

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

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 0-28312

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Exact name of registrant as specified in its charter)

<u>Texas</u> (State or other jurisdiction of incorporation or organization)	<u>71-0785261</u> (I.R.S. Employer Identification Number)
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<u>1401 Highway 62-65 North</u> <u>Harrison, Arkansas</u> (Address of principal executive office)	<u>72601</u> (Zip Code)
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(870) 741-7641
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of October 31, 2003, there were issued and outstanding 2,663,943 shares of the Registrant's Common Stock, par value \$.01 per share.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

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FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	\$ 73,449	\$ 44,493
Investment securities held to maturity	89,473	114,471
Federal Home Loan Bank stock	5,153	5,064
Loans receivable, net	490,828	483,468
Accrued interest receivable	3,918	4,380
Real estate acquired in settlement of loans, net	924	320
Office properties and equipment, net	14,492	10,690
Prepaid expenses and other assets	<u>17,573</u>	<u>17,010</u>
TOTAL ASSETS	<u>\$695,810</u>	<u>\$679,896</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	\$572,897	\$568,762
Federal Home Loan Bank advances	43,522	38,610
Advance payments by borrowers for taxes and insurance	513	760
Other liabilities	<u>5,319</u>	<u>2,498</u>
Total liabilities	<u>\$622,251</u>	<u>\$610,630</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 20,000,000 shares authorized, 5,153,751 shares issued, 2,663,943 and 2,687,359 shares outstanding at September 30, 2003 and December 31, 2002, respectively	52	52
Additional paid-in capital	52,688	52,040
Employee stock benefit plans	(1,136)	(1,551)
Retained earnings-substantially restricted	<u>71,452</u>	<u>67,043</u>
	123,056	117,584
Treasury stock, at cost, 2,489,808 and 2,466,392 shares at September 30, 2003 and December 31, 2002, respectively	<u>(49,497)</u>	<u>(48,318)</u>
Total stockholders' equity	<u>73,559</u>	<u>69,266</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$695,810</u>	<u>\$679,896</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
INTEREST INCOME:				
Loans receivable	\$ 8,450	\$ 9,267	\$ 25,842	\$ 27,756
Investment securities:				
Taxable	702	1,571	2,579	4,771
Nontaxable	143	72	362	212
Other	180	160	498	676
Total interest income	<u>9,475</u>	<u>11,070</u>	<u>29,281</u>	<u>33,415</u>
INTEREST EXPENSE:				
Deposits	3,459	4,679	11,247	15,065
Other borrowings	<u>340</u>	<u>443</u>	<u>1,058</u>	<u>1,810</u>
Total interest expense	<u>3,799</u>	<u>5,122</u>	<u>12,305</u>	<u>16,875</u>
NET INTEREST INCOME	5,676	5,948	16,976	16,540
PROVISION FOR LOAN LOSSES	<u>204</u>	<u>247</u>	<u>619</u>	<u>983</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>5,472</u>	<u>5,701</u>	<u>16,357</u>	<u>15,557</u>
NONINTEREST INCOME:				
Deposit fee income	667	611	1,869	1,747
Earnings on life insurance policies	211	224	637	662
Gain on sale of loans	600	181	1,512	555
Appreciation of contributed assets	--	--	414	--
Other	<u>383</u>	<u>307</u>	<u>1,117</u>	<u>906</u>
Total noninterest income	<u>1,861</u>	<u>1,323</u>	<u>5,549</u>	<u>3,870</u>
NONINTEREST EXPENSES:				
Salaries and employee benefits	2,639	2,142	7,642	6,329
Net occupancy expense	484	337	1,371	945
Data processing	433	322	1,225	978
Professional fees	67	102	261	279
Advertising and public relations	170	130	513	373
Postage and supplies	165	141	468	392
Contributions	4	41	523	113
Other	<u>585</u>	<u>402</u>	<u>1,571</u>	<u>1,194</u>
Total noninterest expenses	<u>4,547</u>	<u>3,617</u>	<u>13,574</u>	<u>10,603</u>
INCOME BEFORE INCOME TAXES	2,786	3,407	8,332	8,824
INCOME TAX PROVISION	<u>914</u>	<u>1,183</u>	<u>2,589</u>	<u>3,010</u>
NET INCOME	<u>\$1,872</u>	<u>\$2,224</u>	<u>\$5,743</u>	<u>\$5,814</u>
EARNINGS PER SHARE:				
Basic	<u>\$ 0.73</u>	<u>\$ 0.84</u>	<u>\$ 2.26</u>	<u>\$ 2.11</u>
Diluted	<u>\$ 0.69</u>	<u>\$ 0.81</u>	<u>\$ 2.15</u>	<u>\$ 2.03</u>
Cash Dividends Declared	<u>\$ 0.18</u>	<u>\$ 0.14</u>	<u>\$ 0.50</u>	<u>\$ 0.38</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(In thousands, except share data)

(Unaudited)

