 12, 1999, the Company entered into a definitive agreement to acquire all of the outstanding stock of First Waukegan Corporation in exchange for $28 million in cash. First Waukegan Corporation is the parent company of Bank of Northern Illinois, N.A., a $212 million national bank headquartered in Waukegan, Illinois. The merger will be accounted for as a purchase and is expected to close no later than the third quarter of 1999.

3. Restrictions on Cash and Due From Bank Accounts

The Banks are required to maintain reserve balances with the Federal Reserve Bank. The average amount of reserve balances for the years ended December 31, 1998 and 1997, was approximately $4,169,000 and $3,384,000, respectively.

4. Investment Securities

The amortized cost and estimated fair value of investments in debt securities follow.

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Estimated Fair Value <C>
Held-to-Maturity				
December 31, 1998:				
U.S. Treasury securities and obligations of U.S. government agencies	$5,340,509	$ 58,263	$ (5,672)	$ 5,393,100
Obligations of state and political subdivisions	4,449,732	131,333	(823)	4,580,242
Other securities	500,000	11,520	(5,460)	506,060
	$10,290,241	$ 201,116	$ (11,955)	$ 10,479,402
December 31, 1997:				
U.S. Treasury securities and obligations of U.S. government agencies	$11,941,993	$ 90,289	$ (5,672)	$ 12,026,610

Obligations of state and political subdivisions	8,646,648	129,717	(823)	8,775,542
Other securities	500,000	4,720	(5,460)	499,260
	$21,088,641	$ 224,726	$ (11,955)	$ 21,301,412

<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Available-for-Sale				
December 31, 1998:				
U.S. Treasury securities and obligations of U.S. government agencies	$35,859,284	$ 539,153	$ (61,131	)$36,337,306
Obligations of state and political subdivisions	26,378,209	544,358	(7,286)	26,915,281
Mortgage-related securities	21,792,307	201,250	(15,178)	21,978,379
Other securities	9,008,946	464,915	-	9,473,861
	$93,038,746	$1,749,676	$ (83,595)	$ 94,704,827
December 31, 1997:				
U.S. Treasury securities and obligations of U.S. government agencies	$34,880,814	$ 167,423	$ (61,131	)$34,987,106
Obligations of state and political subdivisions	17,275,223	183,048	(7,286)	17,450,985
Mortgage-related securities	17,242,183	158,676	(15,178)	17,385,681
Other securities	5,876,327	916,561	-	6,792,888
	$75,274,547	$1,425,708	$ (83,595)	$ 76,616,660

</TABLE>

4. Investment Securities (continued)

The amortized cost and estimated fair value of investment securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers or issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Equity Securities are included in the "Due in one year or less" line.

<TABLE>
<CAPTION>

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 6,386,253	$ 6,427,893	$14,964,743	$ 15,392,742
Due after one year through five years	1,794,646	1,814,818	59,981,838	60,885,020
Due after five years through ten years	1,657,475	1,754,105	17,762,165	18,095,425
Due after ten years	451,867	482,586	330,000	331,640
	$10,290,241	$ 10,479,402	$93,038,746	$ 94,704,827

</TABLE>

The Company's investments in mortgage-related securities have been allocated to the various maturity categories based on expected maturities using current prepayment estimates.

Proceeds from sales of investments in debt and marketable equity available-for-sale securities were $13,308,960 and $980,565 during 1998 and 1997, respectively. Gross gains of $420,817 and no losses were realized on the 1998 sales. Gross losses of $649 and no gains were realized on the 1997 sales. No investment securities were sold during 1996.

<TABLE>
<CAPTION>

1998		
Before Tax Amount	Tax (Benefit) Expense	Net-of-Tax Amount

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

Unrealized gains on available-for-sale securities	$ 744,785	$ 297,070	$ 447,715
Less: reclassification adjustment for gains realized in net income	(420,817)	(165,002)	(255,815)
Net unrealized gains	$ 323,968	$ 132,068	$ 191,900

	1997		
	Before Tax Amount	Tax (Benefit) Expense	Net-of-Tax Amount
Unrealized gains on available-for-sale securities	$1,246,423	$ 420,897	$ 825,526
Less: reclassification adjustment for gains realized in net income	649	254	395
Net unrealized gains	$ 1,247,072	$ 421,151	$ 825,921

<CAPTION>

	1996		
	Before Tax Amount	Tax (Benefit) Expense	Net-of-Tax Amount
Unrealized gains on available-for-sale securities	$ 268,310	$ 91,225	$ 177,085
Less: reclassification adjustment for gains realized in net income	-	-	-
Net unrealized gains	$ 268,310	$ 91,225	$ 177,085

</TABLE>

At December 31, 1998 and 1997, investment securities with a carrying value of $25,430,899 and $29,981,479, respectively, were pledged as collateral to secure public deposits and for other purposes.

5. Loans

A summary of loans outstanding at December 31, 1998 and 1997, follows.

	1998	1997
Commercial	$ 56,675,361	$ 56,029,636
Consumer	37,518,890	37,496,793
Real estate mortgage	506,844,544	461,699,947
Other	11,394,609	12,317,868
	$ 612,433,404	$567,544,244

6. Allowance for Loan Losses

Changes in the allowance for loan losses for the three years ended December 31, 1998, are as follows.

	1998	1997	1996
Balance at beginning of year	$ 4,370,209	$ 3,552,378	$ 3,537,073
Allowance from acquired bank	-	678,235	-
Provision for loan losses	690,000	450,000	330,000
Charge-offs	(799,609)	(381,037)	(385,714)
Recoveries	223,904	70,633	71,019
Net charge-offs	(575,705)	(310,404)	(314,695)
Balance at end of year	$ 4,484,504	$ 4,370,209	$ 3,552,378

Total nonaccrual loans were $3,245,065 and $3,500,405 at December 31, 1998 and 1997, respectively.

7. Loans to Related Parties

In the ordinary course of business, loans are granted to related parties, which include bank officers, principal shareholders, directors and entities in which such persons are principal shareholders. Loans outstanding at December 31, 1998 and 1997, to such related parties were approximately $13,542,228 and $11,467,427, respectively. During 1998, approximately $7,413,316 of new loans were made and repayments totaled approximately $5,338,515. Loans to related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility.

8. Premises and Equipment

A summary of premises and equipment at December 31, 1998 and 1997, is as follows.

	1998	1997
Buildings	$ 14,000,208	$14,017,910
Furniture and equipment	12,063,683	11,084,986
Leasehold improvements	2,385,413	2,315,889
	28,449,304	27,418,785
Less accumulated depreciation	(17,751,796)	(16,027,076)
Land	2,635,861	2,635,861
	$ 13,333,369	14,027,570

9. Notes Payable

The Company has a $10,000,000 line of credit available through April 30, 1999, at 90-day LIBOR plus 1.35% (6.94% at December 31, 1998). As of December 31, 1998, $6,750,000 is outstanding on the line. As of December 31, 1997, $3,900,000 was outstanding on the line. The Company had a revolving credit agreement which had an outstanding balance of $1,400,000 at December 31, 1997. This loan was paid and the revolving credit agreement terminated on January 14, 1998.

At December 31, 1998 and 1997, advances from the Federal Home Loan Bank of Chicago totaled $25,000,000 and $5,000,000, respectively, which were due on demand under an open line of credit of $63,430,000. The interest rate on the advances at December 31, 1998 and 1997, was 5.13% and 6.92%, respectively. The Company has a collateral pledge agreement whereby it agrees to keep on hand, free of all other pledges, loans and encumbrances, performing loans with unpaid principal balances aggregating no less than 167% of the outstanding secured advances. All stock in the Federal Home Loan Bank of Chicago is also pledged as additional collateral for advances.

10. Employee Benefit Plans

The Company has a noncontributory money purchase pension plan covering substantially all employees who meet certain minimum age and service requirements. Annual contributions are fixed based on compensation of participants. Home employees became eligible to participate in the plan upon consummation of the business combination. Home employees received full credit for service with Home for purposes of eligibility and are treated as new hires for purposes of vesting. The Company's contribution to the pension plan for each participant is an amount equal

10. Employee Benefit Plans (continued)

to 4% of the participant's total eligible compensation plus an additional 2% of the participant's eligible compensation in excess of $20,000. Home sponsored a noncontributory pension plan which was terminated by the board of directors of Home effective August 31, 1996. Plan benefits ceased to accrue on June 20, 1996. Upon termination, all benefits became 100% vested and all persons entitled to benefits were entitled to request an immediate lump-sum settlement of the benefit entitlement. The Company recorded a pension curtailment expense of $837,000 in 1996 in conjunction with the termination of the Home Pension Plan. The Home Pension Plan was liquidated in January, 1997, and $182,000 in excess funds reverted back to the Company. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Exclusive of the Home Pension curtailment expense, Company contributions are made annually at the discretion of the board of directors and amounted to $128,965 in 1998, $150,334 in 1997 and $309,788 in 1996. Plan assets are invested in a diversified portfolio of high-quality debt and equity investments.

The Company sponsors a 401(k) savings plan which covers all full-time employees who have completed one year of service and are at least 21 years old. Home employees became participants of the plan upon consummation of the merger and received credit for prior service for purposes of eligibility and vesting. Company contributions are discretionary. The Company has not made any contributions for 1998, 1997 and 1996.

The Company has an Employees' Stock Ownership Plan (ESOP) for the benefit of employees meeting certain minimum age and service requirements. Company contributions to the ESOP trust, which was established to fund the plan, are made on a discretionary basis and are expensed to operations in the year committed. The number of shares released to participants is determined based on the annual contribution amount plus any dividends paid on unearned shares divided by the market price of the stock at the contribution date.

In addition, Home had an ESOP formed in September 1996. The Home ESOP covers substantially all Home employees that are age 21 or over with at least 1,000 hours of service. The Home ESOP borrowed $5,607,400 from Home Bancorp and purchased 512,516 common shares. Home committed to make discretionary contributions to the Home ESOP sufficient to meet debt service requirements of the loan over a period of ten years. During the years ended December 31, 1998, 1997 and 1996, 85,587, 51,252 and 12,813 shares were allocated, respectively.

On December 15, 1998, in connection with the merger of Home Bancorp with the Company, common shares held by the Home ESOP were converted into an equivalent number of shares of the Company using the merger exchange ratio of .914 per share. As discussed in Note 2, management of the Company currently expects that the Home ESOP will sell a sufficient number of shares to repay the ESOP debt. Subsequent to the Home ESOP debt repayment the Home ESOP will be merged into the Company 401(k) plan.

The aggregate activity in the number of unearned ESOP shares follows.

	1998	1997	1996
Balance at beginning of year	$ 545,976	$ 550,658	$ 60,472
Shares committed to be released	(100,280)	(64,682)	(22,330)
Additional shares purchased	-	60,000	512,516
Balance at end of year	$ 445,696	$ 545,976	$550,658

At December 31, 1998, the fair value of unearned ESOP shares is $6,685,445. Total ESOP expense recognized for the years ended December 31, 1998, 1997 and 1996, was $1,069,000, $932,000 and $189,000, respectively.

Recognition and Retention Plan (RRP)

On April 17, 1997, Home adopted an RRP. The fair value of the Home Bancorp shares on the grant date is amortized to compensation expense as Home's employees and directors become vested in those shares. The aggregate purchase price of all shares acquired by the RRP is reflected as a reduction of shareholders' equity. Shares vested at a rate of 20% per year with the first vesting period ending May 1, 1998.

