

**FIRST FEDERAL BANCSHARES
OF ARKANSAS, INC.**

2003

Annual Report

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FIRST FEDERAL
BANCSHARES
of Arkansas, Inc.

Dear Stockholder:

I am very pleased to report that 2003 was an excellent year for First Federal Bancshares of Arkansas, as evidenced by a 61% increase in our stock price. As a result of our outstanding stock performance during the year, we declared a two-for-one stock split payable on December 31, 2003. Our net income of \$7.5 million for 2003 represented the second most profitable year in our 69-year history. We further enhanced shareholder value both by increasing our dividend by 31% for the year and by continuing to repurchase our common stock. A complete analysis of our financial results is contained in the subsequent pages of this annual report.

In 2003, we had another record year of loan production by originating over \$427 million in loans. The sale of long-term, fixed-rate mortgages on the secondary market also contributed substantially to our increase in noninterest income, as well as decreasing our interest rate risk and sensitivity.

The year long building project for our new Northtown Financial Center and corporate headquarters culminated with the move into the new complex on the first weekend in June. We consolidated 130 team members from five different Harrison locations into the new facility to further improve our efficiency and effectiveness. We expanded our branch offices with the opening in July of our fourth branch office in Benton County, one of the fastest growing counties in the state.

America is still at war in Afghanistan and Iraq. Two of our team members who are Army Reservists, Captain Jeff Brandt and First Sergeant Lad Langley, are deployed in Iraq with the 489th Combat Engineer Battalion. We continue to salute all of our Armed Forces and the sacrifices they make to defend our freedoms. Our prayers are with them and their families during this time of international crisis.

We appreciate your confidence and continued support as stockholders of First Federal Bancshares of Arkansas. We are committed to our mission of “providing the best financial service, products and value” to our stockholders, customers and communities we serve. With your support and continued dedication from all our team members, we will have another great year in 2004 and be “the financial institution of choice.”

Sincerely,

Larry J. Brandt
President and Chief Executive Officer

CORPORATE PROFILE

First Federal Bancshares of Arkansas, Inc. (the "Company") was incorporated in January 1996 under Texas law for the purpose of acquiring all of the capital stock issued by First Federal Bank of Arkansas, FA ("First Federal" or the "Bank") in connection with its conversion from a federally chartered mutual savings and loan association to a federally chartered stock savings and loan association (the "Conversion"). The Conversion was consummated on May 3, 1996 and, as a result, the Company became a unitary savings and loan holding company of the Bank. The Company has no significant assets other than the shares of the Bank's common stock acquired in the Conversion, the Company's loan to the Employee Stock Ownership Plan ("ESOP") and cash. The Company has no significant liabilities.

The Bank is a federally chartered stock savings and loan association formed in 1934. First Federal conducts business from its main office and fourteen full service branch offices, all of which are located in a six county area in Northcentral and Northwest Arkansas comprised of Benton, Marion, Washington, Carroll, Baxter and Boone counties. First Federal's deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"), to the maximum extent permitted by law. The Bank is a community-oriented financial institution that offers a wide variety of deposit products to its retail customers while concentrating its lending activities on the origination of loans secured by real estate. The Bank's activities also include origination of commercial loans and consumer loans. In addition, the Bank maintains a portfolio of investment securities.

At December 31, 2003, the Company had total assets of \$690.7 million, total deposits of \$573.6 million and stockholders' equity of \$75.1 million. The Company's and the Bank's principal executive offices are located at 1401 Highway 62-65 North, Harrison, Arkansas 72601, and their telephone number is (870) 741-7641.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial and other data of the Company set forth below and on the following page is not complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Consolidated Financial Statements and related Notes, appearing elsewhere herein.

	At or For the Year Ended December 31,				
	2003	2002	2001	2000	1999
	(In Thousands, Except Per Share Data)				
Selected Financial Condition Data:					
Total assets	\$690,653	\$679,896	\$680,255	\$713,902	\$680,719
Cash and cash equivalents	56,201	44,493	72,326	11,564	9,983
Investment securities	80,379	114,471	100,878	184,310	189,263
Loans receivable, net	512,756	483,468	474,494	498,305	459,978
Allowance for loan losses	1,621	1,529	923	691	752
Deposits	573,580	568,762	555,933	540,327	507,875
Federal Home Loan Bank advances	39,562	38,610	47,844	93,359	83,972
Stockholders' equity	75,078	69,266	71,065	76,622	78,815
Selected Operating Data:					
Interest income	\$38,745	\$44,094	\$50,152	\$51,982	\$ 47,066
Interest expense	<u>15,986</u>	<u>21,633</u>	<u>31,862</u>	<u>33,243</u>	<u>27,799</u>
Net interest income	22,759	22,461	18,290	18,739	19,267
Provision for loan losses	<u>690</u>	<u>1,500</u>	<u>452</u>	<u>--</u>	<u>20</u>
Net interest income after provision for loan losses	22,069	20,961	17,838	18,739	19,247
Noninterest income	6,989	5,346	3,745	1,998	1,776
Noninterest expense	<u>18,263</u>	<u>14,524</u>	<u>13,596</u>	<u>12,398</u>	<u>11,594</u>
Income before income taxes	10,795	11,783	7,987	8,339	9,429
Provision for income taxes	<u>3,339</u>	<u>4,005</u>	<u>2,527</u>	<u>2,747</u>	<u>3,149</u>
Net income	<u>\$ 7,456</u>	<u>\$ 7,778</u>	<u>\$ 5,460</u>	<u>\$ 5,592</u>	<u>\$ 6,280</u>
Earnings per Share (1):					
Basic	\$1.46	\$1.44	\$0.88	\$0.80	\$0.78
Diluted	1.38	1.38	0.87	0.80	0.78
Cash Dividends Declared per Share (1)	\$0.34	\$0.26	\$0.22	\$0.20	\$0.16

(1) Per share amounts have been restated for the two-for-one stock split that was paid on December 31, 2003.

	At or For the Year Ended December 31,				
	2003	2002	2001	2000	1999
Selected Operating Ratios(1):					
Return on average assets	1.08%	1.14%	.79%	.80%	.97%
Return on average equity	10.25	11.01	7.36	7.21	7.84
Average equity to average assets	10.52	10.39	10.74	11.07	12.41
Interest rate spread(2)	3.40	3.30	2.35	2.29	2.59
Net interest margin(2)	3.52	3.50	2.76	2.77	3.10
Net interest income after provision for loan losses to noninterest expense	120.84	144.32	131.20	151.14	166.02
Noninterest expense to average assets	2.64	2.14	1.97	1.77	1.80
Average interest-earning assets to average interest-bearing liabilities	105.08	106.10	108.61	109.77	111.21
Operating efficiency(3)	61.39	52.23	61.70	59.79	55.15
Asset Quality Ratios(4):					
Nonaccrual and restructured loans to total loans(5)	0.67	1.37	0.64	0.32	0.28
Nonperforming assets to total assets(5)	0.66	1.07	0.53	0.27	0.78
Allowance for loan losses to nonperforming loans(5)	43.69	22.01	29.71	41.96	55.82
Allowance for loan losses to total loans	0.29	0.30	0.19	0.14	0.16
Capital Ratios(6):					
Tangible capital to adjusted total assets	10.27	9.78	9.79	10.37	11.09
Core capital to adjusted total assets	10.27	9.78	9.79	10.37	11.09
Risk-based capital to risk-weighted assets	16.25	17.03	17.29	19.69	21.52
Other Data:					
Dividend payout ratio(7)	24.32	18.91	26.33	26.39	21.66
Full service offices at end of period	15	14	14	14	13

- (1) Ratios are based on average daily balances.
- (2) Interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities, and net interest margin represents net interest income as a percent of average interest-earning assets.
- (3) Noninterest expense to net interest income plus noninterest income.
- (4) Asset quality ratios are end of period ratios.
- (5) Nonperforming assets consist of nonperforming loans and real estate owned ("REO"). Nonperforming loans consist of nonaccrual loans and restructured loans while REO consists of real estate acquired in settlement of loans.
- (6) Capital ratios are end of period ratios for First Federal Bank.
- (7) Dividend payout ratio is the total dividends declared divided by net income.

SELECTED QUARTERLY OPERATING RESULTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

YEAR ENDED DECEMBER 31, 2003	<u>FOURTH QUARTER</u>	<u>THIRD QUARTER</u>	<u>SECOND QUARTER</u>	<u>FIRST QUARTER</u>
Interest income	\$9,463	\$9,475	\$9,716	\$10,091
Interest expense	<u>3,681</u>	<u>3,799</u>	<u>4,118</u>	<u>4,388</u>
Net interest income	5,782	5,676	5,598	5,703
Provision for loan losses	<u>71</u>	<u>204</u>	<u>136</u>	<u>279</u>
Net interest income after provision for loan losses	5,711	5,472	5,462	5,424
Noninterest income	1,441	1,861	2,145	1,542
Noninterest expense	<u>4,689</u>	<u>4,547</u>	<u>4,994</u>	<u>4,033</u>
Income before income taxes	2,463	2,786	2,613	2,933
Provision for income taxes	<u>750</u>	<u>914</u>	<u>726</u>	<u>949</u>
Net income	<u>\$ 1,713</u>	<u>\$ 1,872</u>	<u>\$ 1,887</u>	<u>\$ 1,984</u>
Earnings per share(1):				
Basic	\$0.33	\$0.37	\$0.37	\$0.39
Diluted	\$0.31	\$0.35	\$0.35	\$0.38
Selected Ratios (Annualized):				
Net interest margin	3.59%	3.50%	3.45%	3.55%
Return on average assets	0.99	1.08	1.09	1.16
Return on average equity	9.16	10.19	10.48	11.24

YEAR ENDED DECEMBER 31, 2002	<u>FOURTH QUARTER</u>	<u>THIRD QUARTER</u>	<u>SECOND QUARTER</u>	<u>FIRST QUARTER</u>
Interest income	\$10,678	\$11,070	\$11,142	\$11,204
Interest expense	<u>4,757</u>	<u>5,122</u>	<u>5,708</u>	<u>6,046</u>
Net interest income	5,921	5,948	5,434	5,158
Provision for loan losses	<u>518</u>	<u>247</u>	<u>373</u>	<u>362</u>
Net interest income after provision for loan losses	5,403	5,701	5,061	4,796
Noninterest income	1,477	1,323	1,259	1,287
Noninterest expense	<u>3,920</u>	<u>3,617</u>	<u>3,570</u>	<u>3,417</u>
Income before income taxes	2,960	3,407	2,750	2,666
Provision for income taxes	<u>996</u>	<u>1,183</u>	<u>916</u>	<u>910</u>
Net income	<u>\$ 1,964</u>	<u>\$ 2,224</u>	<u>\$ 1,834</u>	<u>\$ 1,756</u>
Earnings per share(1):				
Basic	\$0.38	\$0.42	\$0.33	\$0.31
Diluted	\$0.36	\$0.40	\$0.32	\$0.30
Selected Ratios (Annualized):				
Net interest margin	3.73%	3.73%	3.35%	3.21%
Return on average assets	1.16	1.32	1.07	1.03
Return on average equity	11.33	12.78	10.26	9.73

(1) Basic and diluted earnings per share, as well as basic and diluted shares outstanding, have been restated for the effect of the two-for-one stock split paid on December 31, 2003. Basic and diluted shares outstanding are summarized below.

	<u>FOURTH QUARTER</u>	<u>THIRD QUARTER</u>	<u>SECOND QUARTER</u>	<u>FIRST QUARTER</u>
YEAR ENDED DECEMBER 31, 2003				
Basic weighted - average shares	5,119,672	5,105,834	5,088,516	5,084,904
Effect of dilutive securities	<u>348,725</u>	<u>306,971</u>	<u>255,572</u>	<u>202,249</u>
Diluted weighted - average shares	<u>5,468,397</u>	<u>5,412,805</u>	<u>5,344,088</u>	<u>5,287,153</u>
YEAR ENDED DECEMBER 31, 2002				
Basic weighted - average shares	5,118,728	5,270,438	5,553,300	5,717,988
Effect of dilutive securities	<u>219,984</u>	<u>221,698</u>	<u>213,474</u>	<u>170,526</u>
Diluted weighted - average shares	<u>5,338,712</u>	<u>5,492,136</u>	<u>5,766,774</u>	<u>5,888,514</u>

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

GENERAL

Management's discussion and analysis of financial condition and results of operations is intended to assist a reader in understanding the consolidated financial condition and results of operations of the Company for the periods presented. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements and the other sections contained in this Annual Report.