	Issued Common Stock		Additional Paid-In Capital	Employee Stock Benefit Plans	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2002	5,153,751	\$52	\$52,040	\$(1,551)	\$67,043	2,466,392	\$(48,318)	\$69,266
Net income					5,743			5,743
Release of ESOP shares			609	312				921
Tax effect of stock compensation plan			28					28
Treasury shares reissued due to exercise of stock options			(24)			(55,284)	1,089	1,065
Purchase of treasury stock, at cost						83,700	(2,367)	(2,367)
MRP shares			35	103		(5,000)	99	237
Dividends paid					(1,334)			(1,334)
Balance, September 30, 2003	<u>5,153,751</u>	<u>\$ 52</u>	<u>\$52,688</u>	<u>\$(1,136)</u>	<u>\$71,452</u>	<u>2,489,808</u>	<u>\$(49,497)</u>	<u>\$73,559</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2003	2002
OPERATING ACTIVITIES:		
Net income	\$5,743	\$5,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	619	983
Provision for real estate losses	34	16
Deferred tax (benefit) provision	(29)	1
Federal Home Loan Bank stock dividends	(89)	(111)
Loss on disposition of office properties and equipment	90	--
Loss (gain) on sale of repossessed assets, net	5	(4)
Originations of loans held for sale	(107,100)	(41,710)
Proceeds from sales of loans	113,441	43,027
Gain on sale of loans originated to sell	(1,512)	(555)
Depreciation	842	578
Accretion of deferred loan fees, net	(350)	(464)
Release of ESOP shares	921	757
MRP compensation expense	38	--
Bank owned life insurance earnings	(637)	(662)
Changes in operating assets and liabilities:		
Accrued interest receivable	462	(152)
Prepaid expenses and other assets	79	(156)
Other liabilities	<u>77</u>	<u>(454)</u>
Net cash provided by operating activities	<u>12,634</u>	<u>6,908</u>
INVESTING ACTIVITIES:		
Purchases of investment securities held to maturity	(245,963)	(93,057)
Proceeds from maturities/calls of investment securities held to maturity	273,961	87,585
Loan originations, net of repayments	(13,705)	(12,789)
Proceeds from sales of repossessed assets	599	650
Proceeds from sales of office properties and equipment	38	--
Purchases of office properties and equipment	<u>(4,772)</u>	<u>(2,119)</u>
Net cash provided by (used in) investing activities	<u>10,158</u>	<u>(19,730)</u>

(Continued)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	<u>Nine Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
FINANCING ACTIVITIES:		
Net increase in deposits	4,135	13,305
Advances from FHLB	20,000	14,000
Repayment of advances from FHLB	(15,088)	(30,020)
Net decrease in advance payments		
by borrowers for taxes & insurance	(247)	(266)
Purchase of treasury stock	(2,367)	(8,411)
Reissued treasury stock	1,065	277
Dividends paid	<u>(1,334)</u>	<u>(1,094)</u>
Net cash provided by (used in) financing activities	<u>6,164</u>	<u>(12,209)</u>
Net increase (decrease) in cash and cash equivalents	28,956	(25,031)
 CASH AND CASH EQUIVALENTS:		
Beginning of period	<u>44,493</u>	<u>72,311</u>
End of period	<u>\$73,449</u>	<u>\$47,280</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	<u>\$ 12,379</u>	<u>\$17,203</u>
Income taxes	<u>\$ 2,489</u>	<u>\$ 2,936</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Real estate and other assets acquired in settlement of loans	<u>\$ 1,714</u>	<u>\$ 756</u>
Loans to facilitate sales of real estate owned	<u>\$ 456</u>	<u>\$ 272</u>
Investment securities traded, recorded in investments not yet settled in cash	<u>\$ 3,000</u>	<u>\$ 1,970</u>

See notes to unaudited consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation and Principles of Consolidation

First Federal Bancshares of Arkansas, Inc. (the "Corporation") is a unitary holding company which owns all of the stock of First Federal Bank of Arkansas, FA (the "Bank"). The Bank provides a broad line of financial products to individuals and small- to medium-sized businesses. The consolidated financial statements also include the accounts of the Bank's wholly-owned subsidiary, First Harrison Service Corporation ("FHSC"), which is inactive.

The accompanying unaudited consolidated financial statements of the Corporation have been prepared in accordance with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The accompanying unaudited consolidated financial statements include the accounts of the Corporation and the Bank. All material intercompany transactions have been eliminated in consolidation.

The results of operations for the nine months ended September 30, 2003, are not necessarily indicative of the results to be expected for the year ending December 31, 2003. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2002, contained in the Corporation's 2002 Annual Report to Stockholders.

Certain amounts in the September 30, 2002, unaudited consolidated financial statements have been reclassified to conform to the classifications adopted for reporting in 2003.

Note 2 - Recently Issued Accounting Standards

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123* ("SFAS 148"). SFAS 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition provisions are effective for fiscal years ending after December 15, 2002. The provisions of the statement related to interim disclosures are effective for interim periods beginning after December 31, 2002. The Corporation has adopted the disclosure provisions of SFAS 148 beginning in the quarter ended March 31, 2003, and has included the required disclosures in Note 7 to the unaudited consolidated financial statements.

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45") elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material effect on the financial statements of the Corporation.

In April 2003, the FASB issued SFAS No. 149, *Amendments of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 149 requires that contracts with comparable characteristics be accounted for similarly. In particular, SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of Statement 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN 45, and (4) amends certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The adoption of SFAS 149 did not have a material effect on the financial statements of the Corporation.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, with certain exceptions. The adoption of SFAS 150 did not have a material effect on the financial statements of the Corporation.

Note 3 - Earnings per Share

The weighted average number of common shares used to calculate earnings per share for the periods ended September 30, 2003 and 2002 were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Basic weighted - average shares	2,552,917	2,635,219	2,546,581	2,756,135
Effect of dilutive securities	<u>153,486</u>	<u>110,849</u>	<u>128,019</u>	<u>101,569</u>
Diluted weighted - average shares	<u>2,706,403</u>	<u>2,746,068</u>	<u>2,674,600</u>	<u>2,857,704</u>

Note 4 - Declaration of Dividends

At their meeting on August 25, 2003, the Board of Directors declared an \$0.18 (eighteen cent) per share cash dividend on the common stock of the Corporation. The cash dividend was paid on September 24, 2003 to the stockholders of record at the close of business on September 9, 2003.