As provided for under the plan provisions, all RRP shares granted became fully vested on November 5, 1998, the date the shareholders' of Home Bancorp approved Home Bancorp's merger with the Company. The accelerated vesting resulted in additional compensation expense of $3,148,773 for the year ended December 31, 1998, which is classified as part of the merger-related charges. For the years ended December 31, 1998 and 1997, RRP expense totaled $3,898,481 and $599,766, respectively. All shares which were granted under the RRP were distributed to employees during the year ended December 31, 1998.

11. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The subsidiaries provide for income taxes on a separate-return basis and remit to the Company amounts determined to be currently payable or realize the benefit they would be entitled to on such a basis. The Company and subsidiaries file separate state income tax returns for Wisconsin and a combined State Return for Illinois.

11. Income Taxes (continued)

Significant components of the provision for income taxes attributable to continuing operations are as follows.

	1998	1997	1996
Current:			
Federal	$ 2,890,595	$3,537,080	$2,028,712
State	591,000	581,000	352,000
	3,481,595	4,118,080	2,380,712
Deferred (credit):			
Federal	(1,205,000)	(133,000)	55,000
State	(296,000)	(24,000)	(16,000)
	(1,501,000)	(157,000)	39,000
	$ 1,980,595	$3,961,080	$2,420,712

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities of December 31, 1998 and 1997, are as follows.

	1998	1997
Deferred tax assets:		
Federal net operating loss carryforward	$ 169,000	$ 207,000
State net operating loss carryforward	330,000	315,000
Accumulated depreciation	-	68,000
Recognition and Retention Plan	1,399,000	247,000
Unearned income	265,000	-
Deferred loan fees	304,000	495,000
Other	378,000	376,000
	2,845,000	1,708,000
Valuation allowance for deferred tax assets	(491,000)	(518,000)
Net deferred tax assets	2,354,000	1,190,000
Deferred tax liabilities:		
FHLB dividends	157,000	164,000
Accumulated depreciation	49,000	-
Allowance for loan losses	79,000	477,000
Unrealized gain on investment securities	585,000	453,000
Net deferred tax liabilities - other	397,000	378,000
Total deferred tax liabilities	1,267,000	1,472,000
Net deferred tax asset (liability)	$ 1,087,000	$ (282,000)

The income tax expense differs from that computed at the federal statutory corporate tax rate as follows.

	1998	1997	1996
Income before income taxes	$3,137,508	$ 11,177,885	$7,067,003
Income tax expense at the federal statutory rate of 34%	$1,066,753	$ 3,800,515	$2,402,935
Increase (decrease) resulting from:			
Tax-exempt interest income	(532,000)	(322,000)	(280,000)
State income taxes, net of federal income tax benefit	195,000	367,569	231,999
Nondeductible merger-related expenses	932,000	-	-
Goodwill amortization	291,000	-	-
Increase (decrease) in valuation allowance for deferred tax assets	(35,000)	39,000	(20,000)
Other	62,842	75,996	84,778
	$1,980,595	$ 3,961,080	$2,419,712

At December 31, 1998, the Company had federal net operating loss carryforwards of approximately $431,000 and state net operating loss carryforwards of approximately $6,810,000. The federal net operating loss carryforwards and $431,000 of state net operating loss carryforwards are subject to an annual limitation of approximately $100,000 and are available to reduce future tax expense through the year ending December 31, 2009. The remaining state net operating loss carryforwards expire in years 1999 through 2013.

Retained earnings at December 31, 1998 and 1997, include $4,798,000 for which no provision for federal income tax has been made. Home qualified under provisions of the Internal Revenue Code that permitted it to deduct from taxable income an allowance for bad debts that differed from the provision for losses charged to income for financial reporting purposes. If income taxes had been provided, the deferred tax liability would have been approximately $1,800,000.

12. Restrictions on Subsidiaries' Dividends, Loans or Advances

Dividends are paid by the Company from its assets, which are mainly provided by dividends from the Banks. However, certain restrictions exist regarding the ability of the Banks to transfer funds to the Company in the form of cash dividends, loans or advances. Approval of the regulatory authorities is required to pay dividends in excess of certain levels of the Banks' retained earnings.

As of December 31, 1998, the Banks had net retained earnings of $4,665,000, which are available for distribution to the Company as dividends without prior regulatory approval.

Under Federal Reserve Bank regulations, the Banks are limited as to the amount they may loan to their affiliates, including the Company, unless such loans are collateralized by specified obligations. At December 31, 1998, the maximum amount available for transfer from the Banks to the Company in the form of loans approximated 10% of the Banks' consolidated net worth.

The Office of Thrift Supervision (OTS) imposes limitations upon all capital distributions by savings institutions, including cash dividends. An institution that exceeds all fully phased-in capital requirements before and after a proposed capital distribution (Tier1 Association), and has not been advised by the OTS that it is in need of more than normal supervision, could, after prior notice but without the approval of the OTS, make capital distributions during a calendar year up to the higher 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 would require prior regulatory approval. The OTS has the ability to object to a capital distribution notice on safety and soundness grounds.

13. Financial Instruments With Off-Balance-Sheet Risk

Loan commitments are made to accommodate the financial needs of the Company's customers. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies. Collateral is obtained based on management's credit assessment of the customer.

The Company's maximum exposure to credit loss for loan commitments (unfunded loans and unused lines of credit) and standby letters of credit outstanding at December 31, 1998, were $63,343,000 and $1,360,000, respectively. All such arrangements expire in 1999. Loan commitments and standby letters of credit were $39,963,000 and $714,000, respectively, at December 31, 1997.

14. Leases

The Company rents space for banking facilities under operating leases. Certain leases include renewal options and provide for the payment of building operating expenses and additional rentals based on adjustments due to inflation. Rent expense under operating leases totaled approximately $453,583, $563,720 and $483,289 in 1998, 1997 and 1996, respectively.

Future minimum payments for the years indicated under noncancellable operating leases with initial terms of one year or more consisted of the following at December 31, 1998.

1999	$ 428,000
2000	437,000
2001	397,000
2002	397,000
2003	392,000
Thereafter	1,772,000
	$ 3,823,000

NOTES TO CONDOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and subsidiary Banks to maintain minimum amounts and ratios (set forth in the table on the next page) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998, that the Company and subsidiary Banks meet all capital adequacy requirements to which they are subject.

15. Regulatory Capital (continued)

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

The Company's and subsidiary Banks' actual, minimum and well capitalized capital amounts and ratios are also presented in the table (dollars in thousands).

<TABLE>
<CAPTION>

	For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Actual	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1998						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total Capital (to Risk Weighted Assets):						
Consolidated	$41,674	8 %	$52,092	10 %	$128,371	24.6%
State Financial Bank (Wisconsin)	15,908	8	19,885	10	24,951	12.5
State Financial Bank - Waterford	2,950	8	3,687	10	4,348	11.8
State Financial Bank (Illinois)	3,732	8	4,665	10	6,933	14.9
Home Federal Savings	18,046	8	22,558	10	73,604	32.6
Tier I Capital (to Risk Weighted Assets):						
Consolidated	20,837	4	31,255	6	123,897	23.8
State Financial Bank (Wisconsin)	7,954	4	11,931	6	22,888	11.5
State Financial Bank - Waterford	1,475	4	2,212	6	3,886	10.5
State Financial Bank (Illinois)	1,866	4	2,799	6	6,349	13.6
Home Federal Savings	N/A	N/A	13,535	6	72,425	32.1
Tier I Capital (to Average Assets):						
Consolidated	32,538	4	40,673	5	123,896	15.2
State Financial Bank (Wisconsin)	11,174	4	13,968	5	22,889	8.2
State Financial Bank - Waterford	2,103	4	2,628	5	3,887	7.4
State Financial Bank (Illinois)	3,133	4	3,916	5	6,370	8.1
Home Federal Savings	11,502	3	19,170	5	72,425	18.9
As of December 31, 1997						
Total Capital (to Risk Weighted Assets):						
Consolidated	$37,485	8 %	$46,857	10 %	$33,034	7.1%
State Financial Bank (Wisconsin)	15,278	8	19,098	10	24,686	12.9
State Financial Bank - Waterford	2,477	8	3,097	10	4,110	13.3
State Financial Bank (Illinois)	4,193	8	5,241	10	6,576	12.5

Home Federal Savings	15,100	8	18,874	10	70,272	37.2
Total Capital (to Risk Weighted Assets):						
Consolidated	18,743	4	28,114	6	29,728	6.3
State Financial Bank (Wisconsin)	7,639	4	11,459	6	22,596	11.8
State Financial Bank - Waterford	1,239	4	1,858	6	3,721	12.0
State Financial Bank (Illinois)	2,096	4	3,145	6	5,921	11.3
Home Federal Savings	N/A	N/A	11,324	6	69,208	36.7
As of December 31, 1997						
Tier I Capital (to Average Assets):						
Consolidated	26,792	4	33,490	5	29,728	4.4
State Financial Bank (Wisconsin)	10,608	4	13,260	5	22,596	8.5
State Financial Bank - Waterford	1,865	4	2,332	5	3,721	8.0
State Financial Bank (Illinois)	3,218	4	4,022	5	5,921	7.4
Home Federal Savings	9,946	3	16,663	5	69,208	20.9

</TABLE>

NOTES TO CONDOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Stock Plans and Options

The Company's board of directors adopted the 1990 Stock Option/Stock Appreciation Rights and Restricted Stock Plan for Key Officers and Employees, and the 1990 Director Stock Option Plan (collectively, the 1990 Stock Plans).

At the Annual Shareholders' Meeting held on May 13, 1998, the shareholders approved the 1998 Stock Incentive Plan allowing for the grant of restricted stock, incentive stock options and non-qualified option to officers, directors, and key consultants of the Company (the 1998 Plan). The 1998 Plan replaced the 1990 Stock Plans.

The Company has reserved 425,000 shares of its common stock as of December 31, 1998, for the exercise of options and issuance of shares under the 1998 Plan. Options are exercisable at a price equal to the fair market value of the shares at the time of the grant. Options must be exercised within ten years after grant.

Stock Option Plan

On April 17, 1997, Home, adopted a stock option plan (Home Plan) pursuant to which Home's board of directors may grant stock options to directors, officers and employees of Home. Substantially all options were granted in 1997. Options vest at a rate of 20% per year. The exercise price is equal to the fair market value of the common stock at the date of grant, and the option term cannot exceed ten years. On December 15, 1998, in connection with the merger of Home with the Company, all common stock options under the plan became fully vested and were converted into an equivalent number of options to purchase shares of the Company using the merger exchange ratio of .914 per share. On an adjusted basis, options to purchase 640,645 shares were authorized under the Home Plan.

A summary of all restricted stock and stock option transactions follows.

