FORM 10-K

Annual report pursuant to section 13 and 15(d)

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

FIRST FEDERAL BANCSHARES OF ARKANSAS INC

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SIC: **6035** Savings institution, federally chartered

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from __________ to _______________

Commission File No.: 0-28312

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

(Exact name of registrant as specified in its charter)

TEXAS	71-0785261
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
200 WEST STEPHENSON HARRISON, ARKANSAS	72601
(Address)	(Zip Code)

Registrant's telephone number, including area code: (870) 741-7641

Securities registered pursuant to Section 12(b) of the Act:
NOT APPLICABLE

Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK (PAR VALUE $.01 PER SHARE)

(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

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

As of March 22, 1999, the aggregate value of the 4,036,685 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 382,012 shares held by all directors and officers of the Registrant as a group, was approximately $66.6 million. This figure is based on the last sales price of $16.50 per share of the Registrant's Common Stock on March 22, 1999.

Number of shares of Common Stock outstanding as of March 22, 1999: 4,418,697

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

(1) Portions of the Annual Report to Stockholders for the year ended December 31, 1998 are incorporated into Part II, Items 5 through 8 of this Form 10-K.

(2) Portions of the definitive proxy statement for the 1999 Annual Meeting of Stockholders are incorporated into Part III, Items 10 through 13 of this Form 10-K.

PART I.

ITEM 1. BUSINESS

GENERAL

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC. First Federal Bancshares of Arkansas, Inc. (the "Company") is a Texas corporation organized in January 1996 by First Federal Bank of Arkansas, FA ("First Federal" or the "Bank") for the purpose of becoming a unitary holding company of the Bank. The only significant assets of the Company are the capital stock of the Bank, the Company's loan to the Employee Stock Ownership Plan ("ESOP"), and the portion of the net proceeds retained by the Company in connection with the Bank's conversion to stock form and the concurrent offering of the Company's common stock (the "Conversion"). The business and management of the Company consists of the business and management of the Bank. The Company does not presently own or lease any property, but instead uses the premises, equipment and furniture of the Bank. At the present time, the Company does not employ any persons other than officers of the Bank, and the Company utilizes the support staff of the Bank from time to time. Additional employees will be hired as appropriate to the extent the Company expands or changes its business in the future. At December 31, 1998, the Company had $615.1 million in total assets, $481.1 million in total deposits and $81.0 million in stockholders' equity.

The Company's executive office is located at the home office of the Bank at 200 West Stephenson Avenue, Harrison, Arkansas 72601, and its telephone number is (870) 741-7641.

FIRST FEDERAL BANK OF ARKANSAS, FA. The Bank is a federally chartered stock savings and loan association which was formed in 1934. First Federal conducts business from its main office and twelve 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 savings institution which has traditionally offered a wide variety of savings products to its retail customers while concentrating its lending activities on the origination of loans collateralized by one- to four-family residential dwellings. To a significantly lesser extent, the Bank's activities have also included origination of multi-family residential loans, commercial real estate loans, construction loans, commercial loans and consumer loans. In addition, the Bank maintains a significant portfolio of investment securities. In addition to interest and dividend income on loans and investments, the Bank receives other income from loan fees and various service charges. The Bank's goal is to continue to serve its market area as an independent community oriented financial institution dedicated primarily to financing home ownership while providing financial services to its customers in an efficient manner.

The Bank is subject to examination and comprehensive regulation by the Office of Thrift Supervision ("OTS"), which is the Bank's chartering authority and primary regulator. The Bank is also regulated by the FDIC, the administrator of the SAIF. The Bank is also subject to certain reserve requirements established by the Board of Governors of the Federal Reserve System ("FRB") and is a member of the Federal Home Loan Bank ("FHLB") of Dallas, which is one of the 12 regional banks comprising the FHLB System.

This Form 10-K and the Company's Annual Report to Stockholders contain 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 those and other portions of this document and the Company's Annual Report to Stockholders, 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.