Note 5 - Investment Securities

Investment securities consisted of the following (in thousands):

	September 30, 2003	
	Amortized Cost	Fair Value
Held-to-Maturity		
Municipal securities	\$ 12,938	\$ 13,175
U. S. Government and Agency obligations	56,535	56,599
Certificates of deposit	<u>20,000</u>	<u>20,000</u>
	<u>\$89,473</u>	<u>\$89,774</u>

Note 6 - Loans Receivable

Loans receivable consisted of the following (in thousands):

	September 30, 2003	December 31, 2002
First mortgage loans:		
One- to four- family residences	\$257,986	\$289,106
Commercial	73,185	64,888
Multifamily	10,479	5,821
Other properties	1,940	1,735
Construction	74,044	49,144
Less:		
Unearned discounts	(140)	(178)
Undisbursed loan funds	(29,522)	(20,618)
Deferred loan fees, net	<u>(878)</u>	<u>(1,414)</u>
Total first mortgage loans	387,094	388,484
Consumer and other loans:		
Commercial	32,301	28,213
Automobile	22,751	22,570
Consumer	9,654	7,741
Home equity and second mortgage	33,971	31,670
Savings	2,328	2,158
Other	4,216	3,907
Deferred loan costs, net	<u>254</u>	<u>254</u>
Total consumer and other loans	<u>105,475</u>	<u>96,513</u>
Allowance for loan losses	<u>(1,741)</u>	<u>(1,529)</u>
Loans receivable, net	<u>\$490,828</u>	<u>\$483,468</u>

Nonaccrual loans at September 30, 2003 were \$4.5 million. All loans 90 days or more past due and certain restructured loans are recorded as nonaccrual.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Balance at beginning of period	\$1,717	\$1,458	\$1,529	\$923
Provisions for estimated losses	204	247	619	983
Recoveries	13	25	54	63
Other	--	--	--	35
Losses charged off	<u>(193)</u>	<u>(648)</u>	<u>(461)</u>	<u>(922)</u>
Balance at end of period	<u>\$1,741</u>	<u>\$1,082</u>	<u>\$1,741</u>	<u>\$1,082</u>

Losses charged off in the three months ended September 30, 2003 decreased \$455,000 from \$648,000 for the three months ended September 30, 2002, to \$193,000 for the same period in 2003. Losses charged off in the nine months ended September 30, 2003 decreased \$461,000 from \$922,000 for the nine months ended September 30, 2002 to \$461,000 for the same period in 2003. The decrease in the level of charge-offs for the three and nine month periods was primarily the result of a \$450,000 charge-off on a single commercial real estate loan in 2002.

Note 7 – Stock Option Plan

At September 30, 2003, the Corporation had one stock option plan in effect covering key employees and directors. The plan is more fully described in the Notes to Consolidated Financial Statements included in the Corporation's 2002 Annual Report to Stockholders. The Corporation accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee or director compensation cost is recognized in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of FASB Statement 123, *Accounting for Stock-Based Compensation*, to stock-based employee and director compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income (in thousands):				
As reported	\$1,872	\$2,224	\$5,743	\$5,814
Proforma	1,865	2,217	5,727	5,791
Earnings per share:				
Basic, as reported	\$0.73	\$0.84	\$2.26	\$2.11
Basic, proforma	0.73	0.84	2.25	2.10
Diluted, as reported	0.69	0.81	2.15	2.03
Diluted, proforma	0.69	0.81	2.14	2.03

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

Critical Accounting Policies

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, the methodology for the determination of our allowance for loan losses, due to the judgments, estimates and assumptions inherent in that policy, is critical to preparation of our financial statements. This policy and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussion and Analysis and in the notes to the unaudited financial statements included herein. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our financial statements to this critical accounting policy, the use of other judgments, estimates and assumptions could result in material differences in our financial condition or results of operations.

General. At September 30, 2003, the Corporation's assets amounted to \$695.8 million as compared to \$679.9 million at December 31, 2002. The \$15.9 million or 2.3% increase was primarily due to an increase of \$29.0 million or 65.1% in cash and cash equivalents, an increase of \$7.4 million or 1.5% in net loans receivable, and an increase of \$3.8 million or 35.6% in office properties and equipment. The increase in office properties and equipment was primarily due to the new corporate headquarters building and furnishings in north Harrison, Arkansas. The building was under construction at December 31, 2002 and was completed in June 2003. Such increases were partially offset by a \$25.0 million or 21.8% decrease in investment securities held to maturity. The funds available from the proceeds of matured or called investment securities held to maturity and the increase in deposits and FHLB advances were temporarily invested in cash and cash equivalents and used to fund loan growth. Liabilities increased \$11.6 million or 1.9% to \$622.2 million at September 30, 2003 compared to \$610.6 million at December 31, 2002. The increase in liabilities was primarily due to an increase of \$4.1 million or 0.7% in deposits and an increase of \$4.9 million or 12.7% in advances from the Federal Home Loan Bank of Dallas ("FHLB of Dallas"). Stockholders' equity amounted to \$73.6 million or 10.6% of total assets at September 30, 2003 compared to \$69.3 million or 10.2% of total assets at December 31, 2002.

Loans Receivable. Net loans receivable increased by \$7.4 million, or 1.5%, to \$490.8 million at September 30, 2003 from \$483.5 million at December 31, 2002. The increase in net loans receivable was comprised mainly of increases in commercial real estate loans of \$8.3 million, multifamily real estate loans of \$4.7 million, construction loans, net of undisbursed funds, of \$16.0 million, consumer loans of \$4.9 million, and commercial loans of \$4.1 million. Such increases were partially offset by a decrease in one- to four-family residential loans of \$31.1 million. In recent years, the Bank has placed an increased emphasis on commercial real estate lending, construction lending, commercial lending and consumer lending to diversify its loan portfolio, increase the average yield on its loan portfolio, expand its operations and provide greater opportunities to cross-sell its products. Such lending generally carries a higher degree of risk of uncollectibility.