<TABLE>
<CAPTION>

	Number of Shares of Restricted Stock	Price	Number of Stock Options	Price	Total Number of Shares
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	11,163	$5.07 - $ 8.11	108,296	$ 3.85 - $ 9.26	119,459
Granted	-	-	8,165	9.55 - 13.05	8,165
Vested restricted stock	(2,074)	6.87 - 7.52	-	-	(2,074)
Exercised	-	-	(23,420)	3.85 - 8.11	(23,420)
Canceled	-	-	(726)	5.07 - 6.87	(726)
Balance at December 31, 1996	9,089	5.07 - 8.11	92,315	3.85 - 13.03	101,404
Granted	600	21.87	646,712	14.15 - 21.87	647,312
Vested restricted stock	(7,517)	5.07 - 8.11	-	-	(7,517)
Exercised	-	-	(20,113)	4.22 - 8.11	(20,113)
Canceled	-	-	(1,555)	5.07 - 8.25	(1,555)
Balance at December 31, 1997	2,172	5.07 - 21.87	717,359	3.85 - 21.87	719,531
Granted	-	-	7,000	15.53	7,000
Vested restricted stock	(519)	22.00	-		(519)
Exercised	-	-	(22,637)	4.23 - 14.15	(22,637)
Canceled	-	-	(774)	8.11 - 13.03	(774)
Balance at December 31, 1998	1,653	$5.07 - $22.00	700,948	$3.85 - $21.87	702,601

</TABLE>

NOTES TO CONDOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Fair Values of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value follows. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain fin-ancial instruments and all nonfinancial instruments are excluded from the following disclosures. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The Company does not routinely measure the market value of financial instruments, because such measurements represent point-in-time estimates of value. It is not the intent of the Company to liquidate and therefore realize the difference between market value and carrying value and, even if it were, there is no assurance that the estimated market values could be realized. Thus, the information presented is not particularly relevant to predicting the Company's future earnings or cash flows.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and Due From Banks,
Federal Funds Sold and Commercial Paper

The carrying amounts reported in the balance sheet for cash, federal funds sold and other short-term investments approximate those assets' fair values.

Investment Securities

Fair values for investment securities are based on quoted market prices, where available.

Loans Receivable

For variable-rate mortgage loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for commercial real estate loans and fixed-rate mortgage, consumer and other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits

The fair values disclosed for interest and noninterest checking accounts, savings accounts and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of the outstanding certificates of deposit.

Securities Sold Under Agreement to Repurchase and Federal Funds Purchased

The carrying amounts of securities sold under agreement to repurchase and federal funds purchased approximate their fair value.

Accrued Interest Receivable and Payable

The carrying amounts reported in the balance sheet for accrued interest receivable and payable approximate their fair values.

Notes Payable

The carrying values of the Company's notes payable approximate fair value.

Off-Balance-Sheet Instruments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and generally require payment of a fee. As a consequence, the estimated fair value of the commitments is approximately equal to the related fee received, which is nominal.

The carrying amounts and fair values of the Company's financial instruments consist of the following at December 31, 1998 and 1997.
<TABLE>
<CAPTION>

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Cash and due from banks	$31,028,203	$31,028,203	$34,358,642	$ 34,358,642
Federal funds sold	8,508,387	8,508,387	11,273,835	11,273,835
Other short-term investments	12,900,000	12,900,000	-	-
Interest-bearing bank balances	29,793,241	29,793,241	34,952,407	34,952,407
Investment securities	104,995,068	105,184,229	97,705,301	97,918,072
Accrued interest receivable	4,485,332	4,485,332	4,380,576	4,380,576
Loans	612,433,404	614,101,163	567,544,244	571,892,343
Deposits	652,904,886	656,566,765	617,994,567	602,088,064
Securities sold under agreement to repurchase	4,116,677	4,116,677	4,850,000	4,850,000
Federal funds purchased	25,000,000	25,000,000	5,000,000	5,000,000
Notes payable	6,750,000	6,750,000	5,300,000	5,300,000
Accrued interest payable	1,688,920	1,688,920	2,030,367	2,030,367

</TABLE>

18. Segment Information

Description of Reportable Segments

The Company evaluates segment performance for each subsidiary bank, which is differentiated primarily by geographic location. The Company has four reportable segments: State Financial Bank (Wisconsin), State Financial Bank - Waterford, State Financial Bank (Illinois) and Home Federal Savings and Loan Association of Elgin. Each State Financial Bank provides a full range of retail and commercial banking services. Additionally, State Financial Bank (Illinois) provides insurance brokerage services. Home provides primarily one - to four-family residential mortgage lending funded by retail deposits.

Measurement of Segment Profit or Loss

Management evaluates the after-tax performance of each of the subsidiary banks based on that bank's actual earning assets, nonearning assets and funding sources. Each subsidiary bank has its own net interest income, provision for loan losses, other income, noninterest expense and income tax provision as captured by the bank's accounting systems. The accounting policies of the reportable segments are the same as those disclosed on the summary of significant accounting policies. The "all other" category includes primarily the results of the parent company. Intercompany and other amounts, which are included in "all other," are not material.

Segment Profit and Loss Statements and Other Information

The following tables contain profit (loss) statements for each of the subsidiary banks for the years ended December 31, 1998 and 1997.
<TABLE>
<CAPTION>

	Year ended December 31, 1998					
	State Financial Bank (Wisconsin)	State Financial Bank - Waterford	State Financial Bank (Illinois)	Home Federal Savings and Loan Association of Elgin	All Other	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income	$20,935,463	$ 3,823,423	$ 6,240,364	$ 26,562,628	$ 24,960	$ 57,586,838
Interest expense	8,591,552	1,841,284	3,496,908	11,876,189	116,657	25,922,590
Net interest income	12,343,911	1,982,139	2,743,456	14,686,439	(91,697)	31,664,248
Provision for loan losses	300,000	30,000	240,000	120,000	-	690,000
Net interest income after provision for loan losses	12,043,911	1,952,139	2,503,456	14,566,439	(91,697)	30,974,248
Other income	3,669,152	400,772	1,223,697	1,138,617	532,490	6,964,728
Merger-related charges	222,830	-	-	6,834,058	860,725	7,917,613
Other noninterest expense	9,248,979	1,736,632	3,731,499	11,566,242	600,503	26,883,855

Income (loss) before income taxes	6,241,254	616,279	(4,346)	(2,695,244)	(1,020,435)	3,137,508
Income taxes	1,994,411	198,192	95,526	(230,043)	(77,491)	1,980,595
Net income	$ 4,246,843	$ 418,087	$ (99,872)	$ (2,465,201)	$ (942,944)	$ 1,156,913
Total assets	$279,299,451	$ 60,856,396	$ 83,346,810	$397,382,333	$ 7,483,533	$828,368,523

<CAPTION>

	Year ended December 31, 1997					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income	$ 20,628,960	$ 3,308,064	$ -	$ 25,028,958	$ 264,965	$ 49,230,947
Interest expense	8,091,190	1,484,181	-	10,549,507	(53,400)	20,071,478
Net interest income	12,537,770	1,823,883	-	14,479,451	318,365	29,159,469
Provision for loan losses	300,000	30,000	-	120,000	-	450,000
Net interest income after provision for loan losses	12,237,770	1,793,883	-	14,359,451	318,365	28,709,469
Other income	3,145,508	227,268	-	1,288,280	3,203	4,664,259
Merger-related charges	-	-	-	-	-	-
Other noninterest expense	9,012,511	1,455,127	-	11,002,914	725,291	22,195,843
Income (loss) before income taxes	6,370,767	566,024	-	4,644,817	(403,723)	11,177,885
Income taxes	2,095,845	186,246	-	1,802,176	(123,187)	3,961,080
Net income	$ 4,274,922	$ 379,778	$ -	$ 2,842,641	$ (280,536)	$ 7,216,805
Total assets	$273,971,650	$ 51,125,022	$ 93,413,383	$352,594,858	$ 2,767,998	$773,872,911

1. No operating results are presented for State Financial Bank (Illinois) due to its purchase by the Company effective December 31, 1997.

</TABLE>

NOTES TO CONDOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. State Financial Services Corporation (Parent Company only) Financial Information

Financial statements of the Company at December 31, 1998 and 1997, and for the three years ended December 31, 1998, follow.

<TABLE>
<CAPTION>

BALANCE SHEETS

	December 31, 1998	1997
Assets		
<S>	<C>	<C>
Cash and cash equivalents	$ 14,608,694	$ 22,042,980
Investments:		
Available-for-sale	3,927,711	1,917,988
Held-to-maturity	100,000	100,000
Investment in State Financial Bank (Wisconsin)	23,462,124	23,157,881
Investment in State Financial Bank - Waterford	5,231,692	5,153,146
Investment in State Financial Mortgage Company	344,305	167,295
Investment in State Financial Bank (Illinois)	12,392,445	10,865,462
Investment in Home Federal Savings and Loan Association of Elgin	72,424,604	69,207,245
Investment in Lokken, Chesnut & Cape	2,362,175	-
Loans receivable from subsidiaries	4,207,063	4,906,475
Recoverable income taxes	2,643,893	678,345
Fixed assets	173,309	111,060
Other assets	478,992	480,289
Total assets	$142,357,007	$138,788,166
Liabilities		
Accrued expenses and other liabilities	$ 969,728	$ 1,124,816
Notes payable	6,750,000	3,900,000
Shareholders' equity		
Common stock	1,007,602	1,027,901
Additional paid-in capital	94,153,564	96,718,054
Retained earnings	43,748,273	47,882,792

Accumulated other comprehensive income	1,080,549	888,649
Unearned shares held by ESOP	(5,352,709)	(6,385,962)
Unearned shares acquired by Recognition and Retention Plan	-	(3,898,482)
Treasury stock	-	(2,469,602)
Total shareholders' equity	134,637,279	133,763,350
Total liabilities and shareholders' equity	$142,357,007	$138,788,166

</TABLE>

NOTES TO COSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. State Financial Services Corporation (Parent Company only) Financial Information (continued)

STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Year ended December 31, 1998	1997	1996
Income:			
<S>	<C>	<C>	<C>
Dividends	$ 4,575,000	$ 4,225,000	$ 5,400,000
Interest	1,387,670	2,179,353	900,464
Management fees	1,161,625	781,870	753,851
Other	431,402	36,260	32,578
	7,555,697	7,222,483	7,086,893
Expenses:			
Interest	130,222	120,283	111,542
Other	9,650,631	3,049,862	1,562,849
	9,780,853	3,170,145	1,674,391
Income (loss) before income tax credit and equity in undistributed net income of subsidiaries	(2,225,156)	4,052,338	5,412,502
Income (taxes) credit	1,528,092	33,988	(35,673)
	(697,064)	4,086,326	5,376,829
Equity in undistributed net income (excess of net income of subsidiaries over dividends)	1,853,977	3,130,479	(624,049)
Net income	$ 1,156,913	$ 7,216,805	$ 4,752,780

</TABLE>

NOTES TO COSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STATEMENTS OF CASH FLOWS

State Financial Services Corporation (Parent Company only)
Financial Information (continued)

<TABLE>
<CAPTION>

	Year ended December 31, 1998	1997	1996
Operating activities			
<S>	<C>	<C>	<C>
Net income	$ 1,156,913	$ 7,216,805	$ 4,752,780
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income	(1,853,977)	(3,130,479)	624,049
Provision for depreciation	52,236	60,285	64,740
Increase in recoverable income taxes	(1,965,548)	(48,892)	(3,324)
Accretion of discounts	0	(210,166)	(237,526)
Cost of Recognition and Retention Plan Stock	3,898,481	599,767	0
Realized investment securities losses (gains)- net	(399,104)	649	0
Other	903	(157,259)	(49,477)
Net cash provided by operating activities	889,904	4,330,710	5,151,242
Investing activities			
Purchase of investment securities	0	0	(24,538,919)

Maturities of investment securities	0	26,150,000	1,150,000
Purchases of securities available for sale	(3,390,082)	(395,548)	(3,808,860)
Maturities of securities available for sale	0	1,550,000	500,000
Sales of securities available for sale	1,294,466	979,915	0
Decrease (increase) in loans receivable from subsidiaries	699,412	560,740	(5,467,215)
Purchases of premises and equipment	(114,485)	(24,463)	(33,276)
Acquisition of subsidiaries	(2,423,609)	(10,865,462)	0
Additional investment in subsidiaries	(1,407,711)	(100,000)	(28,380,791)
Net cash provided (used) by investing activities	(5,342,009)	17,855,182	(60,579,061)
Financing activities			
Proceeds (repayment) of notes payable	2,850,000	2,938,156	(100,000)
Decrease (increase) in guaranteed ESOP obligation	96,855	(1,003,222)	48,628
Cash dividends	(5,291,432)	(3,591,252)	(1,260,271)
Purchased Recognition and Retention Plan stock	0	(4,498,248)	0
Purchase of treasury stock	(3,287,456)	(2,469,602)	0
Issuance of common stock in acquisition	2,410,199	0	0
Proceeds from sale of common stock	0	0	62,366,982
Proceeds from exercise of stock options	239,653	344,126	174,408
Net cash provided (used) by financing activities	(2,982,181)	(8,280,042)	61,229,747
Increase (decrease) in cash and cash equivalents	(7,434,286)	13,905,850	5,801,928
Cash and cash equivalents at beginning of year	22,042,980	8,137,130	2,335,202
Cash and cash equivalents at end of year	$ 14,608,694	$ 22,042,980	$ 8,137,130

</TABLE>

INVESTOR INFORMATION

Market Price and Dividends for Common Stock

At March 15, 1999, there were approximately 1,282 shareholders of record and 4,903 estimated additional beneficial shareholders for an approximate total of 6,185 shareholders of the Company's Common Stock.