LENDING ACTIVITIES

GENERAL. At December 31, 1998, the Bank's total portfolio of loans receivable ("total loan portfolio"), amounted to $453.3 million or 73.7% of the Company's $615.1 million of total assets at such time. The Bank has traditionally concentrated its lending activities on conventional first mortgage loans collateralized by single-family (one- to four-family) residential property. Consistent with such approach, $370.2 million or 81.66% of the Bank's total loan portfolio consisted of one- to four-family residential loans at December 31, 1998. To a significantly lesser extent, the Bank also originates multi-family residential loans, commercial real estate loans, construction loans, commercial loans and consumer loans. At December 31, 1998, such loan categories amounted to $1.5 million, $23.2 million, $18.2 million, $8.4 million and $31.7 million, respectively, or .34%, 5.12%, 4.02%, 1.86% and 7.00% of the total loan portfolio, respectively. The Bank currently does not offer loans which are insured by the Federal Housing Administration ("FHA") nor partially guaranteed by the Office of Veterans Affairs ("VA").

LOAN COMPOSITION. The following table sets forth certain data relating to the composition of the Bank's loan portfolio by type of loan at the dates indicated.

<TABLE>
<CAPTION>

	December 31,					
	1998		1997		1996	
	Amount	Percentage of Loans	Amount	Percentage of Loans	Amount	Percentage of Loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(Dollars in Thousands)			
Real estate loans:						
Single-family residential	$370,211	81.66%	$370,955	83.18%	$338,349	82.36%
Multi-family residential	1,540	.34	1,303	.29	1,555	.38
Commercial real estate	23,196	5.12	18,593	4.17	19,136	4.66
Construction	18,226	4.02	20,753	4.66	20,053	4.88
Total real estate loans	413,173	91.14	411,604	92.30	379,093	92.28
Commercial loans	8,437	1.86	5,649	1.27	4,348	1.06
Consumer loans:						
Home equity and second mortgage loans	13,308	2.94	13,023	2.92	12,549	3.06
Automobile	10,693	2.36	8,307	1.86	7,556	1.84
Other	7,712	1.70	7,372	1.65	7,244	1.76
Total consumer loans	31,713	7.00	28,702	6.43	27,349	6.66
Total loans receivable	453,323	100.00%	445,955	100.00%	410,790	100.00%
Less:						
Undisbursed loan funds	(6,770)		(7,305)		(8,670)	
Unearned discounts and net deferred loan fees	(3,296)		(3,512)		(4,361)	
Allowance for loan losses	(771)		(1,196)		(1,251)	
Total loans receivable, net	$442,486		$433,942		$396,508	

</TABLE>

<TABLE>
<CAPTION>

	December 31,			
	1995		1994	
	Amount	Percentage of Loans	Amount	Percentage of Loans
		(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>
Real estate loans:				
Single-family residential	$287,872	82.54%	$237,724	82.96%
Multi-family residential	1,060	.30	800	0.28
Commercial real estate	19,723	5.66	17,529	6.12
Construction	11,603	3.33	7,468	2.61

Total real estate loans	320,258	91.83	263,521	91.97
Commercial loans	4,014	1.15	3,192	1.11
Consumer loans:				
Home equity and second mortgage loans	10,466	3.00	8,752	3.05
Automobile	6,993	2.01	5,154	1.80
Other	7,021	2.01	5,938	2.07
Total consumer loans	24,480	7.02	19,844	6.92
Total loans receivable	348,752	100.00%	286,557	100.00%
Less:				
Undisbursed loan funds	(4,298)		(3,318)	
Unearned discounts and net deferred loan fees	(3,721)		(2,322)	
Allowance for loan losses	(1,228)		(1,134)	
Total loans receivable, net	$339,505		$279,783	

</TABLE>

LOAN MATURITY AND INTEREST RATES. The following table sets forth certain information at December 31, 1998 regarding the dollar amount of loans maturing in the Bank's loan portfolio based on their contractual terms to maturity. Demand loans and loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. All other loans are included in the period in which the final contractual repayment is due.