Loan originations for the nine month period ended September 30, 2003 consisted of \$164.2 million in one- to four- family residential loans, \$103.6 million of which were originated for sale in the secondary market, \$6.0 million in multifamily residential loans, \$30.3 million in commercial real estate loans, \$17.4 million in commercial loans, \$66.5 million in construction loans and \$43.3 million in consumer installment loans, of which \$19.3 million consisted of home equity loans and \$12.3 million consisted of automobile loans. Of the \$66.5 million in construction loan originations, \$60.5 million was advanced for residential construction and \$6.0 million was advanced for non-residential construction.

Asset Quality. The following table sets forth the amounts and categories of the Bank's nonperforming assets at the dates indicated.

	September 30, 2003	December 31, 2002
	(Dollars in Thousands)	
Nonaccrual loans:		
One- to four-family residential	\$2,763	\$2,184
Multi-family residential	--	--
Construction loans	--	--
Commercial real estate	592	124
Commercial loans	663	245
Consumer loans	<u>511</u>	<u>175</u>
Total nonaccrual loans	<u>4,529</u>	<u>2,728</u>
Restructured loans	3,845	4,219
Reposessed assets	46	41
Real estate owned	<u>924</u>	<u>320</u>
Nonperforming assets	<u>\$9,344</u>	<u>\$7,308</u>
Total nonaccrual and restructured loans as a percentage of total loans receivable	<u>1.60%</u>	<u>1.37%</u>
Total nonperforming assets as a percentage of total assets	<u>1.34%</u>	<u>1.07%</u>

The increase in nonaccrual loans is attributable to two unrelated borrowers with loan balances totaling approximately \$1.8 million. The Bank does not expect to incur losses on these loans based on the estimated value of the collateral properties. As a result, no specific valuation allowance has been recorded for these loans.

Allowance for Loan Losses. The allowance for loan losses was \$1.7 million or 0.33% of total loans at September 30, 2003, compared to \$1.5 million or .30% of total loans at December 31, 2002. Nonperforming assets, consisting of nonaccrual and restructured loans and reposessed assets, amounted to

\$9.3 million or 1.34% of total assets at September 30, 2003, compared to \$7.3 million or 1.07% of total assets at December 31, 2002. The allowance for loan losses includes \$232,000 and \$625,000 in allowances allocated to specific loans as of September 30, 2003 and December 31, 2002, respectively.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as conditions change and more information becomes available.

The Bank reviews its non-homogeneous loans for impairment on a quarterly basis. The Bank considers commercial real estate, non-one- to four- family construction, multifamily, other non-residential real estate, and commercial loans to be non-homogeneous loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Homogeneous loans are those that are considered to have common characteristics that provide for evaluation on an aggregate or pool basis. The Bank considers the characteristics of (1) one- to four-family residential first mortgage loans; (2) unsecured consumer loans; and (3) collateralized consumer loans to permit consideration of the appropriateness of the allowance for losses of each group of loans on a pool basis. The primary methodology used to determine the appropriateness of the allowance for losses includes segregating certain specific, poorly performing loans based on their performance characteristics from the pools of loans as to type, grading these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, economic conditions in the primary market areas, and other factors which usually are beyond the control of the Bank.

In estimating the amount of credit losses inherent in our loan portfolio, various judgments and assumptions are made. For example, when assessing the condition of the overall economic environment, assumptions are made regarding future market conditions and their impact on the loan portfolio. In the event the local or national economy were to sustain a prolonged downturn, the loss factors applied to our portfolios may need to be revised, which may significantly impact the measurement of the allowance for loan

losses. For impaired loans that are collateral-dependent, the estimated fair value of the collateral may deviate significantly from the proceeds received when the collateral is sold.

Although we consider the allowance for loan losses of \$1.7 million adequate to cover losses inherent in our loan portfolio at September 30, 2003, no assurance can be given that we will not sustain loan losses that are significantly different from the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, would not result in a significant change in the allowance for loan losses.

Investment Securities. Investment securities, all of which were classified as held to maturity, amounted to \$89.5 million as of September 30, 2003, compared to \$114.5 million as of December 31, 2002. During the first nine months of 2003, investment securities totaling \$249.0 million were purchased and \$274.0 million matured or were called, resulting in a net decrease of \$25.0 million or 21.8%. The composition of the change in investment securities held to maturity from December 31, 2002 to September 30, 2003 was a decrease in U.S. government agency securities of \$8.9 million, a decrease in certificates of deposit of \$20.3 million, and an increase in municipal securities of \$4.2 million.

Deposits. Deposits at September 30, 2003 amounted to \$572.9 million, an increase of \$4.1 million or 0.7% from the December 31, 2002 balance of \$568.8 million. The Bank does not advertise for deposits outside of its primary market area of Northcentral and Northwest Arkansas. The Bank continued to experience a change in the mix of deposits due to the current low interest rate environment. The primary components of the change in deposits during the first nine months of 2003 were increases in money market accounts of \$27.2 million and checking accounts of \$10.6 million and a decrease in certificates of deposit of \$34.9 million.

Borrowed Funds. Borrowed funds, which consist entirely of FHLB of Dallas advances, increased by \$4.9 million or 12.7% to \$43.5 million at September 30, 2003 from \$38.6 million at December 31, 2002. The Bank is continuing to obtain advances to take advantage of the current low interest rate environment and extend the maturity of the portfolio.