Holders of Common Stock are entitled to receive dividends as may be declared by the Company's Board of Directors and paid from time to time out of funds legally available therefore. The Company's ability to pay dividends depends upon its subsidiary Banks' ability to pay dividends which is regulated by banking statutes. The declaration of dividends by the Company is discretionary and will depend on operating results, financial condition, regulatory limitations, tax considerations, and other factors. See Note 12 to the Consolidated Financial Statements for information concerning restrictions on the payment of dividends. Although the Company has regularly paid dividends since its inception in 1984, there can be no assurance that such dividends will be paid in the future.

The following table sets forth the historical price of and dividends declared with respect to Common Stock since January 1, 1997. All figures have been restated to give effect to the 6 for 5 stock splits declared in January 1998 and January 1997 as if each had occurred as of January 1, 1997.

Quarter Ended	Price High	Price Low	Cash Dividend
March 31, 1997	$16.04	$13.14	$0.10
June 30, 1997	18.13	14.79	0.10
September 30, 1997	19.17	16.46	0.10
December 31, 1997	23.23	19.17	0.10
March 31, 1998	$29.27	$25.75	$0.12
June 30, 1998	26.00	20.94	0.12
September 30, 1998	23.50	15.50	0.12
December 31, 1998	20.00	14.75	0.12

Stock Listing

State Financial Services Corporation's Common Stock is traded on the Nasdaq National Market tier of the Nasdaq Stock Market ("Nasdaq") under the symbol "SFSW." Nasdaq is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors, and issuers. Nasdaq is operated by The Nasdaq

Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

The Company's stock appears in the Wall Street Journal, the Milwaukee Journal/Sentinel, and other publications usually as State Financial.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRP") for the benefit of all shareholders. The DRP is administered by Firstar Trust Company. Under the DRP, registered shareholders of the Company can elect to have their dividends reinvested to purchase additional shares of the Company's Common Stock. To receive information on the DRP, please contact Michael A. Reindl, Senior Vice President, Controller, and Chief Financial Officers, State Financial Services Corporation, 10708 West Janesville Road, Hales Corners, Wisconsin 53130, or call (414) 425-1600.

Form 10-K

The Company's annual report on Form 10-K for the year ended December 31, 1998 as filed with the Securities and Exchange Commission is available upon request without charge to shareholders of record. Please contact Michael A. Reindl, Senior Vice President, Controller, and Chief Financial Officer, State Financial Services Corporation, 10708 West Janesville Road, Hales Corners, Wisconsin 53130, or call (414) 425-1600.

Annual Meeting

The annual meeting of shareholders of State Financial Services Corporation will be held at 4:00 P.M. (CDT) on Wednesday, May 5, 1999 at the Midway Hotel, 1005 Moorland Road, Brookfield, WI.

Financial Information

Michael A. Reindl
Senior Vice President, Controller, and Chief Financial Officer
State Financial Services Corporation
10708 West Janesville Road, Hales Corners, Wisconsin 53130
(414) 425-1600

Transfer Agent

First Bank, Milwaukee, N.A.
Trust Division
1555 North RiverCenter Drive, Milwaukee, WI 53212
(800) 637-7549
(414) 276-3737

DIRECTORS AND OFFICERS

State Financial Services Corporation

DIRECTORS

Michael J. Falbo, President and CEO
Jerome J. Holz, Chairman of the Board
Barbara E. Holz-Weis
Richard A. Horn
Ulice Payne, Jr.
David M. Stamm

OFFICERS

Beth J. Bahr, Human Resources Officer
John B. Beckwith, Senior Vice President
Donna M. Bembenek, Vice President and Director of Marketing
Donald J. Buechler, Loan Review Officer
Annette F. Esteves, Assistant Vice President and Assistant Controller
Michael J. Falbo, President and CEO
Jerome J. Holz, Chairman of the Board and Vice President
Philip F. Hudson, Senior Vice President
Melanie M. Murphy, Auditor
Michael A. Reindl, Senior Vice President, Controller and Chief Financial Officer; Secretary/Treasurer
Daniel L. Westrope, Senior Vice President

Banking Subsidiaries

State Financial Bank (Wisconsin)

DIRECTORS

Bruce Arbit
John B. Beckwith, President
Michael J. Falbo, Vice Chairman and CEO
Michael Green
Jerome J. Holz, Chairman of the Board
Richard A. Horn
Judith Holz-Stathas
Barbara E. Holz-Weis
Philip F. Hudson
Roger H. Kriete
Peyton A. Muehlmeier
Salvatore Sendik
Robert R. Spitzer
David M. Stamm

DIRECTOR EMERITUS

Gordon Banerian
Dr. Charles Wilson
Cyril Zvonar

OFFICE LOCATIONS

Brookfield (414) 789-9003
Glendale (414) 351-7400
Greenfield (414) 281-2500
Hales Corners (414) 425-1600
Milwaukee/University (414) 961-5800
Muskego (414) 679-2800
Waukesha (414) 544-1750

State Financial Bank - Waterford

DIRECTORS

Michael J. Falbo
Jerome J. Holz
Frances M. Koukol
Thomas M. Lilly, President and CEO
Gary Schildt
Robert R. Spitzer, Chairman of the Board

DIRECTOR EMERITUS

Charles M. Noll

OFFICE LOCATIONS
Burlington (414) 763-9955
Waterford (414) 534-3151

State Financial Bank (Illinois)

DIRECTORS

Susan J. Dubs, President
Ronald S. Erdmann
Michael J. Falbo
Jerome J. Holz
Daniel L. Westrope, Chairman of the Board and CEO
Charles F. Wonderlic

OFFICE LOCATIONS

Libertyville (847) 680-1077
Richmond (815) 678-2461

Home Federal Savings and Loan Association of Elgin

DIRECTORS

Michael J. Falbo, Chairman of the Board
Orval M. Graening
Henry R. Hines
Jerome J. Holz
Donald E. Laird
Leigh C. O'Connor
Thomas S. Rakow
Richard S. Scheflow
Daniel L. Westrope, President and CEO

OFFICE LOCATIONS

Bartlett (630) 830-3434
Crystal Lake (815) 459-5880
Elgin (847) 742-3800
Roselle (630) 893-0020
South Elgin (847) 741-9555

Other Subsidiaries
State Financial Investments, Inc.

John B. Beckwith, President
Gary R. Dunham, Vice President

Telephone (847) 587-4710

State Financial Insurance Agency

John B. Beckwith, President
Leon M. Johnson, Vice President
Donald H. Mathson, Vice President

Telephone (414) 425-1600

State Financial Mortage Company

Thomas M. Lilly, President
James L. Wucherer, Vice President

Telephone (414) 425-1600

Lokken, Chesnut, & Cape

Jeffrey M. Lokken, CEO
James C. Naleid, President
Paul H. Robinson, Secretary/Treasurer

Telephone (800) 658-9423

EXHIBIT 21

SUBSIDIARIES OF STATE FINANCIAL SERVICES CORPORATION

Subsidiary Name	State of Incorporation
State Financial Bank (Wisconsin)	Wisconsin
Hales Corners Development Corporation (1)	Wisconsin
Hales Corners Investment Corporation (1)	Nevada
State Financial Bank - Waterford	Wisconsin
Waterford Investment Corporation (2)	Nevada
State Financial Mortgage Company	Wisconsin
Richmond Bancorp, Inc.	Illinois
State Financial Bank (Illinois) (3)	Illinois
State Financial Insurance Agency (4)	Wisconsin
Richmond Financial Services, Inc. (3)	Illinois
Lokken Chesnut & Cape	Minnesota
Home Federal Savings & Loan Association of Elgin	Illinois

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(1) Subsidiary of State Financial Bank
(2) Subsidiary of State Financial Bank - Waterford
(3) Subsidiary of Richmond Bancorp, Inc.
(4) Subsidiary of Richmond Bank

EXHIBIT 23.1

We consent to the incorporation by reference of our report dated January 22, 1999, included and incorporated by reference in this Annual Report (Form 10-K) of State Financial Services Corporation, into State Financial Services Corporation's previously filed Form S-8 Registration Statements, except for note 2, as to which the date is March 12, 1999, included in the 1998 Annual Report to the shareholders of State Financial Services Corporation.

/s/ Ernst & Young, LLP

Milwaukee, Wisconsin
March 26, 1999

EXHIBIT 23.2

Independent Auditors' Report

The Board of Directors
Home Bancorp of Elgin, Inc.
Elgin, Illinois:

We have audited the accompanying consolidated balance sheet of Home Bancorp of Elgin, Inc. and subsidiary (the Company) as of December 31, 1997, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Bancorp of Elgin, Inc. and subsidiary as of December 31, 1997, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ KPMG, LLP

Chicago, Illinois
January 26, 1998

EXHIBIT 23.3

Independent Auditors' Report

The Board of Directors
Home Federal Savings and Loan
Association of Elgin, Inc.
Elgin, Illinois:

We have audited the accompanying balance sheet of Home Federal Savings and Loan Association of Elgin (the Association) as of December 31, 1998, and the related statements of operations, stockholder's equity, and cash flows for the year ended December 31, 1998. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Federal Savings and Loan Association of Elgin as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ KPMG, LLP

Chicago, Illinois
January 29, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF STATE FINANCIAL SERVICES CORPORATION AS OF AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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Exhibit 99.1

[SFSC Logo]

March 26, 1999

Dear Shareholder:

You are cordially invited to attend the 1999 Annual Meeting of Shareholders of State Financial Services Corporation. The 1999 Annual Meeting will be held at 4:00 P.M. Central Time on Wednesday, May 5, 1999 at the Midway Hotel, 1005 Moorland Road, Brookfield, Wisconsin.

Information about the meeting, including a description of the matters on which the shareholders will act, is contained in the attached Notice of Annual Meeting and Proxy Statement. Directors and officers of State Financial Services Corporation as well as a representative from Ernst & Young LLP, State Financial Services Corporation's independent auditors, will be present at the meeting to respond to any questions that shareholders may have.

We encourage you to attend the Annual Meeting. Whether or not you plan to attend, we ask that you complete, sign, and date the enclosed proxy and return it in the envelope provided so that your vote can be counted at the Annual Meeting.

On behalf of the Board of Directors and the employees of State Financial Services Corporation, I wish to extend my gratitude for your continued support of our organization.