The Bank is a federally chartered stock savings and loan association formed in 1934. First Federal conducts business from its main office and fourteen full-service branch offices, all of which are located in a six county area in Northcentral and Northwest Arkansas comprised of Benton, Marion, Washington, Carroll, Baxter and Boone counties. The Bank will continue to focus its growth and expansion efforts in this six county area, especially in Benton and Washington counties, one of the fastest growing areas of the state. The Bank is a community-oriented financial institution offering a wide range of retail and commercial deposit accounts, including non-interest bearing and interest bearing checking, savings and money market accounts, certificates of deposit, and individual retirement accounts. Loan products offered by the Bank include residential real estate, consumer, construction, lines of credit, commercial real estate and commercial business loans. Other financial services include investment products offered through PrimeVest Financial Services, Inc.; automated teller machines; 24-hour telephone banking; internet banking, including account access, bill payment and online loan applications; Bounce Protection™ overdraft service; debit cards; and safe deposit boxes.

First Federal's lending focus has traditionally been on permanent residential real estate. This continues to hold true, although in recent years an increased emphasis has been placed on commercial real estate lending and construction lending. Most of our lending growth is expected to occur in the Washington and Benton county areas, which are the headquarters of the state's two largest employers, Wal-Mart and Tyson Foods. These employers attract suppliers who establish offices in the area and create jobs, which fosters demand for housing and office space. As of the third quarter of 2003, unemployment in each of these counties was approximately 2.8%, according to the fdic.gov website.

Certificates of deposit and savings accounts continue to comprise the majority of our deposit accounts. However, in recent years, increased emphasis has been placed on growth in checking accounts. This emphasis will continue with plans to attract checking accounts through the utilization of targeted direct mail throughout our market area. Checking accounts offer low interest deposits, fee income potential, and the opportunity to cross-sell other financial services.

The Company's results of operations depend primarily on its net interest income, which is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company's results of operations are also affected by the provision for loan losses, the level of its noninterest income and expenses, and income tax expense.

Noninterest income is generated primarily through deposit account fee income, profit on sale of loans, mortgage and installment lending fee income, and bank owned life insurance income.

Noninterest expense consists primarily of employee compensation and benefits, office occupancy expense, data processing expense, and other operating expense.

Like most banks, First Federal Bank's two greatest challenges are managing interest rate risk and asset quality. The Bank's current interest rate risk position as measured by our regulator, the Office of Thrift Supervision ("OTS"), is at a minimal level as defined by Thrift Bulletin 13a. The level of interest rate risk is impacted by the movement of interest rates and the timing and magnitude of assets repricing compared to liabilities repricing. The Bank attempts to reduce the impact of changes in interest rates on its net interest income by managing the repricing gap as described below in the "Asset and Liability Management" section. The Bank's present asset quality, measured by levels of charge-offs, non-performing

loans and repossessed assets, compares favorably with our peers. We strive to maintain the asset quality of our loan portfolio at acceptable levels through sound underwriting procedures, including the use of credit scoring; an independent loan review function; active collection procedures for delinquent loans; and, in the event of repossession, prompt and efficient liquidation of real estate, automobiles and other forms of collateral. Both the board of directors and senior management place a high priority on managing interest rate risk and asset quality.

ASSET AND LIABILITY MANAGEMENT

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained during fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities that either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap", provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets. Generally, during a period of rising interest rates, a negative gap within shorter maturities would adversely affect net interest income, while a positive gap within shorter maturities would result in an increase in net interest income, and during a period of falling interest rates, a negative gap within shorter maturities would result in an increase in net interest income while a positive gap within shorter maturities would have the opposite effect. As of December 31, 2003, the Bank estimates that the ratio of its one-year gap to total assets was a negative 24.6% and its ratio of interest-earning assets to interest-bearing liabilities maturing or repricing within one year was 60.5%.

The Bank focuses its residential lending activities on the origination of one-, three-, five- and seven-year adjustable-rate residential mortgage loans ("ARMs"). Although adjustable-rate loans involve certain risks, including increased payments and the potential for default in an increasing interest rate environment, such loans decrease the risks associated with changes in interest rates. As of December 31, 2003, \$185.9 million or 72.4% of the Bank's portfolio of one- to four-family residential mortgage loans consisted of ARMs, including \$75.9 million in seven-year ARMs.

The Company's investment portfolio amounted to \$80.4 million or 11.6% of the Company's total assets at December 31, 2003. Of such amount, \$9.5 million or 11.8% is contractually due within one year and \$2.1 million or 2.6% is contractually due after one year to five years. However, actual maturities can be shorter than contractual maturities due to the ability of borrowers to call or prepay such obligations without call or prepayment penalties. As of December 31, 2003, there was approximately \$70 million of investment securities at an average interest rate of 5.35% with call options held by the issuer, of which approximately \$55 million, at an average interest rate of 5.51%, are callable within one year. To the extent that these higher yielding securities are called, the Company may reinvest such funds at prevailing interest rates which may have a downward impact on the Company's interest rate spread.

Deposits are the Bank's primary funding source and the Bank prices its deposit accounts based upon competitive factors and the availability of prudent lending and investment opportunities. The Bank seeks to lengthen the maturities of its deposits by soliciting longer term certificates of deposit when market conditions have created opportunities to attract such deposits. However, the Bank does not solicit high-rate jumbo certificates of deposit and does not pursue an aggressive growth strategy which would force the Bank to focus exclusively on competitors' rates rather than deposit affordability. At December 31, 2003 the Bank had \$339.8 million in certificates of deposit of which \$187.6 million mature in one year or less. At December 31, 2003, the Bank had \$39.6 million of FHLB advances of which \$15.5 million is due in one year or less.

Net Portfolio Value

The value of the Bank's loan and investment portfolio will change as interest rates change. As a result of the Bank's interest rate repricing gap, rising interest rates will generally decrease the Bank's net portfolio value ("NPV"), while falling interest rates will generally increase the value of that portfolio. NPV is the difference between incoming and outgoing

discounted cash flows from assets, liabilities, and off-balance sheet contracts. The following tables set forth, quantitatively, as of December 31, 2003 and 2002, the OTS estimate of the projected changes in NPV in the event of a 100, 200 and 300 basis point instantaneous and permanent increase and a 100 basis point instantaneous and permanent decrease in market interest rates. Due to the current low prevailing interest rate environment the changes in NPV are not estimated for a decrease in interest rates of 200 or 300 basis points.

2003				
Change in Interest Rates (basis points)	Estimated NPV	Estimated NPV as a Percentage of Present Value of Assets	Amount of Change	Percent of Change
		(Dollars in Thousands)		
+300	69,875	10.16%	\$(27,143)	(28)%
+200	80,304	11.45	(16,714)	(17)
+100	89,647	12.55	(7,371)	(8)
0	97,018	13.37	--	--
-100	100,441	13.69	3,423	4

2002				
Change in Interest Rates (basis points)	Estimated NPV	Estimated NPV as a Percentage of Present Value of Assets	Amount of Change	Percent of Change
		(Dollars in Thousands)		
+300	70,311	10.35%	\$(16,750)	(19)%
+200	77,180	11.15	(9,881)	(11)
+100	83,239	11.82	(3,822)	(4)
0	87,061	12.19	--	--
-100	87,588	12.14	527	1

Computations of prospective effects of hypothetical interest rate changes are calculated by the OTS from data provided by the Bank and are based on numerous assumptions, including relative levels of market interest rates, loan repayments, and deposit runoffs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Management cannot predict future interest rates or their effect on the Bank's NPV. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates during the initial term and over the remaining life of the asset. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market rates decrease. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

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 Consolidated Financial Statements included herein. In particular, Note 1 to the Consolidated Financial Statements – “Summary of Significant Accounting Policies” describes generally our accounting policies. We believe that the judgments, estimates and assumptions used in the preparation of our Consolidated Financial Statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our Consolidated Financial Statements to this critical accounting policy, the use of other judgments, estimates and assumptions could result in material differences in our results of operations or financial condition.

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 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.

CHANGES IN FINANCIAL CONDITION

Changes in financial condition between December 31, 2003 and 2002 are presented in the following table (dollars in thousands). Material changes between periods will be discussed in the sections which follow the table.

	<u>December 31,</u>		Increase	% Change
	<u>2003</u>	<u>2002</u>		
ASSETS				
Cash and cash equivalents	\$56,201	\$44,493	\$11,708	26.3%
Investment securities held to maturity	80,379	114,471	(34,092)	(29.8)%
Loans receivable, net	512,756	483,468	29,288	6.1%
Office properties and equipment, net	14,238	10,690	3,548	33.2%
Prepaid expenses and other assets	<u>27,079</u>	<u>26,774</u>	<u>305</u>	1.1%
TOTAL	<u>\$690,653</u>	<u>\$679,896</u>	<u>\$10,757</u>	1.6%
LIABILITIES AND STOCKHOLDERS’ EQUITY				
LIABILITIES:				
Deposits	\$573,580	\$568,762	\$4,818	0.8%
Other borrowings	39,562	38,610	952	2.5%
Other liabilities	<u>2,433</u>	<u>3,258</u>	<u>(825)</u>	(25.3)%
Total liabilities	615,575	610,630	4,945	0.8%
STOCKHOLDERS’ EQUITY	<u>75,078</u>	<u>69,266</u>	<u>5,812</u>	8.4%
TOTAL	<u>\$690,653</u>	<u>\$679,896</u>	<u>\$10,757</u>	1.6%
BOOK VALUE PER SHARE	<u>\$14.06</u>	<u>\$12.89</u>		
EQUITY TO ASSETS	<u>10.9%</u>	<u>10.2%</u>		

Loans Receivable. Changes in loan composition between December 31, 2003 and 2002 are presented in the following table (dollars in thousands).

	<u>December 31,</u>		Increase (Decrease)	% Change
	<u>2003</u>	<u>2002</u>		
One- to four- family residences	\$256,796	\$289,106	\$(32,310)	
Multi-family	9,998	5,821	4,177	
Commercial real estate	85,129	66,622	18,507	
Construction	<u>89,332</u>	<u>49,144</u>	<u>40,188</u>	
Total first mortgage loans	<u>441,255</u>	<u>410,693</u>	<u>30,562</u>	7.4%
Commercial	<u>33,672</u>	<u>28,213</u>	<u>5,459</u>	19.3%
Home equity and second mortgage	36,332	31,670	4,662	
Automobile	22,087	22,570	(483)	
Other	<u>16,869</u>	<u>13,807</u>	<u>3,062</u>	
Total consumer	<u>75,288</u>	<u>68,047</u>	<u>7,241</u>	10.6%
Total loans receivable	<u>550,215</u>	<u>506,953</u>	<u>43,262</u>	8.5%
Less:				
Undisbursed loan funds	(35,181)	(20,618)	14,563	
Unearned discounts and net deferred loan fees	(657)	(1,338)	(681)	
Allowance for loan losses	<u>(1,621)</u>	<u>(1,529)</u>	<u>92</u>	
Total loans receivable, net	<u>\$512,756</u>	<u>\$483,468</u>	<u>\$29,288</u>	<u>6.1%</u>

The Bank continued to experience increased demand for commercial real estate loans, construction loans, consumer loans, and commercial loans. The increases in these loan categories were partially offset by a decrease in one- to four- family residential loans. As a result of the low interest rate environment during the year, the Bank experienced increased refinancing activity, most of which loans were sold on the secondary market. This had the effect of reducing the balance of one- to four- family residential loans held in the portfolio. However, the interest rate environment and robust economy of our market area provided increased demand for our other loan products. 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.

The decrease in unearned loan fees is due to the decrease in one-to four- family residential loans and a decrease in origination fees collected.

Allowance for Loan Losses. Changes in the composition of the allowance for loan losses between December 31, 2003 and 2002 are presented in the following table (in thousands).