Stockholders' Equity. Stockholders' equity increased \$4.3 million to \$73.6 million at September 30, 2003 from \$69.3 million at December 31, 2002. The increase in stockholders' equity was primarily due to net income of \$5.7 million resulting from continued profitable operations and the issuance of 55,284 shares of treasury stock totaling \$1.1 million as a result of the exercise of stock options. Such increase was partially offset by the purchase of 83,700 shares of treasury stock totaling \$2.4 million in connection with the Corporation's stock repurchase plan and, to a lesser extent, the payment of cash dividends aggregating \$1.3 million.

Average Balance Sheets

The following table sets forth certain information relating to the Corporation's average balance sheets and reflects the average yield on assets and average cost of liabilities for the periods indicated and the yields earned and rates paid at September 30, 2003. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented and outstanding balances at September 30, 2003. Average balances are based on daily balances during the period.

	September 30,	Three Months Ended September 30,					Nine Months Ended September 30,						
	2003	2003		2002		2003		2002		2002			
	Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
		(Dollars in Thousands)											
Interest-earning assets:													
Loans receivable(1)	6.80%	\$492,229	\$8,450	6.87%	\$486,747	\$9,267	7.62%	\$489,302	\$25,842	7.04%	\$479,655	\$27,756	7.72%
Investment securities(2)	4.33	77,684	845	4.35	111,848	1,643	5.87	94,037	2,941	4.17	109,033	4,983	6.09
Other interest-earning assets	.89	<u>78,404</u>	<u>180</u>	.92	<u>38,778</u>	<u>160</u>	1.65	<u>63,425</u>	<u>498</u>	1.05	<u>54,686</u>	<u>676</u>	1.65
Total interest-earning assets	5.89	648,317	9,475	5.85	637,373	11,070	6.95	646,764	29,281	6.04	643,374	33,415	6.92
Noninterest-earning assets		<u>47,225</u>			<u>38,337</u>			<u>44,834</u>			<u>37,818</u>		
Total assets		\$ <u>695,542</u>			\$ <u>675,710</u>			\$ <u>691,598</u>			\$ <u>681,192</u>		
Interest-bearing liabilities:													
Deposits	2.37	573,593	3,459	2.41	\$570,145	4,679	3.28	571,403	11,247	2.62	\$565,682	15,065	3.55
Other borrowings	3.04	<u>44,886</u>	<u>340</u>	3.04	<u>31,801</u>	<u>443</u>	5.57	<u>44,280</u>	<u>1,058</u>	3.19	<u>39,762</u>	<u>1,810</u>	6.07
Total interest-bearing liabilities	2.42	618,479	3,799	2.46	601,946	5,122	3.40	615,683	12,305	2.66	605,444	16,875	3.72
Noninterest-bearing liabilities		<u>3,560</u>			<u>4,165</u>			<u>3,896</u>			<u>4,661</u>		
Total liabilities		622,039			606,111			619,579			610,105		
Stockholders' equity		<u>73,503</u>			<u>69,599</u>			<u>72,019</u>			<u>71,087</u>		
Total liabilities and stockholders' equity		\$ <u>695,542</u>			\$ <u>675,710</u>			\$ <u>691,598</u>			\$ <u>681,192</u>		
Net interest income			<u>\$5,676</u>			<u>\$5,948</u>			<u>\$16,976</u>			<u>\$16,540</u>	
Net earning assets		<u>\$29,838</u>			<u>\$35,427</u>			<u>\$31,081</u>			<u>\$37,930</u>		
Interest rate spread	<u>3.47%</u>			<u>3.39%</u>			<u>3.55%</u>			<u>3.38%</u>			<u>3.20%</u>
Net interest margin				<u>3.50%</u>			<u>3.73%</u>			<u>3.50%</u>			<u>3.43%</u>
Ratio of interest-earning assets to interest-bearing liabilities				<u>104.82%</u>			<u>105.89%</u>			<u>105.05%</u>			<u>106.26%</u>

(1) Includes nonaccrual loans.

(2) Includes FHLB of Dallas stock.

Rate/Volume Analysis

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

	Three Months Ended September 30, 2003 vs. 2002				Nine Months Ended September 30, 2003 vs. 2002			
	Increase (Decrease)				Increase (Decrease)			
	Due to				Due to			
	Volume	Rate	Rate/ Volume	Total Increase (Decrease)	Volume	Rate	Rate/ Volume	Total Increase (Decrease)
(In Thousands)				(In Thousands)				
Interest income:								
Loans receivable	\$104	\$(911)	\$(10)	\$(817)	\$558	\$(2,424)	\$(48)	\$(1,914)
Investment securities.....	(502)	(426)	130	(798)	(685)	(1,573)	216	(2,042)
Other interest-earning assets.....	<u>164</u>	<u>(71)</u>	<u>(73)</u>	<u>20</u>	<u>108</u>	<u>(246)</u>	<u>(40)</u>	<u>(178)</u>
Total interest-earning assets.....	(234)	(1,408)	47	(1,595)	(19)	(4,243)	128	(4,134)
Interest expense:								
Deposits	28	(1,241)	(7)	(1,220)	152	(3,930)	(40)	(3,818)
Other borrowings.....	<u>182</u>	<u>(201)</u>	<u>(84)</u>	<u>(103)</u>	<u>206</u>	<u>(861)</u>	<u>(97)</u>	<u>(752)</u>
Total interest-bearing liabilities.....	<u>210</u>	<u>(1,442)</u>	<u>(91)</u>	<u>(1,323)</u>	<u>358</u>	<u>(4,791)</u>	<u>(137)</u>	<u>(4,570)</u>
Net change in net interest income	<u>\$(444)</u>	<u>\$ 34</u>	<u>\$138</u>	<u>\$ (272)</u>	<u>\$ (377)</u>	<u>\$ 548</u>	<u>\$ 265</u>	<u>\$ 436</u>