<TABLE>
<CAPTION>

	Within One Year	One Year Through Three Years	After Three Years Through Five Years	After Five Years Through Ten Years	After Ten Years Through Twenty Years	Beyond Twenty Years	Total
				(In Thousands)			
Real estate loans:							
Single-family residential	$ 420	$ 1,095	$ 3,818	$43,219	$144,257	$177,402	$370,211
Multi-family residential	172	--	--	485	883	--	1,540
Commercial real estate	2,235	1,662	6,070	6,973	6,256	--	23,196
Construction	1,928	--	--	510	4,911	10,877	18,226
Commercial loans	4,227	1,087	1,689	897	537	--	8,437
Consumer loans	9,307	7,080	14,031	1,208	87	--	31,713
Total(1)	$18,289	$10,924	$25,608	$53,292	$156,931	$188,279	$453,323

</TABLE>

(1) Gross of undisbursed loan funds, unearned discounts and net deferred loan fees and the allowance for loan losses.

The following table sets forth the dollar amount of the Bank's loans at December 31, 1998 due after one year from such date which have fixed interest rates or which have floating or adjustable interest rates.

<TABLE>
<CAPTION>

	Fixed-Rates	Floating or Adjustable-Rates	Total
		(In Thousands)	
Real estate loans:			
Single-family residential	$135,286	$234,505	$369,791
Multi-family residential	940	428	1,368

Commercial real estate	20,961	--	20,961
Construction	5,321	10,977	16,298
Commercial loans	4,210	--	4,210
Consumer loans	22,406	--	22,406
Total	$189,124	$245,910	$435,034

</TABLE>

Scheduled contractual maturities of loans do not necessarily reflect the actual term of the Bank's portfolio. The average life of mortgage loans is substantially less than their average contractual terms because of loan prepayments and refinancing. The average life of mortgage loans tends to increase, however, when current mortgage loan rates substantially exceed rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans substantially exceed current mortgage loan rates.

ORIGINATION, PURCHASE AND SALE OF LOANS. The lending activities of the Bank are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Bank's Board of Directors and management. Loan originations are obtained by a variety of sources, including realtors, walk-in customers, branch managers and radio, television and newspaper advertising. In its marketing, the Bank emphasizes its community ties and an efficient underwriting and approval process. The Bank believes it can provide its personalized service to its customers in a more efficient manner due in part to the use of in-house appraisal and underwriting staff. The Bank requires hazard, title and, to the extent applicable, flood insurance on all security property.

Loan applications are initially processed by branch managers or loan officers and all real estate loans up to $500,000 must be approved by two members of the Bank's Loan Committee, one of which must be a member of senior management. Loans in excess of $500,000 up to $750,000 must be approved by three members of the Bank's Loan Committee, two of which must be members of senior management. Real estate loans in excess of $750,000 must be approved by the Bank's Board of Directors. Consumer loans are initially processed by consumer loan officers and are required to be approved by designated officers of the Bank depending on the amount of the loan. All loans are ratified by the Board of Directors.

Historically, the Bank has not been an active purchaser of loans due to consistent loan demand. No loans were purchased during the last three years.

The Bank originates and sells loans with fixed terms of fifteen years or greater to specific investors in the secondary mortgage loan market. This allows the Bank to provide to its' customers competitive long-term fixed-rate loan products without assuming additional interest rate risk. These loans are originated subject to underwriting by a third party with the purchase price confirmed by the respective investor prior to loan closing. Due to these loans being underwritten by a third party, the repurchase risk typically associated with such contracts is being assumed by the underwriter. The Bank is not involved in loan hedging or other speculative mortgage origination activities. In 1998, 1997, and 1996, the Bank's loan sales were $20.5 million, $2.2 million, and $73,000, respectively.