Sincerely,

/s/ Michael J. Falbo
Michael J. Falbo
President and Chief Executive Officer

10708 West Janesville Road * Hales Corners, Wisconsin 53130 * (414) 425-1600

STATE FINANCIAL SERVICES CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
May 5, 1999

TO THE SHAREHOLDERS OF STATE FINANCIAL SERVICES CORPORATION:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of State Financial Services Corporation ("SFSC" or the "Company") will be held on May 5, 1999, at 4:00 P.M., Central Time, at the Midway Hotel, 1005 Moorland Road, Brookfield, Wisconsin for the following purposes:

1. To elect three (3) directors to hold office until the Annual Meeting of Shareholders in 2002 or until their respective successors are duly elected and qualified; and

2. To consider and act upon such other business that may properly come before the meeting or any adjournment or postponement thereof.

These items are more fully described in the Proxy Statement which accompanies this Notice.

Shareholders of record at the close of business on March 19, 1999 will be entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

IT IS IMPORTANT THAT YOUR STOCK BE REPRESENTED AT THE ANNUAL MEETING. SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON ARE REQUESTED TO SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE. IF YOU LATER FIND THAT YOU MAY BE PRESENT AT THE ANNUAL MEETING OR FOR ANY OTHER REASON DESIRE TO REVOKE YOUR PROXY, YOU MAY DO SO AT ANY TIME BEFORE IT IS VOTED.

By Order of the Board of Directors

/s/ Michael J. Falbo
MICHAEL J. FALBO,
President and Chief Executive Officer

March 26, 1999

STATE FINANCIAL SERVICES CORPORATION
10708 West Janesville Road
Hales Corners, Wisconsin 53130

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
May 5, 1999

INTRODUCTION

This Proxy Statement is being furnished to the shareholders of State Financial Services Corporation ("SFSC" or the "Company") in connection with the solicitation of proxies by the Board of Directors of SFSC for use at the Annual Meeting of Shareholders of SFSC to be held at 4:00 P.M., Central Time, on May 5, 1999 at the Midway Hotel, 1005 Moorland Road, Brookfield, Wisconsin (the "Meeting"), or any adjournment or postponement thereof.

Purposes of the Meeting. At the Meeting, shareholders will consider and vote upon two matters: (1) the election of three directors to hold office until the annual meeting of shareholders in 2002 or until their respective successors are duly elected and qualified and (2) to consider and act upon such other business that may properly come before the Meeting or any adjournment or postponement thereof.

Proxy Solicitation. The cost of soliciting proxies will be borne by the Company. The Company expects to solicit proxies primarily by mail. Proxies may also be solicited personally and by telephone by executive officers and directors of the Company. It is not anticipated that anyone will be specially engaged to solicit proxies or that special compensation will be paid for that purpose. The Company will reimburse brokers and other nominees who hold the Company's common stock, $0.10 par value per share (the "Common Stock"), in their names and solicit proxies from the beneficial owners for reasonable out-of-pocket expenses. Proxy Statements and Proxies will be mailed to shareholders of record beginning on approximately March 26, 1999.

Quorum and Voting Information. Only shareholders of record at the close of business on March 19, 1999 are entitled to notice of and to vote at the Meeting or at any adjournment or postponement thereof. As of March 19, 1999, there were issued and outstanding 10,079,892 shares of Common Stock, each of which is entitled to one vote per share. At the Meeting, a quorum will exist with respect to each matter to be voted upon if a majority of the votes entitled to be cast thereon is represented in person or by proxy.

Proxies and Revocation of Proxies. A Proxy in the accompanying form, which is properly executed, duly returned to the Company and not revoked, will be voted in accordance with instructions contained therein. If no instructions are given with respect to any particular proposal referred to herein, a Proxy will be voted in favor of such matter. Execution of a Proxy given in response to the solicitation will not affect a shareholder's right to attend the Meeting and to vote in person. In the event that any matter which is not described in this Proxy Statement properly comes before the Meeting, the accompanying form of Proxy authorizes the persons appointed as proxies thereby ("Proxyholders") to vote on such matter in their sole discretion in accordance with the best judgement of the Proxyholders. At the present time, management knows of no other matters which are to come before the Meeting. See "Proposal No. 2. Other Matters." A shareholder giving a Proxy may revoke it at any time before it is voted by filing with the Secretary of the Company a written notice of revocation, by delivering to the Company a duly executed proxy bearing a later date, or by attending the Meeting and voting in person.

Shareholder Proposals. There are no shareholder proposals on the agenda for the Meeting. In order to be considered for inclusion in the agenda for the 2000 Annual Meeting, a shareholder proposal must be received by the Company no later than the close of business on November 27, 1999. Additionally, if the Company receives notice of a shareholder proposal after February 10, 2000, the persons named in the proxies solicited by the Board of Directors for the 2000 Annual Meeting may exercise discretionary voting power with respect to such proposal. A shareholder who otherwise intends to present business at the 2000 Annual Meeting must comply with the requirements set forth in the Company's bylaws. Shareholder proposals should be sent to the Company' principal offices by certified mail, return receipt requested, and should be addressed to the Secretary of the Company.

Annual Report. The Company's Annual Report to Shareholders, including audited financial statements for the year ended December 31, 1998, although not a part of this Proxy Statement, is delivered herewith.

PROPOSAL NO. 1 - ELECTION OF DIRECTORS

The Board of Directors and the Nominees. The Board of Directors of the Company currently consists of six persons, divided into three classes, each consisting of two directors elected to serve three year terms. The Board of Directors has determined that it is in the best interest of the Company to increase the number of board members to seven persons. Therefore, the Board of Directors is recommending that three individuals, Jerome J. Holz, David M. Stamm, and Thomas S. Rakow be elected to director positions at the Meeting, each for a term expiring on the date of the Company's annual meeting to be held in 2002 or until their respective successors are duly elected and qualified. Messrs. Holz and Stamm are currently directors of SFSC. Mr. Rakow is a first time nominee to serve as a director of SFSC and is currently a director of Home Federal Savings of Elgin, a wholly owned subsidiary of the Company.

Voting Information. Unless otherwise directed, the shares represented by all properly executed Proxies will be voted by the Proxyholders "FOR" the election of Messrs. Holz, Stamm, and Rakow. Management does not expect that either Mr. Holz, Mr. Stamm or Mr. Rakow will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the Proxyholders reserve the right to vote for another person of their choice. Directors are elected by a "plurality" of the votes cast (assuming a quorum is present). This means that the number of nominees corresponding to the number of seats on a board of directors to be filled at a shareholders' meeting who receive the highest number of votes will be elected. In the case of the Meeting, the three nominees who receive the highest number of votes for their election as directors will be the persons elected to the three director positions to be filled at the Meeting. Consequently, any shares not voted on this matter (whether by abstention, or otherwise) will have no effect on the election of directors, except to the extent the failure to vote for an individual results in that individual not receiving a sufficient number of votes to be elected. An abstention from voting will be tabulated as a vote withheld on the election and will be included in computing the number of shares present for purposes of determining the presence of a quorum.

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Directors. The following sets forth, with respect to the nominees and each director who will continue to serve after the date of the Meeting, his/her name, age, principal occupation for the last five years, the year in which he/she first became a director of the Company or a predecessor thereof, the year in which his/her current term as director will expire, and directorships in other publicly traded business corporations. SFSC is a bank holding company which owns State Financial Bank (Wisconsin) ("SFB"), State Financial Bank - Waterford ("SFBW"), State Financial Bank (Illinois) ("Richmond"), and Home Federal Savings of Elgin ("Home") (collectively referred to as the "Banks"). SFSC is also the parent company of State Financial Mortgage Company ("SFMC"), which originates adjustable and fixed rate mortgages, selling them into the secondary market service released; State Financial Investments, Inc.("SFII"), which conducts various brokerage activities; and Lokken, Chesnut & Cape ("LCC"), which provides professional asset management to commercial and retail customers.

Name	Age	Positions Held with the Company	Director Since	Current Term Expires(1)
Jerome J. Holz	71	Chairman of the Board and Vice President of SFSC; Chairman of the Board of SFB; Director of SFBW, Richmond, and Home.	1984	1999
Michael J. Falbo	49	President, Chief Executive Officer, and Director of SFSC; Vice Chairman and Chief Executive Officer of SFB; Director of SFBW, Richmond, Home, SFMC, and LCC.	1984	2001
Richard A. Horn	74	Director of SFSC and SFB	1984	2000
Ulice Payne, Jr. (2)	43	Director of SFSC	1998	2001
Thomas S. Rakow	56	Director of Home	(3)	n/a
David M. Stamm	50	Director of SFSC and SFB	1993	1999
Barbara E. Holz-Weis	43	Director of SFSC and SFB	1993	2000

----

(1) On the date of the annual shareholders' meeting to be held in the year indicated.

(2) Mr. Payne is also a director of Midwest Express Holdings, Inc.

(3) Nominated to serve as a director for the first time at the Company's 1999 Annual Meeting of Shareholders.

Jerome J. Holz serves as Chairman of the Board and Vice President of SFSC. In these capacities, he consults on a regular basis with management of SFSC and the Banks concerning matters of strategic planning, business development, and company policies. Mr. Holz is also Chairman of the Board of State Financial Bank. He has been a director of SFSC since its organization in 1984 , a director of SFB since 1960, a director of SFBW since August, 1995, a director of Richmond since January, 1998, and a director of Home since December, 1998. Mr Holz has Chairman of the Board and President of Holz Motors, Inc., an automobile dealership with locations in Hales Corners and Watertown, Wisconsin, since 1960.

Michael J. Falbo has been President and Chief Executive Officer of SFSC since 1984. Mr. Falbo is Vice Chairman and Chief Executive Officer of SFB. Mr. Falbo has been a director of SFSC since its organization in 1984, a director of SFB since 1983, a director of SFBW since August, 1995, a director of SFMC since December 1996, a director of Richmond since January, 1998, a director of LCC since September, 1998, and a director of Home since December, 1998.

Richard A. Horn has been President of Horn Bros., Inc., a retail feed, seed, and fertilizer firm located in Muskego, Wisconsin since 1969. Mr. Horn has been a director of SFSC since 1984 and a director of SFB since 1971. Mr. Horn serves on the Compensation Committee and is Chairman of the Stock Option Committee and the Audit Committee.

Ulice Payne, Jr., has been a partner with the law firm of Foley &

Lardner, Milwaukee, Wisconsin since February 1998, practicing in the firm's securities and international law practice groups. From 1990 through 1998, Mr. Payne, Jr. was a partner with the Milwaukee, Wisconsin law firm of Reinhart, Boerner, Van Deuren, Norris & Rieselbach, S.C. Prior to 1990, Mr. Payne, Jr. was a partner with the Milwaukee, Wisconsin law firm of Whyte Hirschboeck (now known as Whyte Hirschboeck & Dudek) and served

as the Wisconsin Commissioner of Securities. Mr. Payne serves on the Compensation Committee and the Stock Option committee. Mr. Payne also serves on the Board of Directors of Midwest Express Holdings, Inc.

Thomas S. Rakow has been the President of IHC Group, Inc., Elgin, Illinois, a general contractor since 1981; the President of Rakow Enterprises, Inc., Elgin, Illinois, an equipment leasing company, since 1991; and a partner in Harkow Partnership, Elgin, Illinois, a real estate company, since 1986. The Nominating Committee of the Board, consisting of the Board acting as a whole, nominated Mr. Rakow to serve as a director of the Company in March, 1999. Mr. Rakow has been a director of Home since 1980.

David M. Stamm has been President of the George Webb Corporation since 1985, a franchise restaurant operation with locations in southeastern Wisconsin. Mr. Stamm has been a director of SFSC since 1993 and of SFB since 1992. Mr. Stamm serves on the Compensation Committee, the Stock Option Committee, and the Audit Committee.