Results of Operations for the Three Months Ended September 30, 2003 and 2002

General. The Corporation reported net income of \$1.9 million during the three months ended September 30, 2003 compared to net income of \$2.2 million for the same period in 2002. The decrease of \$352,000 in net income in the 2003 period compared to the same period in 2002 was primarily due an increase in noninterest expense and a decrease in net interest income, which were offset by an increase in noninterest income and decreases in the provisions for loan losses and income taxes. Net interest income decreased from \$5.9 million for the three months ended September 30, 2002 to \$5.7 million for the same period in 2003. Net interest income is determined by the Corporation's interest rate spread (i.e., the difference between the yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities. The Corporation's interest rate spread and net interest margin decreased to 3.39% and 3.50%, respectively, for the 2003 three month period compared to 3.55% and 3.73%, respectively, for the 2002 three month period. The decreases in the interest rate spread and net interest margin were primarily the result of declining interest rates and an increase in the Bank's position in lower-yielding short-term investments resulting from proceeds of called bonds. The decline in interest rates resulted in a 110 basis point reduction in the yield on interest-earning assets and a 94 basis point reduction in the cost of interest-bearing liabilities from the three month period ended September 30, 2002 to the three month period ended September 30, 2003. These and other significant fluctuations in operations are discussed below.

Interest Income. Interest income amounted to \$9.5 million for the three months ended September 30, 2003 compared to \$11.1 million for the same period in 2002. The decrease of \$1.6 million or 14.4% was primarily due to decreases in the average yields earned on net loans receivable, investment securities, and other interest earning assets, primarily overnight funds, and a decrease in the average balance of investment securities. The average yield on interest earning assets decreased 110 basis points from 6.95% for the three months ended September 30, 2002 to 5.85% for the three months ended September 30, 2003, primarily as a result of the declining level of interest rates.

Interest Expense. Interest expense decreased \$1.3 million or 25.8% to \$3.8 million for the three months ended September 30, 2003 compared to \$5.1 million for the same period in 2002. Such decrease was primarily due to a decrease in the interest rates paid on deposits and FHLB of Dallas advances. The decrease in the interest rates paid on deposits was primarily the result of maturing certificates and variable interest bearing accounts being repriced to lower interest rates. The average cost of deposits decreased 87 basis points from 3.28% for the three months ended September 30, 2002 to 2.41% for the three months ended September 30, 2003, primarily as a result of the declining level of interest rates.

Provision for Loan Losses. The provision for loan losses amounted to \$204,000 for the three months ended September 30, 2003 compared to \$247,000 for the same period in 2002.

Provisions for loan losses include charges to reduce the recorded balance of loans to their estimated fair value. Such provision and the adequacy of the allowance for loan losses is evaluated quarterly by management of the Bank based on the Bank's past loan loss experience, known and inherent risks in the

portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

Noninterest Income. Noninterest income increased \$538,000 or 40.7% to \$1.9 million for the three months ended September 30, 2003 compared to \$1.3 million for the three months ended September 30, 2002. The increase in noninterest income for the three month comparable periods ended September 30 was primarily due to an increase of \$419,000 in gain on sale of mortgage loans. Gain on sale of mortgage loans increased due to increased secondary market activity compared to last year due to continued low mortgage loan interest rates. Originations of loans for sale in the secondary market amounted to \$42.1 million for the quarter ended September 30, 2003, compared to \$19.9 million for the quarter ended September 30, 2002. Proceeds from loan sales increased from \$16.0 million for the quarter ended September 30, 2002 to \$44.3 million for the quarter ended September 30, 2003.

Noninterest Expense. Noninterest expense increased \$930,000 or 25.7% between the 2002 and 2003 three month periods ended September 30. Such increase was primarily due to increases in salaries and employee benefits, net occupancy expense, data processing expense and other noninterest expenses.

The increase of \$497,000 in salaries and employee benefits was primarily composed of a \$279,000 increase in compensation expense due to an increase in personnel as well as salary and merit increases, a \$19,000 increase in related payroll taxes, a \$94,000 increase in the employee stock ownership plan expense as a result of the increase in the average stock price of the Corporation's common stock, and a \$147,000 increase in the required contribution to the multiemployer pension plan.

The \$147,000 increase in net occupancy expense was primarily due to a general increase in office properties and equipment related to the overall growth of the Bank. Depreciation expense increased \$103,000, repairs and maintenance increased \$18,000, and utilities expense increased \$16,000. New locations were opened during 2003, including the new corporate headquarters in June and the new Bentonville office in August.

Data processing expense increased \$111,000 between the three month periods ended September 30 due to growth and additional product and service offerings.

Other noninterest expense increased \$149,000, the largest component of which was an increase in fees paid to consultants of \$115,000. The increase is mainly attributable to fees paid to the overdraft program consultant resulting from increased fee income and fees paid to a consulting firm related to preparation for internal control assertion and attestation under the new requirements of the Sarbanes-Oxley Act of 2002.

Income Taxes. Income taxes amounted to \$914,000 and \$1,183,000 for the three months ended September 30, 2003 and 2002, respectively, resulting in effective tax rates of 32.8% and 34.7%, respectively. The decrease in the income tax provision was due primarily to a decrease in taxable income. The decrease in the effective tax rate resulted primarily from the tax benefit resulting from employees' exercise of stock options.