Set forth below is a table showing the Bank's originations, purchases, sales and repayments of loans during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
		(In Thousands)	
<S>	<C>	<C>	<C>
Loans receivable at beginning of period	$445,955	$410,790	$348,752
Loan originations:			
Real estate:			
Single-family residential	114,518	92,684	102,214
Multi-family residential	590	--	556
Commercial real estate	13,776	3,633	4,866
Construction	24,033	20,587	25,537
Commercial loans	7,159	5,257	3,060
Consumer:			
Home equity and second			

mortgage loans	9,652	8,807	10,400
Automobile	10,273	7,311	7,235
Other	8,830	6,798	7,225
Total loan originations	188,831	145,077	161,093
Purchases	--	--	--
Total loan originations and purchases	188,831	145,077	161,093
Repayments	(156,426)	(106,408)	(98,540)
Loan sales	(20,494)	(2,244)	(73)
Other	(4,543)	(1,260)	(442)
Net loan activity	7,368	35,165	62,038
Loans receivable at end of period	$453,323	$445,955	$410,790

</TABLE>

LOANS-TO-ONE BORROWER. A savings institution generally may not make loans-to-one borrower and related entities in an amount which exceeds 15% of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable securities. At December 31, 1998, the Bank's limit on loans-to-one borrower was approximately $10.9 million. At December 31, 1998, the Bank's largest loans or groups of loans-to-one borrower, including persons or entities related to the borrower, amounted to $5.7 million. Such amount consists of 22 loans, primarily commercial real estate loans, all of which were current at December 31, 1998. The Bank's ten largest loans or groups of loans-to-one borrower, including persons or entities related to the borrower, amounted to $22.3 million at December 31, 1998. All of such loans are current.

ONE-TO FOUR-FAMILY RESIDENTIAL REAL ESTATE LOANS. The Bank has historically concentrated its lending activities on the origination of loans collateralized by first mortgage liens on existing one- to four-family residences. At December 31, 1998, $370.2 million or 81.7% of the Bank's total loan portfolio consisted of one- to four-family residential real estate loans. The Bank originated $114.5 million, $92.7 million and $102.2 million of one- to four-family residential loans in 1998, 1997, and 1996, respectively, and intends to continue to emphasize the origination of permanent loans collateralized by first mortgage liens on one- to four-family residential properties in the future. Of the $370.2 million of such loans at December 31, 1998, $234.5 million or 63.3% had adjustable-rates of interest (including $190.3 million in seven-year adjustable rates) and $136.0 million or 36.7% had fixed-rates of interest.

The Bank currently originates both fixed-rate and adjustable-rate one- to four-family residential mortgage loans. The Bank's fixed-rate loans for portfolio are presently originated with maximum terms of 15 years and are fully amortizing with monthly payments sufficient to repay the total amount of the loan with interest by the end of the loan term. The Bank does offer fixed-rate loans with terms exceeding fifteen years although such loans are typically sold in the secondary market. The Bank's one- to four-family loans are typically originated under terms, conditions and documentation which permit them to be sold to U.S. Government sponsored agencies such as the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA"). However, as stated above, such loans with terms of 15 years or less are generally originated for portfolio while substantially all of such loans over 15 years are sold in the secondary market. The Bank's fixed-rate loans typically include "due on sale" clauses.

The Bank's adjustable-rate mortgage loans typically provide for an interest rate which adjusts every one-, three-, five- or seven-years in accordance with a designated index plus a margin. Such loans are typically based on a 25- or 30-year amortization schedule. The Bank generally does not offer below market rates, and the amount of any increase or decrease in the interest rate per one or three year period is generally limited to 2%, with a limit of 6% over the life of the loan. The Bank's five-year adjustable rate loans provide that any increase or decrease in the interest rate per period is limited to 3%, with a limit of 6% over the life of the loan. The Bank's seven-year adjustable rate loans provide that any increase or decrease in the interest rate per period is limited to 5% with a limit of 5% over the life of the loan. The Bank's adjustable-rate loans are assumable (generally without release of the initial borrower), do not contain prepayment penalties and do not provide for negative amortization. The Bank's adjustable-rate mortgage loans typically include "due on sale" clauses. Such loans may be converted to a fixed-rate loan at the discretion of the Bank. The Bank generally underwrites its one- and three-year adjustable-rate loans on the basis of the borrowers' ability to pay at the rate after the first adjustment. Adjustable-rate loans decrease the risks associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates.