	<u>December 31,</u>		Increase (Decrease)
	<u>2003</u>	<u>2002</u>	
General	\$1,306	\$895	\$411
Specific	252	625	(373)
Unallocated	<u>63</u>	<u>9</u>	<u>54</u>
	<u>\$1,621</u>	<u>\$1,529</u>	<u>\$92</u>

The increase in the general loan loss allowance was due to increases in loan balances as well as changes in the loss experience factors used. Management compared the loan portfolio's loss experience ratios from year to year and adjusted the ratios to reflect current loss experience. The decrease in the specific allowance for loan losses was due to a valuation allowance recorded at December 31, 2002, related to a single commercial loan relationship that was not required at December 31, 2003.

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 allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as loss, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based primarily on historical loss experience. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The Bank reviews its non-homogeneous loans for impairment on a quarterly basis. The Bank considers commercial real estate, construction, multi-family, 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, valuing these loans, and then applying a loss factor to the remaining pool balance based on several factors, including past loss experience, inherent risks, and economic conditions in the primary market areas.

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 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 \$1.6 million appropriate and adequate to cover losses inherent in our loan portfolio at December 31, 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. Changes in the composition of investment securities held to maturity between December 31, 2003 and 2002 are presented in the following table (dollars in thousands).

	<u>December 31,</u>		Increase (Decrease)
	<u>2003</u>	<u>2002</u>	
Certificates of deposit	\$9,000	\$40,341	\$(31,341)
U.S. Government and agency obligations	57,076	65,402	(8,326)
Municipal securities	<u>14,303</u>	<u>8,728</u>	<u>5,575</u>
Total	<u>\$80,379</u>	<u>\$114,471</u>	<u>\$(34,092)</u>

During 2003, investment securities totaling \$304.1 million were purchased and \$338.3 million matured or were called. The majority of these purchases and maturities were shorter-term certificates of deposit. The decreases in certificates of deposit and U.S. Government and agency obligations were due to calls and maturities in excess of purchases.

Office Properties and Equipment. The increase in office properties and equipment of \$3.5 million was due primarily to the new corporate headquarters building in Harrison. Construction was completed in June 2003 at a cost of approximately \$6.2 million, \$3.0 million of which was included in construction in progress at December 31, 2002.

Deposits. Changes in the composition of deposits between December 31, 2003 and 2002 are presented in the following table (dollars in thousands).

	<u>December 31,</u>		Increase (Decrease)	% Change
	<u>2003</u>	<u>2002</u>		
DDA and NOW accounts	\$96,090	\$86,851	\$9,239	10.6%
Money Market accounts	108,400	80,020	28,380	35.5%
Savings accounts	29,269	27,772	1,497	5.4%
Certificates of deposit	<u>339,821</u>	<u>374,119</u>	<u>(34,298)</u>	<u>(9.2)%</u>
Total deposits	<u>\$573,580</u>	<u>\$568,762</u>	<u>\$4,818</u>	<u>0.8%</u>

The Bank experienced a change in the mix of deposits due to the low interest rate environment during the year. Certificates of deposit decreased while money market and demand and NOW deposit accounts increased. Checking accounts are an attractive source of funds for the Bank as they offer low-interest deposits, fee income potential, and the opportunity to cross-sell other financial services. The Bank does not advertise for deposits outside of its primary market area, Northcentral and Northwest Arkansas, or utilize the services of deposit brokers. In the fourth quarter of 2001, the Bank began offering Bounce Protection™ and continued to emphasize this program in 2003. This program allows customers in good standing to overdraw their checking account up to defined limits. Customers have access to additional funds while providing the Bank additional fee revenue.

Stockholders' Equity. Stockholders' equity increased \$5.8 million from December 31, 2002 to December 31, 2003. The increase in stockholders' equity was primarily due to net income of \$7.5 million, offset by the purchase of treasury stock totaling \$2.8 million during 2003. In addition, during the twelve months ended December 31, 2003 cash dividends aggregating \$1.8 million were paid. See the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001 for more detail.

Average Balance Sheets

The following table sets forth certain information relating to the Company'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 December 31, 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 December 31, 2003. Average balances are based on daily balances during the period.

	December 31,	Year Ended December 31,								
	2003	2003			2002			2001		
	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)	6.57%	\$492,492	\$34,188	6.94%	\$481,330	\$36,859	7.66%	\$488,942	\$39,678	8.12%
Investment securities(2)	4.76	92,564	3,938	4.25	111,189	6,450	5.80	144,457	9,561	6.62
Other interest-earning assets	0.88	<u>60,881</u>	<u>619</u>	1.02	<u>48,839</u>	<u>785</u>	1.61	<u>29,457</u>	<u>913</u>	3.10
Total interest-earning assets	5.94	645,937	38,745	6.00	641,358	44,094	6.88	662,856	50,152	7.57
Noninterest-earning assets		<u>45,383</u>			<u>38,336</u>			<u>27,662</u>		
Total assets		<u>\$691,320</u>			<u>\$679,694</u>			<u>\$690,518</u>		
Interest-bearing liabilities:										
Deposits	2.29	\$571,407	14,607	2.56	\$566,047	19,446	3.44	\$543,919	27,497	5.06
Other borrowings	3.26	<u>43,321</u>	<u>1,379</u>	3.18	<u>38,434</u>	<u>2,187</u>	5.69	<u>66,409</u>	<u>4,365</u>	6.57
Total interest-bearing liabilities	2.35	614,728	15,986	2.60	604,481	21,633	3.58	610,328	31,862	5.22
Noninterest-bearing liabilities		<u>3,886</u>			<u>4,562</u>			<u>6,033</u>		
Total liabilities		618,614			609,043			616,361		
Stockholders' equity		<u>72,706</u>			<u>70,651</u>			<u>74,157</u>		
Total liabilities and stockholders' equity		<u>\$691,320</u>			<u>\$679,694</u>			<u>\$690,518</u>		
Net interest income			<u>\$ 22,759</u>			<u>\$ 22,461</u>			<u>\$ 18,290</u>	
Net earning assets		<u>\$ 31,209</u>			<u>\$ 36,877</u>			<u>\$52,528</u>		
Interest rate spread	<u>3.59%</u>			<u>3.40%</u>			<u>3.30%</u>			<u>2.35%</u>
Net interest margin				<u>3.52%</u>			<u>3.50%</u>			<u>2.76%</u>
Ratio of interest-earning assets to interest-bearing liabilities				<u>105.08%</u>			<u>106.10%</u>			<u>108.61%</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 Company 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.

	Year Ended December 31,							
	2003 vs. 2002				2002 vs. 2001			
	Increase (Decrease) Due to			Total Increase (Decrease)	Increase (Decrease) Due to			Total Increase (Decrease)
	Volume	Rate	Rate/ Volume		Volume	Rate	Rate/ Volume	
	(In Thousands)							
Interest income:								
Loans receivable.....	\$ 855	\$(3,446)	\$ (80)	\$(2,671)	\$ (618)	\$(2,236)	\$ 35	\$(2,819)
Investment securities.....	(1,080)	(1,720)	288	(2,512)	(2,202)	(1,181)	272	(3,111)
Other interest-earning assets	<u>193</u>	<u>(288)</u>	<u>(71)</u>	<u>(166)</u>	<u>601</u>	<u>(440)</u>	<u>(289)</u>	<u>(128)</u>
Total interest-earning assets.....	<u>(32)</u>	<u>(5,454)</u>	<u>137</u>	<u>(5,349)</u>	<u>(2,219)</u>	<u>(3,857)</u>	<u>18</u>	<u>(6,058)</u>
Interest expense:								
Deposits.....	184	(4,976)	(47)	(4,839)	1,119	(8,811)	(359)	(8,051)
Other borrowings	<u>278</u>	<u>(964)</u>	<u>(122)</u>	<u>(808)</u>	<u>(1,839)</u>	<u>(586)</u>	<u>247</u>	<u>(2,178)</u>
Total interest-bearing liabilities	<u>462</u>	<u>(5,940)</u>	<u>(169)</u>	<u>(5,647)</u>	<u>(720)</u>	<u>(9,397)</u>	<u>(112)</u>	<u>(10,229)</u>
Net change in net interest income	\$ <u>(494)</u>	\$ <u>486</u>	\$ <u>306</u>	\$ <u>298</u>	\$ <u>(1,499)</u>	\$ <u>5,540</u>	\$ <u>130</u>	\$ <u>4,171</u>

CHANGES IN RESULTS OF OPERATIONS

The table below presents a comparison of results of operations for the years ended December 31, 2003, 2002, and 2001 (dollars in thousands). Specific changes in captions will be discussed below the table.

	Years Ended December 31,			Dollar Change		Percentage Change	
	2003	2002	2001	2003 vs 2002	2002 vs 2001	2003 vs 2002	2002 vs 2001
Interest income:							
Loans receivable	\$34,188	\$36,859	\$39,678	\$(2,671)	\$(2,819)		
Investment securities	3,938	6,450	9,561	(2,512)	(3,111)		
Other	<u>619</u>	<u>785</u>	<u>913</u>	<u>(166)</u>	<u>(128)</u>		
Total interest income	<u>38,745</u>	<u>44,094</u>	<u>50,152</u>	<u>(5,349)</u>	<u>(6,058)</u>	(12.1)%	(12.1)%
Interest expense:							
Deposits	14,607	19,446	27,497	(4,839)	(8,051)		
Other borrowings	<u>1,379</u>	<u>2,187</u>	<u>4,365</u>	<u>(808)</u>	<u>(2,178)</u>		
Total interest expense	<u>15,986</u>	<u>21,633</u>	<u>31,862</u>	<u>(5,647)</u>	<u>(10,229)</u>	(26.1)%	(32.1)%
Net interest income before provision for loan losses	22,759	22,461	18,290	298	4,171		
Provision for loan losses	<u>690</u>	<u>1,500</u>	<u>452</u>	<u>(810)</u>	<u>1,048</u>		
Net interest income after provision for loan losses	<u>22,069</u>	<u>20,961</u>	<u>17,838</u>	<u>1,108</u>	<u>3,123</u>	5.3%	17.5%
Noninterest income:							
Deposit fee income	2,611	2,375	1,394	236	981		
Gain on sale of loans	1,696	888	748	808	140		
Gain on contribution	414	--	--	414	--		
Other	<u>2,268</u>	<u>2,083</u>	<u>1,603</u>	<u>185</u>	<u>480</u>		
Total noninterest income	<u>6,989</u>	<u>5,346</u>	<u>3,745</u>	<u>1,643</u>	<u>1,601</u>	30.7%	42.8%
Noninterest expenses:							
Salaries and employee benefits	10,399	8,575	8,488	1,824	87		
Net occupancy expense	1,874	1,297	1,136	577	161		
Data processing	1,559	1,240	1,031	319	209		
Contributions	526	120	38	406	82		
Other	<u>3,905</u>	<u>3,292</u>	<u>2,903</u>	<u>613</u>	<u>389</u>		
Total noninterest expenses	<u>18,263</u>	<u>14,524</u>	<u>13,596</u>	<u>3,739</u>	<u>928</u>	25.7%	6.8%
Income before provision for income taxes	10,795	11,783	7,987	(988)	3,796		
Provision for income taxes	<u>3,339</u>	<u>4,005</u>	<u>2,527</u>	<u>(666)</u>	<u>1,478</u>		
Net income	<u>\$7,456</u>	<u>\$7,778</u>	<u>\$5,460</u>	<u>\$(322)</u>	<u>\$2,318</u>	(4.1)%	42.5%
Basic earnings per share	<u>\$1.46</u>	<u>\$1.44</u>	<u>\$0.88</u>	<u>\$0.02</u>	<u>\$0.56</u>	1.4%	63.6%
Diluted earnings per share	<u>\$1.38</u>	<u>\$1.38</u>	<u>\$0.87</u>	<u>\$--</u>	<u>\$0.51</u>	0.0%	58.6%
Interest rate spread	<u>3.40%</u>	<u>3.30%</u>	<u>2.35%</u>	<u>0.10%</u>	<u>0.95%</u>	3.0%	40.4%
Net interest margin	<u>3.52%</u>	<u>3.50%</u>	<u>2.76%</u>	<u>0.02%</u>	<u>0.74%</u>	0.6%	26.8%
Full-time equivalents	<u>252</u>	<u>235</u>	<u>215</u>	<u>17</u>	<u>20</u>	7.2%	9.3%
Full-service offices	<u>15</u>	<u>14</u>	<u>14</u>	<u>1</u>	<u>--</u>	7.1%	0.0%

Net Interest Income. Net interest income is determined by the Company'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 Company's net interest income increased in both comparison periods due to increases in interest rate spread and interest rate margin. During both comparison periods there was a general decrease in market interest rates as evidenced by the changes in key interest rates presented below:

	2003	2002	2001
Fed funds rate	<u>1.13%</u>	<u>1.67%</u>	<u>3.88%</u>
Prime rate	<u>4.12%</u>	<u>4.67%</u>	<u>6.91%</u>

Source: www.federalreserve.gov

In the 2002 vs. 2001 period, due to the Bank's negative gap, rates paid on deposits decreased more quickly than rates on earning assets. As a result, the Company experienced an increase in the interest rate spread and net interest margin. This continued in the 2003 vs. 2002 period at a diminished level because interest rates were near their floor and rates on deposits could no longer be reduced as dramatically.