Results of Operations for the Nine Months Ended September 30, 2003 and 2002

General. The Corporation reported net income of \$5.7 million during the nine months ended September 30, 2003 compared to net income of \$5.8 million for the same period in 2002. The decrease of \$71,000 in net income in the 2003 period compared to the same period in 2002 was primarily due to an increase in noninterest expenses, which were offset by increases in net interest income and noninterest income and decreases in the provision for loan losses and income taxes. Net interest income increased \$436,000 from \$16.5 million for the nine months ended September 30, 2002 to \$17.0 million for the same period in 2003. The Corporation's interest rate spread and net interest margin increased to 3.38% and 3.50%, respectively, for the 2003 nine month period compared to 3.20% and 3.43%, respectively, for the 2002 nine month period. The increases in the interest rate spread and net interest margin were primarily the result of declining interest rates and the Bank's liability-sensitive position. The decline in interest rates resulted in a 106 basis point reduction in the cost of interest-bearing liabilities to 2.66% for nine months ended September 30, 2003 compared to 3.72% for the nine months ended September 30, 2002.

Interest Income. Interest income amounted to \$29.3 million for the nine months ended September 30, 2003 compared to \$33.4 million for the same period in 2002. The decrease of \$4.1 million was primarily due to a decrease in the average yield earned on net loans receivable, investment securities and other interest earning assets, primarily overnight funds, and a decrease in the average balance of investment securities, which were partially offset by an increase in the average balance of net loans receivable. The average yield on interest earning assets decreased 88 basis points from 6.92% for the nine months ended September 30, 2002 to 6.04% for the nine months ended September 30, 2003, primarily as a result of the declining level of interest rates.

Interest Expense. Interest expense decreased \$4.6 million or 27.1% to \$12.3 million for the nine months ended September 30, 2003 compared to \$16.9 million for the same period in 2002. Such decrease was primarily due to a decrease in the interest rates paid on deposits and FHLB of Dallas advances. The decrease in the interest rates paid on deposits was primarily the result of maturing certificates and variable interest bearing accounts being repriced to lower interest rates. The average cost of deposits decreased 93 basis points from 3.55% for the nine months ended September 30, 2002 to 2.62% for the nine months ended September 30, 2003, primarily as a result of the declining level of interest rates.

Provision for Loan Losses. Provision for loan losses amounted to \$619,000 for the nine months ended September 30, 2003 compared to \$983,000 for the same period in 2002. The decrease in the provision for loan losses was due to an estimated loss on a single commercial real estate loan of approximately \$415,000 recorded in the nine months ended September 30, 2002.

Provisions for loan losses include charges to reduce the recorded balance of loans to their estimated fair value. Such provision and the adequacy of the allowance for loan losses is evaluated quarterly by management of the Bank based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

Noninterest Income. Noninterest income increased \$1.7 million or 43.4% to \$5.5 million for the nine months ended September 30, 2003 compared to \$3.9 million for the nine months ended September 30, 2002. The increase in noninterest income for the nine month comparable periods ended September 30 was primarily due to an increase of \$957,000 in gain on sale of mortgage loans and the appreciation of contributed assets of \$414,000.

Gain on sale of mortgage loans increased due to increased secondary market activity compared to last year due to continued low mortgage loan interest rates. Originations of loans for sale in the secondary market amounted to \$41.7 million for the nine months ended September 30, 2002, compared to \$107.1 million for the nine months ended September 30, 2003. Proceeds from loan sales increased from \$43.0 million for the nine months ended September 30, 2002 to \$113.4 million for the nine months ended September 30, 2003.

The appreciation of contributed assets was recorded in connection with an adjustment of the carrying value of donated real estate to estimated fair value. A corresponding expense in the amount of \$414,000 was also recorded and is included in the balance of contributions expense. The effect of this contribution is further described below.

Noninterest Expense. Noninterest expense increased \$3.0 million or 28.0% between the 2002 and 2003 nine month periods ended September 30. Such increase was primarily due to increases in salaries and employee benefits, net occupancy expense, data processing expense, contributions expense, and other noninterest expenses.

The increase of \$1.3 million in salaries and employee benefits was primarily composed of a \$816,000 increase in compensation expense due to an increase in personnel as well as salary and merit increases, an \$80,000 increase in related payroll taxes, a \$164,000 increase in the employee stock ownership plan expense as a result of the increase in the average stock price of the Corporation's common stock, a \$38,000 increase in the Corporation's management recognition and retention plan ("MRP") compensation expense due to the awarding of 5,000 shares on April 30, 2003, and a \$255,000 increase in the required contribution to the multiemployer pension plan. At September 30, 2003, total unearned compensation related to the MRP amounted to \$96,000. This amount will be recognized ratably over the period ending April 30, 2007.

The \$426,000 increase in net occupancy expense was due in part to the purchase of furniture and accessories for the new corporate office that opened June 2, 2003. Furniture and accessories totaling \$120,000 were expensed in the nine months ended September 30, 2003. In addition, depreciation expense increased \$253,000 from the nine months ended September 30, 2002 to the same period in 2003 due to a general increase in office properties and equipment related to the overall growth of the Bank.

Data processing expense increased \$247,000 between the nine month periods ended September 30 due to growth and additional product and service offerings.

Contributions expense increased \$410,000, mainly due to the contribution of real estate discussed above, offset by a decrease of \$90,000 in other contributions. The \$523,000 balance of contributions expense for the nine months ended September 30, 2003, includes the fair value of the donated real estate of \$500,000.