Barbara E. Holz-Weis has been the owner of Barb's Greenhouse Florist, a retail full-service flower shop in Hales Corners, Wisconsin since 1978. Mrs. Holz-Weis has been a director of SFSC since 1993 and of SFB since 1981. Mrs. Holz-Weis serves on the Compensation Committee, the Stock Option Committee, and the Audit Committee. Mrs. Holz-Weis is the daughter of Mr. Holz.

Board Committees. The Board of Directors has the following committees:

Compensation Committee. The Compensation Committee determines the annual base salary and other remuneration for the officers of the Company and the Banks. The Compensation Committee also acts as fiduciaries for the Company's Money Purchase Pension Plan and Employee Stock Ownership Plan (collectively the "Plans") and is responsible for conducting the business and activities of the Plans in accordance with the provisions of the Plans' documents and the Company's By-Laws. The Compensation Committee consists of all of the members of the Board of Directors. A member of the Compensation Committee who is also a member of management must abstain from voting on any matters pertaining directly to them, including but not limited to, review of their respective salary, bonus, option grants, or incentive awards. The Compensation Committee met one time during 1998.

Stock Option Committee. The Stock Option Committee administers the Company's equity incentive plans. The Stock Option Committee consists of Messrs. Horn (Chairman) and Stamm and Mrs. Holz-Weis. The Stock Option Committee met one time during 1998.

Audit Committee. The Audit Committee was established to assist in monitoring the independence of the Company's outside auditors and thereby promote objectivity in the Company's financial reports. The Audit Committee serves as the liaison between the Company's independent auditors and its Board of Directors. The Audit Committee's responsibilities include, but are not limited to, the selecting or recommending the selection of the Company's independent auditors, reviewing the adequacy of internal controls, consulting with the independent auditors in regards to the audit scope and plan of audit, and reviewing with the independent auditors their report of audit including the accompanying management letter. The Audit Committee is comprised of Messrs. Horn and Stamm and Mrs. Holz-Weis. The Audit Committee met one time during 1998.

Nominating Committee. The Nominating Committee was established in January, 1999 to fill new seats on the Board of Directors or vacancies that occur from time to time and to provide a slate of candidates for the Board of Directors to recommend for election by the shareholders of the Company. The Nominating Committee consists of the all of the members of the Board of Directors A member of the Nominating Committee must abstain from voting with respect to their nomination. The Nominating Committee will consider persons recommended by shareholders to become nominees. Recommendations for consideration by the Nominating Committee should be sent the Secretary of the Company in writing together with the appropriate biographical information concerning each proposed nominee in accordance with advance notice provisions contained in the Company's bylaws.

Compensation of Directors. The Company has established a policy that no employee of SFSC or the Banks may receive director fees for serving on the

Boards of Directors of the Company or the Banks. Accordingly, Messrs. Holz, Falbo, Beckwith, and Hudson, who are employees of SFSC, SFB, SFBW, Richmond and/or Home and who also serve as directors of SFSC, SFB, SFBW, Richmond and/or Home did not receive any director fees in connection with their respective director positions for services rendered in that capacity in 1998.

Directors of the Company (other than Messrs. Holz and Falbo) are paid a quarterly retainer of $1,562.50 and $1,562.50 for each regular quarterly Board meeting attended. During 1998, the Board held four regularly quarterly Board meetings and two special

Board meetings for a total of six meetings held during the year. Each of the directors attended at least 75% of the meetings of the Board of Directors and all meetings of the committees on which each director served.

Directors of the Company are also eligible to receive stock options pursuant to the Company's 1998 Stock Incentive Plan (the "1998 Plan") and were previously eligible to receive stock options under the Director Stock Plan, which was replaced by the 1998 Plan. For a description of the 1998 Plan, see A1998 Stock Incentive Plan.

Compensation of Executive Officers.

Summary Compensation Information. The table on the following page sets forth the annual and long-term compensation for the Company's Chief Executive Officer and the other executive officers of the Company and the Banks whose total salaries and bonuses exceeded $100,000 in 1998, as well as the respective compensation paid to each individual during the 1996 and 1997 fiscal years. The persons named in the table are sometimes referred to herein as the "Named Executive Officers."
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<CAPTION>

Summary Compensation Table

		Annual Compensation		All Other Compensation		
Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	ESOP Contribution ($)	Money Purchase Pension Plan Contributions ($)	Supplemental Executive Retirement Plan ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael J. Falbo President and CEO - State Financial Services Corporation	1998 1997 1996	310,000 280,000 250,000	145,000 132,000 120,000	9,495 14,988 6,405	9,200 9,200 8,600	33,840 30,000 24,000
Jerome J. Holz Chairman of the Board - State Financial Services Corporation	1998 1997 1996	210,000 210,000 210,000	125,000 125,000 125,000	9,492 14,988 6,394	9,200 9,200 8,600	-0- -0- -0-
John B. Beckwith President - State Financial Bank	1998 1997 1996	128,000 119,000 110,000	45,000 40,000 35,000	9,484 14,426 5,922	9,200 8,840 8,000	-0- -0- -0-
Philip F. Hudson Senior Vice President - State Financial Services Corporation	1998 1997 1996	146,000 137,000 128,000	30,000 27,500 22,500	9,484 14,941 6,152	9,200 9,170 8,330	-0- -0- -0-
Michael A. Reindl Senior Vice President, Controller and Chief Financial Officer - State Financial Services Corporation	1998 1997 1996	93,000 83,000 73,000	25,000 22,000 17,000	6,818 9,368 3,604	6,500 5,600 4,700	-0- -0- -0-
Daniel L. Westrope (2) President and CEO - Home Federal Savings and Loan Association of Elgin, Chairman of the Board and CEO - State Financial Bank (Illinois)	1998	109,375	-0-	-0-	-0-	-0-

(1) For Messrs. Falbo, Beckwith, Hudson, and Reindl, the amount represents the bonus earned in the respective year but paid in the following year. For Mr. Holz, the bonus was earned and paid in the respective year.
</TABLE>

(2) Mr. Westrope joined the Company in February, 1998. The amounts presented for 1998 represent the compensation from his date of hire to December 31, 1998.

Money Purchase Pension Plan. The Board of Directors of SFSC has adopted the State Financial Services Corporation and Subsidiaries Money Purchase Plan ("Pension Plan") for the benefit of certain employees of SFSC and its subsidiaries. The Pension Plan is a tax qualified defined contribution plan pursuant to which SFSC's contributions are fixed based upon the compensation of each participant. For each participant, SFSC's contribution to the Pension Plan is an amount equal to four percent (4%) of the participant's total compensation and an additional two percent (2%) of the participant's compensation in excess of $20,000. The amounts contributed by the Company for each Named Executive Officer during 1998 are included in the Summary Compensation Table.

A participant's account balance becomes 20% vested after completion of two years of service. Thereafter, a participant's account balance vests 20% each year until the participant becomes 100% vested after six years of service. A participant becomes 100% vested in his account balance in the event of death, disability, or retirement. Normal retirement age under the Pension Plan is 65. Upon retirement, a participant's account balance may be distributed to him/her pursuant to his/her election of one of a number of alternative methods of distribution.

1998 Stock Incentive Plan. The 1998 Plan was established primarily to provide a means for the Company to attract and retain the services of competent officers, directors and consultants and motivate high levels of performance by providing them with an opportunity to acquire an equity interest in the Company. The 1998 Plan provides for awards of stock options and restricted stock. The 1998 Plan was approved by the shareholders of the Company on May 13, 1998.

The Company previously had in effect the 1990 Stock Option/Stock Appreciation Rights and Restricted Stock Plan for Key Officers and Employees (the "Officer Plan") and the 1990 Director Stock Option Plan (the "Director Plan"). To allow for additional equity based compensation awards to be made by the Company, the shareholders approved the 1998 Plan at the Annual Meeting of Shareholders held on May 13, 1998.

Available Shares. Up to 425,000 shares of Common Stock are available for awards under the 1998 Plan, subject to adjustment in the event of any stock dividend or split, recapitalization, reclassification, or other similar corporate change which affects the total number of shares outstanding. If any shares of Common Stock subject to awards granted under the 1998 Plan are forfeited or if an award otherwise terminates, expires or is canceled prior to the delivery of all of the shares issuable thereunder, such shares are available for the granting of new awards under the 1998 Plan. Also, if shares of Common Stock are used to pay the option price of an award or any related withholding taxes, only the net number of shares actually issued pursuant to the award are counted against the maximum number of shares available under the 1998 Plan.

Administration. The 1998 Plan is administered by a committee of the Board of Directors (the "Committee") consisting of not less than two directors who qualify as "non-employee directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code (the "Code"). Any awards made to directors who are members of the Committee must be approved by the Board and not by the Committee. If at any time the Committee is not in existence, the Board will administer the 1998 Plan. Subject to certain limitations, the Board may delegate the Committee's administrative authority under the 1998 Plan to another committee of the Board or one or more senior officers of the Company. To the extent that the Board of Directors administers the 1998 Plan, all references in this summary to the Committee also refer to the Board.

Among other functions, the Committee has the authority to establish rules for the administration of the 1998 Plan; to determine the officers of the Company to whom awards will be granted; to determine the types of awards to be granted and the number of shares covered by such awards; and to set the terms and conditions of such awards. The terms of awards may differ from participant to participant. The Committee may consider the recommendations of the Chief Executive Officer with regard to awards to be granted under the 1998 Plan.

Eligibility. Officers and directors of the Company or any subsidiary are eligible to participate in the 1998 Plan, as well as certain consultants who provide services to the Company. Participants may be selected from among those officers, directors and consultants recommended for participation by the Chief Executive Officer, and who, in the opinion of the Committee are in a position to contribute materially to the Company's growth, development and financial success. Approximately 66 officers and 19 directors are currently eligible for consideration to receive awards under the 1998 Plan.

Stock Options. Options granted under the 1998 Plan may be either incentive stock options meeting the requirements of Section 422 of the Code ("ISOs") or nonstatutory stock options ("NSOs"). The maximum number of shares that may be covered by options granted to any individual employee is 42,500 during any single fiscal year; provided, however, that the fair market value (determined on the date of grant) of all shares of Common Stock with respect to which ISOs are exercisable for the first time by a participant during any calendar year may not exceed $100,000.

During 1998, no stock options or shares of restricted stock were granted to the Named Executive Officers or directors under the 1998 Plan. Options to purchase a total of 7,000 shares were granted to all other officers as a group under the 1998 Plan at an average exercise price of $15.53 .

On March 18, 1999, the last reported sales price per share of the Common Stock on the Nasdaq Stock Market was $13.06.

The following table summarizes options exercised during 1998 and presents the value of unexercised options held by the Named Executive Officers at December 31, 1998.

Aggregated Option Exercises in 1998 Fiscal Year
and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized ($) (1)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#) (2)	Value of Unexercised In-the-Money Options at Fiscal Year End ($) (1) (2)
Michael J. Falbo	-0-	-0-	3,370	$33,464
Jerome J. Holz	2,592	$52,307	-0-	-0-
John B. Beckwith	1,037	21,445	-0-	-0-
Philip F. Hudson	3,266	62,706	-0-	-0-
Michael A. Reindl	-0-	-0-	-0-	-0-
Daniel L. Westrope	-0-	-0-	-0-	-0-

(1) Values are calculated by subtracting the exercise price from the fair market value of the stock on the date of exercise.

(2) All options were exercisable at December 31, 1998.