Interest Income and Interest Expense

Dollar and percentage changes in interest income and interest expense for the comparison periods are presented in the rate/volume analysis table which appears on page 15.

Interest Income. The decrease in the 2003 vs. 2002 period was primarily due to a decrease in the average yield earned on loans, investment securities, and other interest-earning assets and a decrease in the average balance of investment securities, offset by an increase in the average balance of loans. The decrease in the average yield earned on loans, investment securities, and other interest-earning assets was primarily due to the declining level of interest rates in 2003. The decrease in the average balance of investment securities held to maturity was primarily the result of maturing FHLB CDs. The average balance of loans increased primarily due to construction loan activity in 2003.

The decrease in the 2002 vs. 2001 period was primarily due to a decrease in the average balance of and average yield earned on loans and investment securities. Such decrease in interest income was partially offset by an increase in interest income as a result of an increase in the average balance of other interest-earning assets, primarily overnight interest bearing cash accounts. The decrease in the average balance of loans in 2002 was primarily due to a portion of one-to four-family mortgage originations being sold in the secondary market. The decrease in the average balance of investment securities held to maturity was primarily the result of the call of government agency bonds. The decrease in the average yield earned on loans and investment securities was primarily due to the declining level of interest rates in 2002. The increase in the balance of overnight interest bearing funds was primarily due to the proceeds from callable government agency securities being placed in overnight funds.

Interest Expense. The decrease in interest expense in the 2003 vs. 2002 period was primarily due to a decrease in the average rate paid on deposit accounts and FHLB advances. The decrease in the average interest rate paid on deposits was primarily the result of maturing certificates and variable interest bearing deposits being reinvested at lower interest rates.

The decrease in interest expense in the 2002 vs. 2001 period was primarily due to a decrease in the average rate paid on deposit accounts and FHLB advances and a decrease in the average balance of FHLB advances. Such decreases were partially offset by an increase in the average balance of deposits. The decrease in the average interest rate paid on deposits was primarily the result of maturing certificates and variable interest bearing deposits being reinvested at lower interest rates. The average balance of FHLB advances decreased due to the use of investment proceeds from securities to repay advances.

Provision for Loan Losses. 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.

Factors influencing management's decision to increase the provision in the 2002 vs. 2001 period include an increase in loss experience during 2002, an increase in the overall risk of the loan portfolio due to an increase in commercial real estate, construction, commercial and consumer loans, an increase in nonaccrual and restructured loans, and general economic conditions. The aforementioned loan types are generally considered to entail additional risks as compared to single-family lending due to, among other factors, supply and demand and, in some respects, rapidly depreciating assets, such as automobiles.

In 2003, the primary factor contributing to the decrease in the provision from 2002 was a decline in charge-offs, which were \$308,000 less than in 2002.

Noninterest Income. Deposit fee income increased as a result of the Bank's continued promotion of Bounce Protection™ overdraft service that was introduced by the Bank in the fourth quarter of 2001. The Bank plans to aggressively promote checking accounts in 2004 through direct mail campaigns to expand its checking accounts and increase deposit fee income.

Gain on sale of loans increased due to an increase in originations of loans for sale. The activity in loans held for sale is summarized below (in thousands):

	Year Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Loans held for sale, beginning of period	\$ 8,264	\$ 5,560	\$ 789
Originations	119,833	69,631	64,655
Sales	<u>(126,410)</u>	<u>(66,927)</u>	<u>(59,884)</u>
Loans held for sale, end of period	<u>\$ 1,687</u>	<u>\$ 8,264</u>	<u>\$ 5,560</u>
Gain on sale of loans	<u>\$ 1,696</u>	<u>\$ 888</u>	<u>\$ 748</u>

Sales of loans peaked in 2003 due to record low interest rates in 2003 and the resulting refinancing activity. We do not expect loan sales to continue at this level in 2004.

Other noninterest income increased primarily due to an adjustment of the carrying value of donated real estate from its cost to its estimated fair value. A corresponding expense in the amount of \$500,000, the fair value of the donated real estate, was also recorded and is included in the balance of contributions expense.

Noninterest Expense

Salaries and Employee Benefits. The changes in the composition of this line item are presented below (in thousands):

	Year Ended December 31,			Change	
	2003	2002	2001	2003 vs 2002	2002 vs 2001
Salaries	\$7,315	\$6,374	\$6,057	\$941	\$317
Payroll taxes	638	540	505	98	35
Insurance	561	510	422	51	88
ESOP expense (1)	1,230	924	754	306	170
MRP expense (2)	45	-	298	44	(298)
Defined benefit plan contribution	480	108	-	372	108
Other	<u>130</u>	<u>119</u>	<u>452</u>	<u>12</u>	<u>(333)</u>
Total	<u>\$10,399</u>	<u>\$8,575</u>	<u>\$8,488</u>	<u>\$1,824</u>	<u>\$ 87</u>

(1) Employee Stock Ownership Plan

(2) Management Recognition and Retention Plan

2003 vs. 2002

The increase in salaries was due to an increase in personnel and normal salary and merit increases. Payroll taxes and insurance increased due to the increase in salaries. The increase in employee stock ownership plan expense was due to an increase in the Company's average stock price from \$24.42 in 2002 to \$31.78 in 2003. The defined benefit plan expense increased due to an increase in the Bank's required contribution to the multiemployer pension plan as a result of decreased yields on plan assets.

2002 vs. 2001

The increase in salaries was due to an increase in personnel and normal salary and merit increases. Payroll taxes and insurance increased due to the increase in salaries. The increase in employee stock ownership plan expense was due to an increase in the Company's average stock price from \$20.43 in 2001 to \$24.42 in 2002. Management Recognition and Retention Plan expense decreased as a result of the awarded shares being fully vested in May 2001. No additional shares were granted after the original shares were vested until the new grant in 2003. The defined benefit plan expense increased due to an increase in the Bank's required contribution to the multiemployer pension plan. There was no pension cost in 2001 due to the plan's fully-funded status at such time. Other expenses decreased due to the nonrecurring death benefit recognized in 2001 of \$352,000 in connection with the death of the Company's former Chief Executive Officer in 2001. There was no such expense in 2002.

Net occupancy expense. The changes in the composition of this line item are presented below (in thousands):

	Year Ended December 31,			Change	
	2003	2002	2001	2003 vs 2002	2002 vs 2001
Depreciation	\$1,053	\$719	\$618	\$334	\$101
Furniture, fixtures, and equipment expense	238	95	67	143	28
Utilities	190	131	154	59	(23)
Building repairs and maintenance	190	174	137	16	37
Taxes and insurance	137	103	92	34	11
Rent	<u>66</u>	<u>75</u>	<u>68</u>	<u>(9)</u>	<u>7</u>
Total	<u>\$1,874</u>	<u>\$1,297</u>	<u>\$1,136</u>	<u>\$577</u>	<u>\$161</u>

2003 vs. 2002

The increase in net occupancy expense was primarily due to an increase in depreciation expense on buildings and equipment. This increase in depreciation was due to completion of the new corporate headquarters in Harrison in June 2003. Furniture, fixtures, and equipment expense also increased for the same reason and represents furnishings for the new building with unit costs below the Company's capitalization level.

2002 vs. 2001

The increase in net occupancy expense was primarily due to an increase in depreciation expense on buildings and equipment. This increase in depreciation was due to a change in the useful life of some of the Bank's computers, as well as a general increase in office properties and equipment related to the overall growth of the Bank.

Data processing expense. Data processing expense increased in both comparison periods due primarily to an upgrade of the Bank's wide area network, increased ATM volume, and growth in electronic banking services.

Contributions. Contributions expense increased between the 2003 and 2002 periods mainly due to the contribution of real estate discussed above in the noninterest income narrative. The \$526,000 balance of contributions expense for the year ended December 31, 2003, includes the fair value of the donated real estate of \$500,000.

Other expenses. The changes in the composition of this line item are presented below (in thousands):

	Year Ended December 31,			Change	
	2003	2002	2001	2003 vs 2002	2002 vs 2001
Consultant and management fees	\$382	\$98	\$26	\$284	\$72
Postage and supplies	737	598	546	139	52
Loan related expenses	194	153	92	41	61
Real estate owned expenses	135	88	49	47	39
Telephone	228	190	177	38	13
Advertising and public relations	613	596	489	17	107
Other	<u>1,616</u>	<u>1,569</u>	<u>1,524</u>	<u>47</u>	<u>45</u>
Total	<u>\$3,905</u>	<u>\$3,292</u>	<u>\$2,903</u>	<u>\$613</u>	<u>\$389</u>

2003 vs. 2002

Other expenses in this period increased primarily due to consultant and management fees. These fees increased due to fees paid to a consulting firm related to preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which will require management to report on its assessment of the effectiveness of internal control and our independent auditors to attest to such assertion. Fees paid to a third party vendor related to the Bounce ProtectionTM program also increased due to increased overdraft activity during 2003. Other components of the increase in consultant and management fees include fees paid to a consultant for the deposit reclassification program and fees paid to a consultant for work performed in the area of human resources. The deposit reclassification program allows the Bank to reduce its reserve requirement, thereby freeing up funds to be invested in interest-earning accounts.

2002 vs. 2001

Other expenses in this period increased primarily due to advertising and public relations expense resulting from growth and increased advertising rates. Consultant and management fees increased primarily due fees related to the Bounce ProtectionTM program introduced in the fourth quarter of 2001.

Income Taxes.

2003 vs. 2002

The decrease in income tax expense was primarily due to a decrease in taxable income and, to a lesser extent, a decrease in the effective tax rate. The decrease in the effective tax rate from 34.0% in 2002 to 30.9% in 2003 was attributable to the tax benefit of the contribution of real estate and an increase in nontaxable interest income.

2002 vs. 2001

The increase in income tax expense was primarily due to an increase in taxable income and, to a lesser extent, an increase in the effective tax rate. The increase in the effective rate from 31.6% in 2001 to 34.0% in 2002 resulted primarily from the Company being in a taxable position for state taxes during 2002 but not in 2001.

OFF-BALANCE SHEET ARRANGEMENTS

The Company, 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, construction loans, and predetermined overdraft protection limits; and
- the commitment to fund withdrawals of certificates of deposit at maturity.

At December 31, 2003, the Bank's off-balance sheet arrangements principally included lending commitments, which are described below. At December 31, 2003, the Company had no interests in non-consolidated special purpose entities.

At December 31, 2003, commitments included:

- total approved loan origination commitments outstanding amounting to \$14.2 million, including \$4.3 million of loans committed to sell;
- commitments to purchase loans of \$3.9 million;
- rate lock agreements with customers of \$4.3 million, all of which have been locked with an investor;
- funded mortgage loans committed to sell of \$1.7 million;
- unadvanced portion of construction loans of \$35.2 million;
- unused lines of credit of \$20.8 million;
- outstanding standby letters of credit of \$1.7 million;
- total predetermined overdraft protection limits of \$9.7 million; and
- certificates of deposit scheduled to mature in one year or less totaling \$187.6 million.

Total unfunded commitments to originate loans for sale and the related commitments to sell of \$4.3 million meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at December 31, 2003.