Other noninterest expense increased \$377,000, the largest component of which was an increase in fees paid to consultants of \$190,000. The increase is mainly attributable to payments to the project manager for furniture and accessory acquisitions related to the new corporate office, fees paid to the overdraft program consultant resulting from increased fee income and fees paid to a consulting firm related to preparation for internal control assertion and attestation under the new requirements of the Sarbanes-Oxley Act of 2002.

Income Taxes. Income taxes amounted to \$2.6 million and \$3.0 million for the nine months ended September 30, 2003 and 2002, respectively, resulting in effective tax rates of 31.1% and 34.1%, respectively. The decrease in the income tax provision was due primarily to a decrease in taxable income. The decrease in the effective tax rate resulted primarily from the tax benefit resulting from employees' exercise of stock options.

Liquidity and Capital Resources

The Bank's liquidity, represented by cash and cash equivalents and eligible investment securities, is a product of its operating, investing and financing activities. The Bank's primary sources of funds are deposits, collections on outstanding loans, maturities and calls of investment securities and other short-term investments and funds provided from operations. While scheduled amortization and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank manages the pricing of its deposits to maintain a steady deposit balance. In addition, the Bank invests excess funds in overnight deposits and other short-term interest-earning assets which provide liquidity to meet lending requirements. The Bank has generally been able to generate enough cash through the retail deposit market, its traditional funding source, to offset the cash utilized in investing activities. As an additional source of funds, the Bank has borrowed from the FHLB of Dallas. At September 30, 2003, the Bank had outstanding advances from the FHLB of Dallas of \$43.5 million. Such advances were used in the Bank's normal operating and investing activities.

As of September 30, 2003, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2003, the Bank's tangible, core and risk-based capital ratios amounted to 9.94%, 9.94% and 16.47%, respectively, compared to applicable requirements of 1.5%, 4.0% and 8.0%, respectively.

Off-Balance Sheet Arrangements and Commitments

The Corporation, in the normal course of business, makes commitments to buy or sell assets or to incur or fund liabilities. Commitments include, but are not limited to:

- the origination, purchase or sale of loans,
- the purchase of investment securities,
- the fulfillment of commitments under letters-of-credit, extensions of credit on home equity lines of credit and construction loans, and
- the commitment to fund withdrawals of savings accounts at maturity.

At September 30, 2003, the Bank's off-balance sheet arrangements principally included lending commitments, which are described below. At September 30, 2003, the Corporation had no interests in non-consolidated special purpose entities.

At September 30, 2003, commitments included:

- total approved loan origination commitments outstanding amounting to \$16.7 million, including \$2.9 million of loans committed to sell;
- rate lock agreements with customers of \$3.9 million, all of which have been locked with an investor;
- unadvanced portion of construction loans of \$29.5 million;
- unused lines of credit of \$18.8 million;
- outstanding standby letters of credit of \$1.7 million; and
- certificates of deposit scheduled to mature in one year or less totaling \$188.5 million.

Based on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. We anticipate that we will continue to have sufficient funds, through repayments, deposits and borrowings, to meet our current commitments.

Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein have been prepared in accordance with instructions to Form 10-Q, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the Bank's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements and information relating to the Corporation that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words “anticipate,” “believe,” “estimate,” “except,” “intend,” “should” and similar expressions, or the negative thereof, as they relate to the Corporation or the Corporation’s management, are intended to identify forward-looking statements. Such statements reflect the current views of the Corporation with respect to future looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary from those described herein as anticipated, believed, estimated, expected or intended. The Corporation does not intend to update these forward-looking statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Corporation’s asset and liability management policies as well as the potential impact of interest rate changes upon the market value of the Bank’s portfolio equity, see "Management’s Discussion and Analysis of Financial Condition and Results of Operations" in the Corporation’s 2002 Annual Report to Stockholders. There has been no material change in the Corporation’s asset and liability position or the market value of the Bank’s portfolio equity since December 31, 2002.

CONTROLS AND PROCEDURES

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

Part II

Item 1. Legal Proceedings

Neither the Corporation nor the Bank is involved in any pending legal proceedings other than non-material legal proceedings occurring in the ordinary course of business.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 31.1 – Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

Exhibit 31.2 – Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

Exhibit 32.1 – Certification of Chief Executive Officer,

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

Exhibit 32.2 – Certification of Chief Financial Officer,

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

Reports on Form 8-K

On July 30, 2003, a Form 8-K was filed for the Corporation's July 30, 2003 press release that announced results of operations for the quarter ended June 30, 2003.

On September 26, 2003, a Form 8-K was filed for the Corporation's September 26, 2003 press release that announced the election of a director.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

Date: November 3, 2003

By: /s/Larry J. Brandt

Larry J. Brandt

President/CEO

Date: November 3, 2003

By: /s/Sherri R. Billings

Sherri R. Billings

EVP/CFO

EXHIBIT 31.1

PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Larry J. Brandt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Federal Bancshares of Arkansas, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 3, 2003

/s/ Larry J. Brandt

Larry J. Brandt
Chief Executive Officer

EXHIBIT 31.2

PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Sherri R. Billings, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Federal Bancshares of Arkansas, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - d) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - e) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - c) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 3, 2003

/s/ Sherri R. Billings

Sherri R. Billings
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of First Federal Bancshares of Arkansas, Inc. (the "Registrant") hereby certifies that the Registrant's Form 10-Q for the three months and nine months ended September 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/Larry J. Brandt
Larry J. Brandt
President/Chief Executive Officer

Date: November 3, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of First Federal Bancshares of Arkansas, Inc. (the "Registrant") hereby certifies that the Registrant's Form 10-Q for the three months and nine months ended September 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/Sherri R. Billings

Sherri R. Billings

EVP/Chief Financial Officer

Date: November 3, 2003