Agreements With Named Executive Officers

Deferred Compensation Agreement. SFB has a Deferred Compensation Agreement dated December 9, 1980 with Jerome J. Holz pursuant to which SFB is obligated to pay Mr. Holz $1,000 per month for 120 months following termination of his employment. Payments will commence upon Mr. Holz's voluntary termination, his involuntary termination for reasons other than cause (as defined in the agreement), or upon his death or permanent disability. In the event that Mr. Holz dies before receiving all payments, the balance of the payments will be made to Mr. Holz's designated beneficiary or heirs. SFB's obligations under this agreement are insured.

Supplemental Executive Retirement Plan. In 1994, the Board of Directors of SFSC adopted the Supplemental Executive Retirement Plan ("Supplemental Plan") to supplement the benefits received by Mr. Falbo under the Company's qualified retirement plans. Due to restrictions imposed by the Internal Revenue Service, SFSC cannot contribute the same percentage of compensation on behalf of Mr. Falbo that it can contribute on behalf of other employees. As a result, SFSC makes a limited contribution to its qualified retirement plans on Mr. Falbo's behalf. Mr. Falbo's right to participate in the Supplemental Plan was effective with the

adoption of the Supplemental Plan. His right to participate in the Supplemental Plan ceases at the earlier of his termination of employment or the date the Supplemental Plan is terminated by SFSC.

Pursuant to the Supplemental Plan, SFSC contributes on behalf of Mr. Falbo an amount equal to 12% of his compensation in excess of the compensation limits stated under the Internal Revenue Code of 1986 section 401(a)(17) for that year. Interest on the contributions made to Mr. Falbo's account is credited annually at a rate equal to the annual interest earnings for the Pension Plan.

Benefits under the Supplemental Plan will begin to be made to Mr. Falbo at the termination of his employment or his retirement. The form in which benefits are paid to Mr. Falbo is determined by his age at the time of his termination or retirement. If Mr. Falbo's employment terminates on or after the date he attains age 65, benefits will be paid beginning the month following his termination or retirement and monthly thereafter until the final payment is made in the month he attains age 80. If Mr. Falbo terminates employment on or after age 55, but before age 65, SFSC will begin paying Mr. Falbo's accumulated benefits in monthly installments beginning the first month following his termination and monthly thereafter until the final payment is made in the month he attains age 65. If Mr. Falbo dies after termination but before receipt of all benefits under the plan, the remaining benefits will be paid in installments to his spouse over the remaining term of the plan, as applicable. In the event Mr. Falbo dies without a spouse or his widow dies before completion of the installment payments, the unpaid benefits will be paid to his or, if applicable, his widow's estate in a lump sum. If Mr. Falbo terminates employment prior to age 55, SFSC will pay the amount credited on his behalf under the plan as a lump sum. Mr. Falbo's benefits under the Supplemental Plan will be fully and completely forfeited in the event he is terminated for cause.

If Mr. Falbo dies before age 65 and before beginning to receive benefits under the Supplemental Plan, his surviving spouse, or if there is no surviving spouse, his estate, shall be entitled to a lump sum benefit equal to the greater of one million dollars or the amount credited on Mr. Falbo's behalf under the Supplemental Plan. The Company's obligations under this plan are insured.

Board of Directors Report on Executive Compensation. The Company's Board of Directors in its entirety functions as the Compensation Committee. The Compensation Committee is responsible for all aspects of the compensation package offered to the executive officers of the Company and the Banks, other than the awards under the Company's equity-based incentive compensation plans, which are determined by the Company's Stock Option Committee. The Compensation Committee meets annually to consider the executive officers' compensation levels and bonus awards. Directors who are also executive officers of the Company (Messrs. Falbo and Holz) do not participate in discussions regarding their respective compensation. The following is a joint report of the Compensation Committee and the Stock Option Committee.

The Company's executive compensation policies are intended to attract and retain competent management with a balance of short and long term considerations and to provide incentives to individuals based upon the Company's financial performance, growth, and the attainment of certain goals. The Board of Directors believes this compensation philosophy is critical to the Company's long-term success.

The compensation package offered to the executive officers of the Company and the Banks consists of a mix of salary, incentive bonus awards, awards of stock options and awards of restricted stock as well as benefits under several employee benefit plans offered by the Company to all employees meeting certain eligibility requirements as defined by each respective employee benefit plan. The additional employee benefits include the Pension Plan, ESOP, 401(k) Plan, and medical/dental insurance coverage.

In setting and adjusting the executive salaries, including the salaries of the Chief Executive Officer and the Named Executive Officers, it is the policy of the Compensation Committee to review the base salaries paid or proposed to be paid by the Company and the Banks with the salaries offered by financial institutions that are comparable in size to the Company or the respective Bank. To determine the specific salary range for each executive officer, the Company utilizes formal financial surveys available from independent banking associations and consulting organizations which detail salary ranges for each applicable executive officer position in banks of comparable asset size This comparison group, since it includes non-public entities, is not identical to the peer group of companies referred to in the section titled "Performance Information."

In addition to base salary, the Compensation Committee seeks to provide a substantial portion of each executive officer's total compensation through bonus incentives which provide awards based on or tied to the performance of the Company and the Banks and the applicable executive officers' contribution thereto. The purpose of these bonus incentives is to more closely align executive compensation to the annual and long-term financial performance of the Company and the Banks and to reward key employees for the achievement of certain goals.

Collectively, the Compensation Committee reviews the comparable statistical salary information for the Chairman of the Board and the Chief Executive Officer to determine the compensation levels and bonuses for these executive officer positions. Messrs. Falbo and Holz are excluded from the discussions pertaining to their respective salaries and bonuses. For the remaining executive officers of the Company and the Banks, the Chief Executive Officer reviews the comparable statistical salary information for each applicable position and makes specific recommendations for salary adjustments and bonus awards to the Compensation Committee for their approval. Each of these recommendations for 1998 were approved by the Compensation Committee as presented.

The Compensation Committee considered the following factors in making its executive compensation decisions, including recommended salary increases and bonus awards, for 1998; (1) the Company's short-term and long-term financial performance (including an evaluation of the Company's net income, earnings per share, increases in loans and deposits, return on average assets, return on average equity, market performance of the Common Stock, and growth, both internally and through acquisitions); (2) in regards to each individual executive officer, the financial performance of the particular area of the Company for which the applicable officer is responsible, including whether or not that area of the Company achieved its performance objectives in 1998; (3) an evaluation of the executive's overall job performance; (4) the compensation levels of executive officers in similar positions with similar companies; (5) the executive's length of service with the Company; and (6) other information (such as cost of living increases) and subjective factors which the Company deems appropriate in the case of a particular executive. The Compensation Committee subjectively analyzes these factors, and certain factors may weigh more heavily than others with regard to an individual executive officer. The Compensation Committee determines the base salary and bonuses of the Chief Executive Officer and the Chairman of the Board based on their review of similar competitive compensation data and performance related criteria.

The executive compensation package of the Company and the Banks also includes stock option grants. Options granted under the 1998 Plan have a per share exercise price of 100% of the fair market value of a share of Common Stock on the date of grant, and, accordingly, the value of the option will be dependent upon the future market value of the Common Stock. The granting of options under the 1998 Plan is administered by the Stock Option Committee, which recommends awards to the Compensation Committee. It is the policy of the Compensation Committee that options should provide a long-term incentive and align the interest of management with the interest of the Company's shareholders. During fiscal 1998, no new options were granted to executive officers.

In addition to stock option awards, awards of restricted stock may also be made under the 1998 Plan. Awards of restricted stock are based upon the same factors as those described in the preceding paragraph and generally vest over a seven year period from the date of award. Similar to stock options, awards of restricted stock serve to provide long-term incentive for recipients and tie compensation to the performance of the Company and the Banks as reflected in the market price of the Company's Common Stock. Grants of restricted stock are made on a highly selective basis to executive officers. From time to time, current executives may receive grants of restricted stock to recognize corporate successes and individual contributions. The Stock Option Committee decides appropriate award amounts based on the circumstances of the situation. No restricted stock was awarded to the Named Executive Officers during fiscal 1998.

Under Section 162(m) of the Internal Revenue Code (the "Code"), the tax deduction by corporate taxpayers, such as the Company, is limited with respect to the compensation of certain executive officers unless such compensation is based upon performance objectives meeting certain regulatory criteria or is otherwise excluded from the limitation. The Compensation Committee and the Stock Option Committee currently intend to qualify compensation paid to the Company's executive officers for deductibility by the Company under Section 162(m) of the Code.

State Financial Services Corporation Compensation Committee		State Financial Services Corporation Stock Option Committee	
Michael J. Falbo	Richard A. Horn	Richard A. Horn (Chairman)	Ulice Payne, Jr.
Jerome J. Holz	Ulice Payne, Jr.	Barbara E. Holz-Weis	David M. Stamm
Barbara E. Holz-Weis	David M. Stamm		

Compensation Committee Interlocks and Insider Participation. The Compensation Committee consists of all of the members of the Board of Directors. As indicated above, Michael J. Falbo is the President and Chief Executive Officer of the Company and Jerome J. Holz is Chairman of the Board of Directors. Messrs. Falbo and Holz do not participate in the Compensation Committee's discussions regarding the determination of their respective salaries or bonus awards. Mr. Payne is a partner in the law firm of Foley & Lardner, Milwaukee, Wisconsin, which has served as legal counsel to the Company since February 1998.

Performance Graph. The following graph shows the cumulative total return on the Company's Common Stock compared to the returns of the Nasdaq Stock Market Index for U.S. Companies and the Nasdaq Bank Stock Index. The values in the graph show the relative performance of a $100 investment made on December 31, 1993 in the Company's Common Stock and in each of the indices. The total return information presented in the graph assumes the reinvestment of dividends.

[Graph depicting the performance returns of the Common Stock to returns of the Nasdaq Stock Market and the Nasdaq Bank Stock Index for the periods ended December 31, 1993-1997 using the following information.]

	1993	1994	1995	1996	1997	1998
Nasdaq Stock Market	$100	$97.75	$136.26	$170.02	$208.58	$293.21
Nasdaq Bank Index	$100	$116.93	$143.00	$203.76	$334.46	$236.73
State Financial Services Corporation	$100	$99.64	$148.38	$195.91	$328.02	$324.90

Security Ownership of Management and Certain Beneficial Owners

Directors and Executive Officers. The following table sets forth, as of March 19, 1999, for the director-nominees, directors continuing in office, the Named Executive Officers (see "Compensation of Executive Officers"), and all directors and executive officers as a group, the number of shares of Common Stock, stock options, and shares of restricted stock beneficially owned and the percentage of such shares to the total number of shares outstanding. Except as indicated in the footnotes, all of the persons listed below have sole voting and investment power over the shares of Common Stock identified as beneficially owned.

<TABLE>
<CAPTION>

Name	Directly or Indirectly (1)	Subject to Stock Options (2)	Re-stricted Stock (3)	Total	Percent of Shares Outstanding (4)
<S>	<C>	<C>	<C>	<C>	<C>
Jerome J. Holz (5)	677,775	-0-	-0-	677,775	6.7%
Thomas S. Rakow (6)	75,236	32,032	-0-	107,268	1.1
Richard A. Horn (12)	71,417	6,220	-0-	77,637	*
Michael J. Falbo (7)	68,220	3,370	-0-	71,590	*
Barbara E. Holz-Weis (8,12)	59,593	6,531	-0-	66,124	*
David M. Stamm (12)	18,026	4,769	-0-	22,795	*
John B. Beckwith (9)	17,879	-0-	-0-	17,879	*
Philip F. Hudson (10)	17,459	-0-	-0-	17,459	*
Michael A. Reindl (11)	15,366	-0-	-0-	15,366	*
Ulice Payne, Jr. (12)	-0-	-0-	-0-	-0-	*
All Directors and Executive Officers as a group (15 persons) including the above-named individuals (12)	1,478,053	53,940	691	1,532,684	15.1%

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* Indicates less than 1%

(1) Includes shares owned directly by each individual and the group, as well as shares owned indirectly (for example as trustee of a trust) and it also includes, for those individuals who were Participants in the ESOP and the Company's 401(k) Plan, that number of shares of Common Stock which were allocated to such individual's ESOP and 401(k) Plan account as of March 19, 1999, that such individual has voting rights under the provisions of the ESOP and the 401(k).