Historically, a very small percentage of predetermined overdraft limits have been used. At December 31, 2003, overdrafts of accounts with Bounce ProtectionTM represented usage of 2.1% of the limit. We expect this trend to continue in the future.

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.

CONTRACTUAL OBLIGATIONS

We are contractually obligated to make future minimum payments as follows (in thousands):

	Less Than			More Than	
	1 Year	1-3 Years	3 - 5 Years	5 Years	Total
Certificates of deposit maturities	\$187,585	\$83,771	\$41,649	\$26,816	\$339,821
FHLB advances maturities	\$ 15,456	\$14,243	\$ 7,228	\$ 2,635	\$ 39,562

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 loan 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 December 31, 2003, available borrowing capacity with the FHLB was in excess of \$200 million.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits and certificates of deposit. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing savings certificates and savings withdrawals, to repay maturing FHLB of Dallas advances, and to fund loan commitments.

As of December 31, 2003, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At December 31, 2003, the Bank's tangible, core and risk-based capital ratios amounted to 10.27%, 10.27% and 16.25%, respectively, compared to regulatory requirements of 1.5%, 4.0% and 8.0%, respectively.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related financial data presented herein have been prepared in accordance with generally accepted accounting principles, 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.

IMPACT OF NEW ACCOUNTING STANDARDS

See Note 1 to the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

The Company's Annual Report to Stockholders contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in this document, the words "anticipate", "believe," "estimate," "expect," "intend," "should" and similar expressions, or the negative thereof, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company 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 materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

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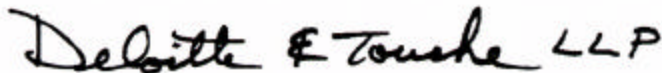
INDEPENDENT AUDITORS' REPORT

Board of Directors
First Federal Bancshares of Arkansas, Inc.

We have audited the accompanying consolidated statements of financial condition of First Federal Bancshares of Arkansas, Inc. and its subsidiary (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the financial position of First Federal Bancshares of Arkansas, Inc. and its subsidiary at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
March 5, 2004

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2003 AND 2002
(In thousands, except share data)**

ASSETS	2003	2002
Cash and cash equivalents:		
Cash and collection items	\$ 11,376	\$ 13,791
Interest-bearing deposits with banks	44,825	30,702
Total cash and cash equivalents	56,201	44,493
Investment securities—		
Held to maturity, at amortized cost (fair value at December 31, 2003 and 2002, of \$80,163 and \$115,734, respectively)	80,379	114,471
Federal Home Loan Bank stock—at cost	3,749	5,064
Loans receivable, net of allowance at December 31, 2003 and 2002, of \$1,621 and \$1,529, respectively	512,756	483,468
Accrued interest receivable	4,089	4,380
Real estate acquired in settlement of loans—net	822	320
Office properties and equipment—net	14,238	10,690
Cash surrender value of life insurance	17,102	16,254
Prepaid expenses and other assets	<u>1,317</u>	<u>756</u>
TOTAL	<u>\$ 690,653</u>	<u>\$ 679,896</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Interest-bearing	\$ 549,759	\$ 545,872
Noninterest-bearing	<u>23,821</u>	<u>22,890</u>
Total deposits	573,580	568,762
Federal Home Loan Bank advances	39,562	38,610
Advance payments by borrowers for taxes and insurance	725	760
Other liabilities	1,708	2,498
Total liabilities	<u>615,575</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, 10,307,502 shares issued, 5,340,086 and 5,374,718 shares outstanding at December 31, 2003 and 2002, respectively	103	103
Additional paid-in capital	52,950	52,040
Employee stock benefit plans	(1,025)	(1,551)
Retained earnings—substantially restricted	72,634	66,992
	124,662	117,584
Treasury stock—at cost, 4,967,416 and 4,932,784 shares at December 31, 2003 and 2002, respectively	<u>(49,584)</u>	<u>(48,318)</u>
Total stockholders' equity	75,078	69,266
TOTAL	<u>\$ 690,653</u>	<u>\$ 679,896</u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002, 2001
(In thousands, except earnings per share)

	2003	2002	2001
INTEREST INCOME:			
Loans receivable	\$34,188	\$ 36,859	\$39,678
Investment securities:			
Taxable	3,422	6,143	9,363
Nontaxable	516	307	198
Other	<u>619</u>	<u>785</u>	<u>913</u>
Total interest income	38,745	44,094	50,152
INTEREST EXPENSE:			
Deposits	14,607	19,446	27,497
Federal Home Loan Bank advances	<u>1,379</u>	<u>2,187</u>	<u>4,365</u>
Total interest expense	<u>15,986</u>	<u>21,633</u>	<u>31,862</u>
NET INTEREST INCOME	22,759	22,461	18,290
PROVISION FOR LOAN LOSSES	<u>690</u>	<u>1,500</u>	<u>452</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,069	20,961	17,838
NONINTEREST INCOME:			
Deposit fee income	2,611	2,375	1,394
Earnings on life insurance policies	848	881	373
Gain on sale of loans	1,696	888	748
Other	1,834	1,202	1,230
Total noninterest income	<u>6,989</u>	<u>5,346</u>	<u>3,745</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	10,399	8,575	8,488
Net occupancy expense	1,874	1,297	1,136
Data processing	1,559	1,240	1,031
Professional fees	329	404	284
Advertising and public relations	613	596	489
Postage and supplies	737	598	620
Contributions	526	120	38
Other	<u>2,226</u>	<u>1,694</u>	<u>1,510</u>
Total noninterest expenses	<u>18,263</u>	<u>14,524</u>	<u>13,596</u>
INCOME BEFORE INCOME TAXES	10,795	11,783	7,987
INCOME TAX PROVISION	<u>3,339</u>	<u>4,005</u>	<u>2,527</u>
NET INCOME	<u>\$ 7,456</u>	<u>\$ 7,778</u>	<u>\$ 5,460</u>
EARNINGS PER SHARE:			
Basic	<u>\$ 1.46</u>	<u>\$ 1.44</u>	<u>\$ 0.88</u>
Diluted	<u>\$ 1.38</u>	<u>\$ 1.38</u>	<u>\$ 0.87</u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(In thousands, except share data)

	Issued		Additional Paid-In Capital	Employee Stock Benefit Plans	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Common Stock					Shares	Amount	
	Shares	Amount						
BALANCE—January 1, 2001	10,307,502	\$ 103	\$51,045	\$(2,680)	\$ 56,662	3,199,540	\$(28,508)	\$ 76,622
Net income	-	-	-	-	5,460	-	-	5,460
Release of ESOP shares	-	-	434	416	-	-	-	850
Stock compensation expense	-	-	-	297	-	-	-	297
Tax effect of stock compensation plans	-	-	(45)	-	-	-	-	(45)
Purchase of treasury stock—at cost	-	-	-	-	-	1,006,044	(10,682)	(10,682)
Dividends paid	-	-	-	-	(1,437)	-	-	(1,437)
BALANCE—December 31, 2001	10,307,502	103	51,434	(1,967)	60,685	4,205,584	(39,190)	71,065
Net income	-	-	-	-	7,778	-	-	7,778
Release of ESOP shares	-	-	600	416	-	-	-	1,016
Stock options exercised	-	-	3	-	-	(43,800)	419	422
Tax effect of stock compensation plans	-	-	3	-	-	-	-	3
Purchase of treasury stock—at cost	-	-	-	-	-	771,000	(9,547)	(9,547)
Dividends paid	-	-	-	-	(1,471)	-	-	(1,471)
BALANCE—December 31, 2002	10,307,502	103	52,040	(1,551)	66,992	4,932,784	(48,318)	69,266
Net income	-	-	-	-	7,456	-	-	7,456
Release of ESOP shares	-	-	906	416	-	-	-	1,322
Management recognition and retention plan shares	-	-	35	110	-	(10,000)	99	244
Tax effect of stock compensation plans	-	-	(9)	-	-	-	-	(9)
Purchase of treasury stock—at cost	-	-	-	-	-	190,400	(2,805)	(2,805)
Treasury shares reissued due to exercise of stock options	-	-	(22)	-	-	(145,768)	1,440	1,418
Dividends paid	-	-	-	-	(1,814)	-	-	(1,814)
BALANCE—December 31, 2003	<u>10,307,502</u>	<u>\$ 103</u>	<u>\$52,950</u>	<u>\$(1,025)</u>	<u>\$ 72,634</u>	<u>4,967,416</u>	<u>\$(49,584)</u>	<u>\$ 75,078</u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(In thousands)

	2003	2002	2001
OPERATING ACTIVITIES:			
Net income	\$ 7,456	\$ 7,778	\$ 5,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	690	1,500	452
Provision for real estate losses	35	16	8
Deferred tax provision (benefit)	60	(80)	22
Accretion of discounts on investment securities—net	(111)	(157)	(18)
Federal Home Loan Bank stock dividends	(110)	(146)	(206)
Loss (gain) on disposition of fixed assets	98	(3)	(27)
Loss on sale of repossessed assets—net	17	13	15
Originations of loans held for sale	(119,833)	(69,631)	(64,655)
Proceeds from sales of loans originated to sell	128,106	67,815	60,633
Gain on sale of mortgage loans originated to sell	(1,696)	(888)	(748)
Depreciation	1,167	819	704
Accretion of deferred loan fees—net	(384)	(606)	(673)
Release of ESOP shares	1,322	1,016	850
Earnings on life insurance policies	(848)	(881)	(373)
Stock compensation expense	45	-	297
Changes in operating assets and liabilities:			
Accrued interest receivable	291	40	2,490
Prepaid expenses and other assets	(585)	(350)	(97)
Other liabilities	(660)	(1,891)	(171)
Net cash provided by operating activities	<u>15,060</u>	<u>4,364</u>	<u>3,963</u>
INVESTING ACTIVITIES:			
Purchases of investment securities—held to maturity	(304,089)	(147,958)	(55,655)
Proceeds from maturities of investment securities—held to maturity	338,292	134,522	141,105
Federal Home Loan Bank stock redeemed	1,425	-	385
Purchase of bank owned life insurance	-	-	(15,000)
Loan originations—net of repayments	(37,458)	(7,909)	28,081
Loan purchases	(3,140)	-	-
Loan participations sold	3,124	-	-
Proceeds from sales of repossessed assets	773	833	472
Proceeds from sales of office properties and equipment	38	4	40
Purchases of office properties and equipment	(4,851)	(4,504)	(539)
Net cash provided by (used in) investing activities	<u>(5,886)</u>	<u>(25,012)</u>	<u>98,889</u>

(Continued)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

(In thousands)

	2003	2002	2001
FINANCING ACTIVITIES:			
Net increase in deposits	\$ 4,818	\$ 12,829	\$ 15,606
Advances from Federal Home Loan Bank	23,000	26,000	2,450
Repayment of advances from Federal Home Loan Bank	(22,048)	(35,234)	(47,965)
Net decrease in advance payments by borrowers for taxes and insurance	(35)	(169)	(77)
Purchase of treasury stock	(2,805)	(9,547)	(10,682)
Dividends paid	(1,814)	(1,471)	(1,437)
Stock options exercised	1,418	422	-
Net cash provided by (used in) financing activities	<u>2,534</u>	<u>(7,170)</u>	<u>(42,105)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,708	(27,818)	60,747
CASH AND CASH EQUIVALENTS:			
Beginning of year	44,493	72,311	11,564
End of year	<u>\$ 56,201</u>	<u>\$ 44,493</u>	<u>\$ 72,311</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—			
Cash paid for:			
Interest	<u>\$ 16,073</u>	<u>\$ 22,020</u>	<u>\$ 32,469</u>
Income taxes	<u>\$ 3,394</u>	<u>\$ 4,016</u>	<u>\$ 2,587</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
Real estate and other assets acquired in settlement of loans	<u>\$ 1,933</u>	<u>\$ 1,017</u>	<u>\$ 642</u>
Loans to facilitate sales of real estate owned	<u>\$ 620</u>	<u>\$ 272</u>	<u>\$ 18</u>
Investment securities purchased—not settled	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>

See notes to consolidated financial statements.

(Concluded)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation—First Federal Bancshares of Arkansas, Inc. (the “Company”) 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. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences could be significant. The allowance for loan losses is a material estimate that is particularly susceptible to significant change in the near term.

Cash and Cash Equivalents—For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from depository institutions, which includes interest-bearing amounts available upon demand.

Investment Securities—The Company classifies investment securities into one of two categories: held to maturity or available for sale. The Company does not engage in trading activities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at cost, adjusted for the amortization of premiums and the accretion of discounts.

Investment securities that the Company intends to hold for indefinite periods of time are classified as available for sale and are recorded at fair value. Unrealized holding gains and losses are excluded from earnings and reported net of tax in other comprehensive income. Investment securities in the available for sale portfolio may be used as part of the Company’s asset and liability management practices and may be sold in response to changes in interest rate risk, prepayment risk, or other economic factors. At December 31, 2003 and 2002, the Company did not own any investment securities classified as available for sale.

Premiums are amortized into interest income using the interest method to the earlier of maturity or call date. Discounts are accreted into interest income using the interest method over the period to maturity. The specific identification method of accounting is used to compute gains or losses on the sales of investment securities.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers independent price quotations and the financial condition of the issuer.

Loans Receivable—The Bank originates and maintains loans receivable which are substantially concentrated in its lending territory (primarily Northwest and Northcentral Arkansas). The majority of the Bank’s loans are residential mortgage loans, commercial loans, and construction loans for residential property. The Bank’s policy calls for collateral or other forms of repayment assurance to be received from the borrower at the time of loan origination. Such collateral or other form of repayment assurance is subject to changes in economic value due to various factors beyond the control of the Bank.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at unpaid principal balances adjusted for any charge-offs, the allowance for loan losses, and any deferred loan fees or costs. Deferred loan fees or costs and discounts on first mortgage loans are amortized or accreted to income using the level-yield method over the remaining period to contractual maturity.

Mortgage loans originated and committed for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Such loans are carried at cost due to the short period of time between funding and sale, generally two to three weeks.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when the loan becomes 90 days past due, whichever occurs first. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses—The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 more information becomes available or conditions change.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as loss, doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based primarily on historical loss experience. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. 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 short fall 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, valuing these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, and economic conditions in the primary market areas.

Rate Lock Commitments—On March 13, 2002, the Financial Accounting Standards Board (“FASB”) determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments, effective for fiscal quarters beginning after April 10, 2002. Accordingly, the Company adopted such accounting on July 1, 2002.

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. Prior to July 1, 2002, such commitments were recorded to the extent of fees received. Fees received were subsequently included in the net gain or loss on sale of mortgage loans.

The cumulative effect of adopting SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for rate lock commitments as of July 1, 2002 was not material, nor was its effect material at December 31, 2003 or 2002.

Real Estate Acquired in Settlement of Loans—Real estate acquired in settlement of loans is initially recorded at estimated fair value less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses.

Office Properties and Equipment—Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation and amortization. The Company computes depreciation using the straight-line method over the estimated useful lives of the individual assets which range from 3 to 40 years.

Income Taxes—Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various statement of financial condition assets and liabilities and gives current recognition to changes in tax rates and laws.

Interest Rate Risk—The Bank’s asset base is exposed to risk including the risk resulting from changes in interest rates and changes in the timing of cash flows. The Bank monitors the effect of such risks by considering the mismatch of the maturities of its assets and liabilities in the current interest rate environment and the sensitivity of assets and liabilities to changes in interest rates. The Bank’s management has considered the effect of significant increases and decreases in interest rates and believes such changes, if they occurred, would be manageable and would not affect the ability of the Bank to hold its assets as planned. However, the Bank is exposed to significant market risk in the event of significant and prolonged interest rate changes.

Employee Stock Ownership Plan—Compensation expense for the Employee Stock Ownership Plan (“ESOP”) is determined based on the average fair value of shares committed to be released during the period and is recognized as the shares are committed to be released. For the purpose of earnings per share, ESOP shares are included in weighted-average common shares outstanding as the shares are committed to be released.

Stock Compensation Plans—Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), provides that entities may adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also provides that an entity may measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. The Company applies the provisions of APB Opinion No. 25 in accounting for its stock option plan. No compensation cost has been recognized for options granted to employees as all options granted had an exercise price equal to the market price of the underlying stock on the grant date. Had compensation cost for these plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methods of SFAS 123, the Company’s pro forma net income and pro forma earnings per share would have been as follows:

	2003		2002		2001	
	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma
Net income (in thousands)	\$ 7,456	\$ 7,438	\$ 7,778	\$ 7,748	\$ 5,460	\$ 4,934
Earnings per share:						
Basic	\$ 1.46	\$ 1.46	\$ 1.44	\$ 1.43	\$ 0.88	\$ 0.80
Diluted	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 0.87	\$ 0.79

The proforma effects are computed using the Binomial option-pricing model, with the following weighted-average assumptions at the grant date:

	2003	2002	2001
Risk-free interest rate	3.18% to 3.82%	4.43% to 5.22%	4.89% to 5.11%
Expected option life (years)	7.00	7.00	7.00
Expected stock price volatility	11% - 14%	17% - 18%	18% - 22%
Dividend yield	2.02% to 2.50%	2.30%	1.90% to 2.10%

Earnings Per Common Share—Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Stock Split—On November 25, 2003, the Board of Directors of the Company declared a two-for-one stock split payable December 31, 2003, to the stockholders of record December 17, 2003. Stockholders’ equity, including shares, has been retroactively restated to reflect the stock split as of the earliest date presented in this report. All per share amounts and weighted average shares outstanding have been restated to reflect the stock split.

Recent Accounting Pronouncements—In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers’ Disclosures about Pensions and Other Postretirement Benefits*, which requires additional disclosures about the assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. The Company adopted this statement on December 31, 2003. See the disclosures in Note 11.

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, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, 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 on July 1, 2003 did not have a material effect on the financial statements of the Company.

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 on July 1, 2003 did not have a material effect on the financial statements of the Company.

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (revised December 2003) (“FIN 46R”) establishes accounting guidance for consolidation of variable interest entities (“VIE”) that function to support the activities of the primary beneficiary. The primary beneficiary of the VIE entity is the entity that absorbs a majority of expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity that change with changes in the fair value of the entity’s net assets excluding variable interests. Prior to the implementation of FIN 46R, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The provisions of FIN 46R were effective for public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application for all other types of entities is required in financial statements for periods ending after March 15, 2004. FIN 46R does not have an effect on the Company because the Company is not involved with any such entities.

Reclassifications—Certain amounts in the 2002 and 2001 consolidated financial statements have been reclassified to conform to the classifications adopted for reporting in 2003.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2003 and 2002, these reserve balances amounted to \$520,000 and \$4,875,000, respectively.

3. INVESTMENT SECURITIES

Investment securities consisted of the following at December 31 (in thousands):

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held To Maturity				
Certificates of deposit	\$ 9,000	\$ -	\$ -	\$ 9,000
Municipal securities	14,303	426	31	14,698
U.S. Government and Agency obligations	<u>57,076</u>	<u>266</u>	<u>877</u>	<u>56,465</u>
Total	<u>\$ 80,379</u>	<u>\$ 692</u>	<u>\$ 908</u>	<u>\$ 80,163</u>
	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held To Maturity				
Certificates of deposit	\$ 40,341	\$ 54	\$ -	\$ 40,395
Municipal securities	8,728	183	25	8,886
U.S. Government and Agency obligations	65,402	1,064	13	66,453
Total	<u>\$ 114,471</u>	<u>\$ 1,301</u>	<u>\$ 38</u>	<u>\$ 115,734</u>

The following table shows gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 1,824	\$ 31	\$ -	\$ -	\$ 1,824	\$ 31
U.S. Government and Agency obligations	<u>22,229</u>	<u>877</u>	<u>-</u>	<u>-</u>	<u>22,229</u>	<u>877</u>
	<u>\$ 24,053</u>	<u>\$ 908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,053</u>	<u>\$ 908</u>

The Company has pledged investment securities held to maturity with carrying values of approximately \$15.5 million and \$22.4 million at December 31, 2003 and 2002, respectively, as collateral for certain deposits in excess of \$100,000.

The scheduled maturities of debt securities at December 31, 2003, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2003	
	Amortized Cost	Fair Value
Within one year	\$ 9,500	\$ 9,508
Due from one year to five years	2,100	2,134
Due from five years to ten years	9,610	9,665
Due after ten years	59,169	58,856
Total	<u>\$ 80,379</u>	<u>\$ 80,163</u>

As of December 31, 2003 and 2002, investments with carrying values of approximately \$70 million and \$80 million, respectively, have call options held by the issuer, of which approximately \$55 million and \$68 million, respectively, are callable within one year.

4. LOANS RECEIVABLE

Loans receivable consisted of the following at December 31 (in thousands):

	2003	2002
First mortgage loans:		
One- to four-family residences	\$ 256,796	\$ 289,106
Commercial	82,895	64,888
Multi-family	9,998	5,821
Other	2,234	1,735
Construction	89,332	49,144
Less:		
Unearned discounts	(119)	(178)
Undisbursed loan funds	(35,181)	(20,618)
Deferred loan fees—net	(784)	(1,414)
Total first mortgage loans	<u>405,171</u>	<u>388,484</u>
Consumer and other loans:		
Commercial loans	33,672	28,213
Automobile	22,087	22,570
Consumer loans	10,167	7,741
Home equity and second mortgage	36,332	31,670
Savings loans	2,353	2,158
Other	4,349	3,907
Deferred loan costs—net	246	254
Total consumer and other loans	109,206	96,513
Allowance for loan losses	<u>(1,621)</u>	<u>(1,529)</u>
Loans receivable—net	<u>\$ 512,756</u>	<u>\$ 483,468</u>

At December 31, 2003 and 2002, loans receivable included loans committed to be sold with net book values of \$1.7 and \$8.3 million, respectively.

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31	
	2003	2002
Impaired loans without a valuation allowance	\$ 1,352	\$ -
Impaired loans with a valuation allowance	<u>-</u>	<u>4,219</u>
Total impaired loans	<u>\$ 1,352</u>	<u>\$ 4,219</u>
Valuation allowance related to impaired loans	<u>\$ -</u>	<u>\$ 442</u>
Total non-accrual loans	<u>\$ 2,331</u>	<u>\$ 2,728</u>
Total loans past-due ninety days or more and still accruing	<u>\$ 400</u>	<u>\$ -</u>

	Year Ended December 31	
	2003	2002
Average investment in impaired loans	<u>\$ 4,660</u>	<u>\$ 4,351</u>
Interest income recognized on impaired loans	<u>\$ 401</u>	<u>\$ 332</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ 88</u>	<u>\$ -</u>
No additional funds are committed to be advanced in connection with impaired loans.		

5. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consisted of the following at December 31 (in thousands):

	2003	2002
Loans	\$ 3,229	\$ 2,992
Investment securities	860	1,388
Total	<u>\$ 4,089</u>	<u>\$ 4,380</u>

6. ALLOWANCES FOR LOAN AND REAL ESTATE LOSSES

A summary of the activity in the allowances for loan and real estate losses is as follows for the years ended December 31 (in thousands):

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	<u>Loans</u>	<u>Real Estate</u>	<u>Loans</u>	<u>Real Estate</u>	<u>Loans</u>	<u>Real Estate</u>
Balance—beginning of year	\$ 1,529	\$ -	\$ 923	\$ -	\$ 691	\$ -
Provisions for estimated losses	690	35	1,500	16	452	8
Recoveries	80		92		17	
Losses charged off	<u>(678)</u>	<u>(35)</u>	<u>(986)</u>	<u>(16)</u>	<u>(237)</u>	<u>(8)</u>
Balance—end of year	<u>\$ 1,621</u>	<u>\$ -</u>	<u>\$ 1,529</u>	<u>\$ -</u>	<u>\$ 923</u>	<u>\$ -</u>

7. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of the following at December 31 (in thousands):

	<u>2003</u>	<u>2002</u>
Land and land improvements	\$ 3,143	\$ 2,508
Buildings and improvements	11,544	5,152
Furniture and equipment	4,895	5,273
Automobiles	754	680
Construction in progress	<u>-</u>	<u>2,986</u>
Total	20,336	16,599
Accumulated depreciation	<u>(6,098)</u>	<u>(5,909)</u>
Office properties and equipment—net	<u>\$ 14,238</u>	<u>\$ 10,690</u>

Depreciation expense for the years ended December 31, 2003, 2002, and 2001, amounted to approximately \$1,167,000, \$819,000, and \$704,000, respectively.