(2) Shares subject to stock options which are currently exercisable or exercisable within 60 days of March 19, 1999.

(3) Held by the Secretary of SFSC on behalf of the above-named individuals as participants in the 1998 Plan.

<CAPTION>

(4) Assumes, for each individual owning options and for the group, the exercise of that number of options which are currently exercisable or which will become exercisable within 60 days of March 19, 1999.

(5) Mr. Holz owns 642,285 shares in his own name. Ownership of 24,345 shares are held by a trust established by Mr. Holz under which Mr. Holz's grandchildren are the beneficiaries. This total also includes 11,145 shares allocated to Mr. Holz under the ESOP.

(6) Mr. Rakow owns 9,907 shares in his own name, and his spouse owns 17,277 shares in her own name. Ownership of 13,814 shares is held by a trust established by Mr. Rakow as trustee for the Susan R. Rakow Grandchild Trust. Rakow Enterprises, Inc., a corporation controlled by Mr. Rakow, owns 11,425 shares, and 16,726 shares are held for the benefit of Mr. Rakow by the 401(k) Plan established by this corporation. This total also includes 6,087 shares owned by the IHC Group Foundation. Mr. Rakow is a Trustee of this Foundation and may be deemed to have beneficial ownership of these shares since he may exercise "voting" and "investment power" over these shares in his capacity as a Trustee. Mr. Rakow disclaims beneficial ownership of these 6,087 shares. The shares subject to options reported for Mr. Rakow represent the amount of options awarded to Mr. Rakow under the former Home Bancorp of Elgin's Stock Option Plan adjusted for the 0.914 exchange ratio used in the merger between the Company and Home.

(7) Mr. Falbo owns 53,651 shares in his own name, his spouse owns 518 shares in her own name, and his two children own 412 shares in their own names. The total also includes 13,639 shares allocated to Mr. Falbo under the ESOP.

(8) Mrs. Holz-Weis owns 58,902 shares in her own name, her spouse owns 57 shares in his own name, and Mrs. Holz-Weis owns 634 shares in her name for the benefit of her two children.

(9) Mr. Beckwith owns 11,782 shares in his own name and his spouse owns 51 in her own name. The total also includes 6,046 shares allocated to Mr. Beckwith under the ESOP.

(10) Mr. Hudson owns 9,808 shares in his own name and his spouse owns 1,796 shares in her own name. The total also includes 5,855 shares allocated to Mr. Hudson under the ESOP.

(11) Mr. Reindl owns 7,342 shares in his own name and his spouse owns 2,780 shares in her own name. The total also included 5,025 shares allocated to Mr. Reindl under the ESOP and 219 shares allocated to Mr. Reindl under the 401(k).

(12) Messrs. Horn, Payne, Stamm, and Holz-Weis are members of the Administrative Board of the ESOP ("ESOP Board"). As of March 19, 1999, 717,282 shares were held for the ESOP by the independent ESOP trustee, which included 499,703 shares from the ESOP of the former Home Bancorp of Elgin, Inc. At March 19, 1999, 271,586 shares had been allocated to ESOP participants' accounts and 445,696 shares remained unallocated. The ESOP provides that the independent ESOP trustee must vote shares allocated to a participant's account in accordance with the direction of the participant. The ESOP Board directs voting by the independent Trustee, and may also direct the disposition of unallocated shares. The ESOP Board does not have the power to vote or direct the vote, or to dispose of or direct the disposition of, shares which have been allocated to a participant's account. To avoid duplication, the individual totals reported in the above table for Messrs. Horn, Payne, and Stamm, and Mrs. Holz-Weis do not reflect the 445,696 unallocated shares of which they are deemed to share beneficial ownership as members of the ESOP Board; however, the total for all directors and executive officers as a group does include the 445,696 unallocated shares. The unallocated shares include 362,865 unallocated shares from the ESOP of the former Home Bancorp of Elgin, Inc.

</TABLE>

Beneficial Owners. The only person known to SFSC to beneficially own more than 5% of the outstanding shares of Common Stock as of March 19, 1999, is the following:

Name and Business Address	Number of Shares	Percent of Class

Jerome J. Holz (1) 10708 West Janesville Road Hales Corners, WI 53130	677,775	6.7%

(1) Mr. Holz owns 642,285 shares in his own name. Ownership of 24,345 shares are held by a trust established by Mr. Holz under which Mr. Holz's grandchildren are the beneficiaries. This total also includes 11,145 shares allocated to Mr. Holz under the ESOP.

Certain Transactions and Other Relationships with Management and Principal Shareholders

Indebtedness of Management. Some of the executive officers and directors of SFSC are, and have been during the preceding three fiscal years, customers of SFB, and some of the officers and directors of SFB are direct or indirect owners of 10% or more of corporations which are, or have been in the past, customers of SFB. As such customers, they have had transactions in the ordinary course of business (including interest rates and collateral on loans) as those prevailing at the time for comparable transactions with nonaffiliated persons. In the opinion of management of SFSC, none of the transactions involved more than the normal risk of collectability or presented any other unfavorable features. At December 31, 1998, SFB had $8,868,000 in loans outstanding to the directors and executive officers of SFSC, which amount represented 23% of total shareholders' equity at that date. A substantial portion of these outstanding loans were commercial loans from SFB to Holz Motors, Inc., which is owned by Jerome J. Holz, who is Chairman of the Board and Vice President of SFSC, and Holz Motors' affiliated entities; to Horn Bros., Inc., of which Richard A. Horn, a director of SFSC, is President; and to George Webb Corporation, of which David M. Stamm, a director of SFSC, is President.

Edgewood Plaza. SFB leases approximately 4,100 square feet of floor space in Edgewood Plaza, an office building located at 4811 South 76th Street, Greenfield, Wisconsin, pursuant to the terms of a lease agreement dated December 20, 1982, and amended June 14, 1993, between SFB and Edgewood Plaza Joint Venture. Edgewood Plaza Joint Venture is a Wisconsin general partnership that includes as partners Jerome J. Holz and Richard A. Horn who are directors of SFSC. The term of the lease will end December

27, 2007. The rent includes a base rent of approximately $108,000 per year, plus additional rent equal to increases in operating expenses over those incurred during the base year of 1983.

Other Relationships. Ulice Payne, Jr., a director of the Company, is an attorney with and partner of the law firm of Foley & Lardner which serves as legal counsel to the Company in a variety of corporate and employee benefits matters. In connection with such representation of the Company, Foley & Lardner received fees of $252,727 for the year ended December 31, 1998.

PROPOSAL NO. 2. OTHER MATTERS

The matters referred to in the foregoing Notice of Meeting and Proxy Statement are, as far as the Board of Directors knows, the only matters which will be presented for consideration at the Meeting. If any other matters properly come before the Meeting, the Proxyholders named in the accompanying Proxy will vote on them in accordance with their best judgement exercising the authority conferred thereby.

MISCELLANEOUS

Independent Auditors. Ernst & Young LLP acted as independent auditors for the Company in the fiscal year ended December 31, 1998 and it is anticipated that such firm will be similarly appointed to act for the fiscal year ending December 31, 1999. A representative of Ernst & Young LLP is expected to be at the Meeting and will have the opportunity to make a statement if he so desires. Such representative is also expected to be available to respond to appropriate questions.

Section 16(a) Beneficial Ownership Reporting Compliance. Under Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding greater than 10% of the Company's outstanding Common Stock are required to report to the Securities and Exchange Commission their initial ownership of the Common Stock (including stock options) and subsequent changes thereto. Specific due dates have been established for the filing of these reports with the Securities and Exchange Commission. The Company is required to disclose in this Proxy Statement any failure in 1998 to file such reports by the specific due dates. Based solely on its review of the copies of such forms received by it, or written representations from certain persons that no such forms were required for those persons, the Company believes that during the year ended December 31, 1998, its officers, directors, and greater than 10% shareholders complied with the filing requirements of Section 16 (a) of the Exchange Act.

By Order of the Board of Directors

/s/ Michael J. Falbo
MICHAEL J. FALBO,
President and Chief Executive Officer

March 26, 1999

REVOCABLE PROXY STATE FINANCIAL SERVICES CORPORATION COMMON STOCK
ANNUAL MEETING OF SHAREHOLDERS
MAY 5, 1999

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTOR OF STATE FINANCIAL SERVICES CORPORATION FOR USE AT THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 5, 1999, AND AT ANY ADJOURNMENT THEREOF.

The undersigned having received the Notice of Annual Meeting and the Proxy Statement dated March 26, 1999 (the "Proxy Statement"), relating to the Annual Meeting of the Shareholders of State Financial Services Corporation (the "Company"), hereby appoints Michael J. Falbo, Richard A. Horn, and Ulice Payne, Jr., and each of them (hereinafter "Proxyholders"), as Proxy with power of substitution (to act jointly or if only one acted then by that act), hereby revoking any previous proxies, to vote on behalf of the undersigned all of the shares of Common Stock of the company held of record by the undersigned as of March 19, 1999 at the Annual Meeting of Shareholders of the Company to be held on May 5, 1999, or at any adjournment or postponement thereof, in accordance with the following instructions:

THE SHARES REPRESENTED BY THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED BY THE UNDERSIGNED SHAREHOLDER, IF NO DIRECTION IS INDICATED. THIS PROXY WILL BE VOTED IN FAVOR OF THE THREE DIRECTOR NOMINEES AND UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE DISCRETION OF THE PROXYHOLDERS APPOINTED HEREIN. THIS PROXY MAY BE REVOKED AT ANY TIME BY FILING WITH THE SECRETARY OF THE COMPANY A WRITTEN NOTICE OF REVOCATION, BY DELIVERING TO THE COMPANY A DULY EXECUTED PROXY BEARING A LATER DATE, OR BY ATTENDING THE ANNUAL MEETING AND VOTING IN PERSON.

* DETACH BELOW AND RETURN USING THE ENVELOPE PROVIDED *

STATE FINANCIAL SERVICES CORPORATION ANNUAL MEETING
May 5, 1999

The Board of Directors recommends a vote for the following proposals

1. ELECTION OF DIRECTORS term expiring at the 2002 annual meeting	1 - Jerome J. Holz 2 - Thomas S. Rakow 3 - David M. Stamm

|_|	FOR all nominees listed to the left (except as specified below).	|_|	WITHHOLD AUTHORITY to vote for all nominees listed to the left.

(Instructions: To withhold authority to vote for any individual nominee, write the number(s) of the nominee(s) in the box provided to the right.)

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2. In their discretion, the Proxyholders are authorized to vote upon such other business as may properly come before the meeting.

Date ___________

NO. OF SHARES

Check appropriate box
Indicate change below: |_| Name Change? |_|
Address change?

Signature(s) in Box
Please sign exactly as name appears hereon. If signed as attorney, executor, personal representative, administrator, trustee or guardian, please give full title as such. If shares are held in two or more names, all persons so named must sign. A proxy on behalf of a corporation should be signed in its name by a duly authorized officer.