8. DEPOSITS

Deposits are summarized as follows at December 31 (in thousands):

	<u>2003</u>	<u>2002</u>
Demand and NOW accounts, including noninterest-bearing deposits of \$23,821 and \$22,890 in 2003 and 2002, respectively	\$ 96,090	\$ 86,851
Money market	108,400	80,020
Regular savings	29,269	27,772
Certificates of deposit	<u>339,821</u>	<u>374,119</u>
Total	<u>\$ 573,580</u>	<u>\$ 568,762</u>

The aggregate amount of time deposits in denominations of \$100 thousand or more was approximately \$80 million and \$88 million at December 31, 2003 and 2002, respectively.

At December 31, 2003, scheduled maturities of certificates of deposit are as follows (in thousands):

Year Ending December 31	
2004	\$ 187,585
2005	47,689
2006	36,082
2007	34,587
2008	7,062
2009 and thereafter	<u>26,816</u>
Total	<u>\$ 339,821</u>

Interest expense on deposits consisted of the following (in thousands):

	Year Ended December 31		
	2003	2002	2001
NOW and demand deposits	\$ 454	\$ 760	\$ 1,189
Money market	1,703	1,641	734
Regular savings and certificate accounts	12,536	17,106	25,662
Early withdrawal penalties	<u>(86)</u>	<u>(61)</u>	<u>(88)</u>
Total	<u>\$ 14,607</u>	<u>\$ 19,446</u>	<u>\$ 27,497</u>

Eligible deposits of the Bank are insured up to \$100 thousand by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

9. FEDERAL HOME LOAN BANK STOCK AND ADVANCES

The Bank is a member of the Federal Home Loan Bank System. As a member of this system, it is required to maintain an investment in capital stock of the Federal Home Loan Bank ("FHLB") in an amount equal to the sum of .20% of total assets as of the previous December 31 and 4.25% of outstanding advances. No ready market exists for such stock and it has no quoted market value. The carrying value of the stock is its cost.

The Bank pledges eligible collateral for its FHLB advances as defined in its blanket lien agreement with the FHLB as well as its FHLB demand deposit account and FHLB stock. Eligible collateral under the blanket lien includes First Mortgage Collateral (as defined), multi-family residential mortgages meeting the requirements for eligibility as First Mortgage Collateral, U.S. Government and Agency Securities (as defined), privately issued mortgage-backed securities that qualify as eligible collateral under applicable regulations, Federal Home Loan Bank Term Deposit Accounts, and other non-securitized real estate related collateral. Advances at December 31, 2003 and 2002, consisted of the following (in thousands):

Amounts Maturing in Year Ending December 31	2003		2002	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2003		\$ -	3.46 %	\$ 20,896
2004	2.22 %	15,456	3.56 %	4,035
2005	4.79 %	9,503	5.49 %	6,998
2006	2.93 %	4,740	3.06 %	2,163
2007	3.53 %	5,551	4.17 %	2,900
2008	2.96 %	1,677	3.26 %	191
Thereafter	4.06 %	<u>2,635</u>	3.65 %	<u>1,427</u>
Total	3.26 %	<u>\$ 39,562</u>	3.86 %	<u>\$ 38,610</u>

10. INCOME TAXES

The provisions (benefits) for income taxes are summarized as follows (in thousands):

	Year Ended December 31		
	2003	2002	2001
Income tax provision (benefit):			
Current	\$ 3,279	\$ 4,085	\$ 2,505
Deferred	<u>60</u>	<u>(80)</u>	<u>22</u>
Total	<u>\$ 3,339</u>	<u>\$ 4,005</u>	<u>\$ 2,527</u>

The reasons for the differences between the statutory federal income tax rates and the effective tax rates are summarized as follows (in thousands):

	Year Ended December 31					
	2003		2002		2001	
Taxes at statutory rate	\$ 3,670	34.0 %	\$ 4,006	34.0 %	\$ 2,715	34.0 %
Increase (decrease) resulting from:						
State income tax—net Earnings on life insurance policies	276	2.5 %	244	2.1 %	-	-
Nontaxable investments	(288)	(2.7)%	(299)	(2.5)%	(127)	(1.6)%
Other—net	(153)	(1.4)%	(89)	(0.8)%	(67)	(0.8)%
	(166)	<u>(1.5)%</u>	143	<u>1.2 %</u>	6	<u> </u>
Total	<u>\$ 3,339</u>	<u>30.9 %</u>	<u>\$ 4,005</u>	<u>34.0 %</u>	<u>\$ 2,527</u>	<u>31.6 %</u>

The Company's net deferred tax liability account was comprised of the following at December 31 (in thousands):

	2003	2002
Deferred tax assets:		
Stock based compensation	\$ 119	\$ 146
Allowance for loan losses	<u>621</u>	<u>500</u>
Total deferred tax assets	740	646
Deferred tax liabilities:		
Office properties	(561)	(285)
Federal Home Loan Bank stock	(700)	(923)
Pension plan contribution	(142)	(41)
Total deferred tax liabilities	<u>(1,403)</u>	<u>(1,249)</u>
Net deferred tax liability	<u>\$ (663)</u>	<u>\$ (603)</u>

Specifically exempted from deferred tax recognition requirements are bad debt reserves for tax purposes of U.S. savings and loans in the institution's base year, as defined. Base year reserves totaled approximately \$4.2 million. Consequently, a deferred tax liability of approximately \$1.6 million related to such reserves was not provided for in the consolidated statements of financial condition at December 31, 2003 and 2002. Payment of dividends to shareholders out of retained earnings deemed to have been made out of earnings previously set aside as bad debt reserves may create taxable income to the Bank. No provision has been made for income tax on such a distribution as the Bank does not anticipate making such distributions.

11. BENEFIT PLANS

Stock Option Plan—The Stock Option Plan ("SOP") provides for a committee of the Company's Board of Directors to award incentive stock options, non-qualified or compensatory stock options and stock appreciation rights representing up to 1,030,750 shares of Company stock. One-fifth of the options granted vested immediately upon grant, with the balance vesting in equal amounts on the four subsequent anniversary dates of the grant. Options granted vest immediately in the event of retirement, disability, or death. Stock options granted expire in ten years.

Under the SOP, options have been granted to directors and key employees to purchase common stock of the Company. The exercise price in each case equals the fair market value of the Company's stock at the date of grant. Options granted are summarized as follows:

Year Granted	Range of Exercise Prices	Weighted Average Remaining Contract Life
1997	\$ 9.63 - 10.19	3.2 years
1998	11.63 - 12.00	3.7 years
1999	8.53 - 9.32	3.4 years
2000	7.38 - 9.13	6.7 years
2001	9.35 - 11.35	7.6 years
2002	12.20 - 12.32	8.6 years
2003	12.93 - 16.11	9.3 years

A summary of the status of the Company's SOP as of December 31, 2003, 2002, and 2001, and changes during the years ending on those dates are presented below:

	Shares	Weighted Average Exercise Price
Outstanding—January 1, 2001	1,001,130	\$ 9.67
Granted	<u>16,000</u>	10.27
Outstanding—December 31, 2001	1,017,130	9.68
Exercised	(43,800)	9.65
Granted	10,000	12.29
Forfeited	<u>(800)</u>	8.53
Outstanding—December 31, 2002	982,530	9.71
Exercised	(145,768)	9.73
Granted	8,000	14.19
Expired	(3,200)	9.91
Forfeited	(2,000)	11.71
Outstanding—December 31, 2003	<u>839,562</u>	<u>\$ 9.74</u>
Options exercisable—December 31, 2003	<u>819,962</u>	<u>\$ 9.69</u>

Management Recognition and Retention Plan—The Management Recognition and Retention Plan (“MRR Plan”) provides for a committee of the Company’s Board of Directors to award restricted stock to key officers as well as non-employee directors. The MRR Plan authorizes the Company to grant up to 412,300 shares of the Company stock, of which 401,688 shares have been granted through December 31, 2003. Compensation expense has been recognized over the vesting period based on the fair market value of the shares on the grant date. Shares granted will be deemed vested in the event of disability or death. Approximately \$45,000 and \$297,000 in compensation expense was recognized during the years ended December 31, 2003 and 2001, respectively. No compensation expense was recognized during the year ended December 31, 2002.

Employee Stock Ownership Plan—The Company established an Employee Stock Ownership Plan on May 3, 1996. During 1996, the ESOP borrowed \$4.1 million from the Company to purchase shares of Company stock. The loan is collateralized by the shares that were purchased with the proceeds of the loan. As the loan is repaid, ESOP shares will be allocated to participants of the ESOP and are available for release to the participants subject to the vesting provisions of the ESOP.

Forfeitures of nonvested benefits will be reallocated among remaining participating employees in the same proportion as contributions. During each of the years ended December 31, 2003, 2002, and 2001, 83,208 shares were released by the ESOP to participant accounts. At December 31, 2003, there were 563,875 shares allocated to participant accounts and 187,217 unallocated shares. The fair value of the unallocated shares amounted to approximately \$3.8 million at December 31, 2003.

During the years ended December 31, 2003, 2002, and 2001, ESOP expense was approximately \$1.2 million, \$924,000, and \$754,000, respectively.

Other Postretirement Benefits—The Bank is a participant in a multi-employer retirement plan and therefore separate information is not available. The plan is noncontributory and covers substantially all employees. The plan provides a retirement benefit and a death benefit. Retirement benefits are payable in monthly installments for life and must begin not later than the first day of the month coincident with or the next month following the seventieth birthday or the participant may elect a lump-sum distribution. Death benefits are paid in a lump-sum distribution, the amount of which depends on years of service. Net pension expense was approximately \$480,000 and \$108,000 for the years ended December 31, 2003 and 2002, respectively. There was no net pension cost for the year ended December 31, 2001.

12. EARNINGS PER SHARE

	Year Ended December 31, 2003		
	Income (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income available to common stockholders	\$ 7,456	5,099,844	\$ 1.46
Effect of dilutive securities—Stock options	<u>-</u>	<u>286,983</u>	
Diluted EPS—Income available to common stockholders and assumed conversions	<u>\$ 7,456</u>	<u>5,386,827</u>	\$ 1.38
	Year Ended December 31, 2002		
	Income (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income available to common stockholders	\$ 7,778	5,413,076	\$ 1.44
Effect of dilutive securities—Stock options	<u>-</u>	<u>207,362</u>	
Diluted EPS—Income available to common stockholders and assumed conversions	<u>\$ 7,778</u>	<u>5,620,438</u>	\$ 1.38
	Year Ended December 31, 2001		
	Income (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income available to common stockholders	\$ 5,460	6,195,754	\$ 0.88
Effect of dilutive securities—Stock options	<u>-</u>	<u>58,040</u>	
Diluted EPS—Income available to common stockholders and assumed conversions	<u>\$ 5,460</u>	<u>6,253,794</u>	\$ 0.87

13. OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition.

The Bank does not use financial instruments with off-balance sheet risk as part of its asset/liability management program or for trading purposes. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-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. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Such collateral consists primarily of residential properties. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The funding period for construction loans is generally six-to twelve-months and commitments to originate mortgage loans are generally outstanding for 60 days or less.

The Company, 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, construction loans, and under predetermined overdraft protection limits; and
- the commitment to fund withdrawals of certificates of deposit at maturity.

At December 31, 2003, the Bank's off-balance sheet arrangements principally included lending commitments, which are described below. At December 31, 2003, the Company had no interests in non-consolidated special purpose entities.

At December 31, 2003, commitments included:

- total approved loan origination commitments outstanding amounting to \$14.2 million, including \$4.3 million of loans committed to sell;
- commitments to purchase loans of \$3.9 million;
- rate lock agreements with customers of \$4.3 million, all of which have been locked with an investor;
- funded mortgage loans committed to sell of \$1.7 million;
- unadvanced portion of construction loans of \$35.2 million;
- unused lines of credit of \$20.8 million;
- outstanding standby letters of credit of \$1.7 million;
- total predetermined overdraft protection limits of \$9.7 million; and
- certificates of deposit scheduled to mature in one year or less totaling \$187.6 million.

Total unfunded commitments to originate loans for sale and the related commitments to sell of \$4.3 million meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at December 31, 2003.

Historically, a very small percentage of predetermined overdraft limits have been used. At December 31, 2003, overdrafts of accounts with Bounce Protection™ represented usage of 2.1% of the limit.

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

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2003		December 31, 2002	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	\$ 56,201	\$ 56,201	\$ 44,493	\$ 44,493
Investment securities—held to maturity	80,379	80,163	114,471	115,734
Federal Home Loan Bank stock	3,749	3,749	5,064	5,064
Loans receivable—net	512,756	518,666	483,468	492,750
Cash surrender value of life insurance	17,102	17,102	16,254	16,254
Accrued interest receivable	4,089	4,089	4,380	4,380
Commitments	1	1	85	85
LIABILITIES:				
Deposits:				
Demand, NOW, money market and regular savings	233,759	233,759	194,643	194,643
Certificates of deposit	339,821	348,208	374,119	380,574
Federal Home Loan Bank advances	39,562	40,062	38,610	39,664
Accrued interest payable	244	244	331	331
Advance payments by borrowers for taxes and insurance	725	725	760	760
Commitments	1	1	85	85

For cash and cash equivalents, Federal Home Loan Bank stock, cash surrender value of life insurance and accrued interest receivable, the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments or, as to Federal Home Loan Bank stock, the ability to sell the stock back to the Federal Home Loan Bank at cost. The fair value of investment securities is based on quoted market prices, dealer quotes and prices obtained from independent pricing services. The fair value of variable rate loans is based on repricing dates. Fixed-rate loans were valued using discounted cash flows. The discount rates used to determine the present value of these loans were based on interest rates currently being charged by the Bank on comparable loans as to credit risk and term.

The fair value of demand deposit accounts, NOW accounts, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit and Federal Home Loan Bank advances is estimated using the rates currently offered for deposits of similar terms and advances of similar remaining maturities at the reporting date. For advance payments by borrowers, for taxes and insurance and for accrued interest payable the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2003 and 2002. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the reporting date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

15. CONTINGENCIES

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial statements of the Company.

16. RETAINED EARNINGS—SUBSTANTIALLY RESTRICTED

Upon conversion, the Company established a special liquidation account for the benefit of eligible account holders and the supplemental eligible account holders in an amount equal to the net worth of the Bank as of the date of its latest statement of financial condition contained in the final offering circular used in connection with the conversion. The liquidation account will be maintained for the benefit of eligible account holders and supplemental eligible account holders who continue to maintain their accounts in the Bank after conversion. In the event of a complete liquidation (and only in such event), each eligible and supplemental eligible account holder will be entitled to receive a liquidation distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

The Company may not declare or pay cash dividends on its shares of common stock if the effect thereof would cause the Company's stockholders' equity to be reduced below applicable regulatory capital maintenance requirements for insured institutions or below the special liquidation account referred to above.

17. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Office of Thrift Supervision ("OTS"). Failure to meet minimum capital requirements can initiate certain mandatory—and possible additional discretionary—actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible capital (as defined in the regulations) to tangible assets (as defined) and core capital (as defined) to adjusted tangible assets (as defined), and of total risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2003, that the Bank meets all capital adequacy requirements to which it is subject.

At December 31, 2003 and 2002, the most recent notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum core (Tier I leverage), Tier I risk-based, and total risk-based ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts (in thousands) and ratios are also presented in the table:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2003:						
Tangible Capital to Tangible Assets	\$70,868	10.27 %	\$ 10,353	1.50 %	N/A	N/A
Core Capital to Adjusted Tangible Assets	70,868	10.27 %	27,608	4.00 %	\$34,509	5.00 %
Total Capital to Risk-Weighted Assets	72,237	16.25 %	35,557	8.00 %	44,447	10.00 %
Tier I Capital to Risk-Weighted Assets	70,868	15.94 %	N/A	N/A	26,668	6.00 %
As of December 31, 2002:						
Tangible Capital to Tangible Assets	66,509	9.78 %	10,196	1.50 %	N/A	N/A
Core Capital to Adjusted Tangible Assets	66,509	9.78 %	27,190	4.00 %	\$33,988	5.00 %
Total Capital to Risk-Weighted Assets	67,413	17.03 %	31,675	8.00 %	39,593	10.00 %
Tier I Capital to Risk-Weighted Assets	66,509	16.80 %	N/A	N/A	23,756	6.00 %

18. RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank has made loans to its directors, officers, and their related business interests. In the opinion of management, related party loans are 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. The aggregate dollar amount of loans outstanding to directors, officers, and their related business interests was approximately \$2.5 and \$3.0 million at December 31, 2003 and 2002, respectively.

Deposits from related parties held by the Bank at December 31, 2003 and 2002 amounted to \$3.9 and \$3.7 million, respectively.

19. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed statements of financial condition, as of December 31, 2003 and 2002, and condensed statements of income and of cash flows for each of the three years in the period ended December 31, 2003, for First Federal Bancshares of Arkansas, Inc. should be read in conjunction with the consolidated financial statements and the notes herein.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC. (Parent Company Only)

CONDENSED STATEMENTS OF FINANCIAL CONDITION DECEMBER 31, 2003 AND 2002

(In thousands)

ASSETS	2003	2002
Cash and cash equivalents (deposits in Bank)	\$ 236	\$ 391
Loan to Bank subsidiary	3,195	1,967
Accrued interest receivable	2	2
Investment in Bank	71,122	66,509
Other assets	938	747
TOTAL	<u>\$ 75,493</u>	<u>\$ 69,616</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	\$ 415	\$ 350
Stockholders' equity	75,078	69,266
TOTAL	<u>\$ 75,493</u>	<u>\$ 69,616</u>

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Parent Company Only)

CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

(In thousands)

	2003	2002	2001
INCOME:			
Dividends from the Bank	\$ 3,000	\$ 8,000	\$ 12,900
Interest income—loan to the Bank	<u>24</u>	<u>34</u>	<u>139</u>
Total income	3,024	8,034	13,039
EXPENSES:			
Management fees	66	66	66
Other operating expenses	<u>228</u>	<u>184</u>	<u>144</u>
Total expenses	<u>294</u>	<u>250</u>	<u>210</u>
INCOME BEFORE INCOME TAX BENEFIT AND EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	2,730	7,784	12,829
INCOME TAX BENEFIT			
	<u>103</u>	<u>82</u>	<u>24</u>
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	2,833	7,866	12,853
EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	<u>4,623</u>	<u>(88)</u>	<u>(7,393)</u>
NET INCOME			
	<u>\$ 7,456</u>	<u>\$ 7,778</u>	<u>\$ 5,460</u>

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Parent Company Only)

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001
(In thousands)

	2003	2002	2001
OPERATING ACTIVITIES:			
Net income	\$ 7,456	\$ 7,778	\$ 5,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net (earnings) loss of Bank	(4,623)	88	7,393
Release of ESOP shares	1,322	1,016	850
Stock compensation expense	45		297
Changes in operating assets and liabilities:			
Accrued interest receivable		4	5
Other assets	(190)	(236)	297
Accrued expenses and other liabilities	<u>264</u>	<u>30</u>	<u>114</u>
Net cash provided by operating activities	4,274	8,680	14,416
INVESTING ACTIVITIES—Loan to bank—net of repayments			
	(1,228)	2,129	(2,278)
Net cash provided by (used in) investing activities	<u>(1,228)</u>	<u>2,129</u>	<u>(2,278)</u>
FINANCING ACTIVITIES:			
Purchase of treasury stock	(2,805)	(9,547)	(10,682)
Dividends paid	(1,814)	(1,471)	(1,437)
Stock options exercised	1,418	422	
Net cash used in financing activities	<u>(3,201)</u>	<u>(10,596)</u>	<u>(12,119)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(155)	213	19
CASH AND CASH EQUIVALENTS:			
Beginning of period	<u>391</u>	<u>178</u>	<u>159</u>
End of period	<u>\$ 236</u>	<u>\$ 391</u>	<u>\$ 178</u>

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**FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
FIRST FEDERAL BANK OF ARKANSAS, FA**

DIRECTORS

John P. Hammerschmidt
Chairman of the Board and
U. S. Congressman, Retired

Larry J. Brandt
President and Chief Executive Officer

James D. Heuer
Farming and Investments

Kenneth C. Savells
Insurance and Investments
with securities offered through Linsco/Private Ledger

Jeffrey L. Brandt
Senior Vice President and Regional Manager

Frank Conner
Vice President and Chief Financial Officer
FedEx Freight East

EXECUTIVE OFFICERS

Larry J. Brandt
President and Chief Executive Officer

Tommy W. Richardson
Executive Vice President, Chief Operating Officer
and Secretary

Sherri R. Billings
Executive Vice President and Chief Financial Officer

Ross Mallioux
Executive Vice President and Chief Lending Officer

Scott H. Tennyson
Executive Vice President and Chief Retail Officer

BANKING LOCATIONS

Corporate Headquarters

1401 Highway 62-65 North
Harrison, Arkansas 72601

Other Locations

200 West Stephenson
Harrison, Arkansas 72601

Corner Central & Willow
Harrison, Arkansas 72601

210 South Main
Berryville, Arkansas 72616

668 Highway 62 East
Mountain Home, Arkansas 72653

1337 Hwy 62 SW
Mountain Home, Arkansas 72653

324 Highway 62-65 Bypass
Harrison, Arkansas 72601

1303 West Hudson
Rogers, Arkansas 72756

2030 West Elm
Rogers, Arkansas 72756

249 West Main Street
Farmington, AR 72730

1023 East Millsap Road
Fayetteville, AR 72703

201 East Henri De Tonti Blvd.
Tontitown, Arkansas 72764

301 Highway 62 West
Yellville, Arkansas 72687

307 North Walton Blvd.
Bentonville, Arkansas 72712

2501 East Central Ave., Suite 2
Bentonville, Arkansas 72712

3460 North College
Fayetteville, Arkansas 72703

2025 North Crossover Road
Fayetteville, AR 72703

STOCKHOLDER INFORMATION

First Federal Bancshares of Arkansas, Inc. is a unitary savings and loan holding company conducting business through its wholly-owned subsidiary, First Federal Bank of Arkansas, FA. The Bank is a federally-chartered, SAIF-insured savings institution operating through its main office and fourteen full service branch offices. The Company's and the Bank's principal executive office is located at 1401 Highway 62-65 North, Harrison, Arkansas 72601.

TRANSFER AGENT/REGISTRAR

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
Phone: (800) 368-5948
www.rtco.com

STOCKHOLDER REQUESTS

The Company makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to such reports filed pursuant to Sections 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable on or through its website located at www.ffbh.com after filing with the United States Securities and Exchange Commission. Request for printed copies of annual reports, quarterly reports and related stockholder literature should be directed to Investor Relations, First Federal Bancshares of Arkansas, Inc., P. O. Box 550, Harrison, Arkansas 72602.

Stockholders needing assistance with stock records, transfers or lost certificates, should contact the Company's transfer agent, Registrar and Transfer Company, at the telephone number listed above.

COMMON STOCK INFORMATION

Shares of the Company's common stock are traded under the symbol "FFBH" on the Nasdaq National Market System. At March 2, 2004, the Company had 5,315,256 shares of common stock outstanding and had approximately 2000 beneficial holders of common stock.

The following table sets forth the dividends declared and the reported high and low sale prices of a share of the Company's common stock as reported by Nasdaq for the periods indicated. Such table has been adjusted for the two-for-one stock split paid on December 31, 2003.

QUARTER ENDED	YEAR ENDED DECEMBER 31, 2003			YEAR ENDED DECEMBER 31, 2002		
	High	Low	Dividend	High	Low	Dividend
March 31	\$13.11	\$12.66	\$0.08	\$12.00	\$11.13	\$0.06
June 30	\$16.75	\$12.87	\$0.08	\$13.18	\$11.63	\$0.06
September 30	\$18.95	\$15.86	\$0.09	\$12.90	\$12.05	\$0.07
December 31	\$20.50	\$18.39	\$0.09	\$12.97	\$11.90	\$0.07