The Bank's residential mortgage loans typically do not exceed 90% of the appraised value of the security property. However, pursuant to underwriting guidelines adopted by the Board of Directors, the Bank can lend up to 97% of the appraised value of the property securing a one- to four-family residential loan, and requires borrowers to obtain private mortgage insurance on the portion of the principal amount of the loan that exceeds 90% of the appraised value of the security property. At December 31, 1998, the Bank had $1.3 million of nonperforming single-family residential loans. See "- Asset Quality."

MULTI-FAMILY RESIDENTIAL REAL ESTATE LOANS. Although the Bank does not emphasize multi-family residential loans and has not been active in this area, the Bank offers mortgage loans for the acquisition and refinancing of existing multi-family residential properties. At December 31, 1998, $1.5 million or .3% of the Bank's total loan portfolio consisted of loans collateralized by existing multi-family residential real estate properties.

Multi-family loans are generally made on terms up to ten years with fixed rates although the Bank will originate such loans with call provisions up to five years. Loan to value ratios on the Bank's multi-family real estate loans are currently limited to 80%. It is also the Bank's general policy to obtain corporate or personal guarantees, as applicable, on its multi-family residential real estate loans from the principals of the borrower.

Multi-family real estate lending entails significant additional risks as compared with one- to four-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for multi-family real estate as well as economic conditions generally. At December 31, 1998, the Bank did not have any nonperforming multi-family real estate loans. See "- Asset Quality."

COMMERCIAL REAL ESTATE LOANS. The Bank originates mortgage loans for the acquisition and refinancing of commercial real estate properties. At December 31, 1998, $23.2 million or 5.1% of the Bank's total loan portfolio consisted of loans collateralized by existing commercial real estate properties. The Bank does not actively market its commercial real estate loan products and offers such loans primarily as an accommodation to its present customers. Management does not expect the Bank's portfolio of commercial real estate loans to significantly increase in the future.

The majority of the Bank's commercial real estate loans are collateralized by office buildings, convenience stores, service stations, mini-storage facilities, hotels, churches and small shopping malls. The majority of the Bank's commercial real estate loans are collateralized by property located in the Bank's market area.

At December 31, 1998, the Bank had approximately $8.7 million of loans which are either for the construction of service station and convenience store facilities or are collateralized by such facilities. The Bank requires that construction loans for such facilities meet present standards established by the Environmental Protection Agency. With respect to existing facilities, the Bank requires an environmental study of the property. To date, the Bank has not experienced any material credit or environmental problems with such loans.

The Bank requires appraisals of all properties securing commercial real estate loans. The Bank considers the quality and location of the real estate, the credit of the borrower, cash flow of the project and the quality of management involved with the property. The Bank's commercial real estate loans are originated with fixed interest rates based on a ten or fifteen year amortization schedule and loan to value ratios on such loans are generally limited to 80%. As part of the criteria for underwriting multi-family and commercial real estate loans, the Bank generally imposes a debt coverage ratio (the ratio of net cash from operations before payment of debt service to debt service) of not less than 1.2. It is also the Bank's policy to typically obtain corporate or personal guarantees, as applicable, on its commercial real estate loans from the principals of the borrower.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as regional and economic conditions generally. At December 31, 1998, the Bank did not have any nonperforming commercial real estate loans. See"-Asset Quality."

CONSTRUCTION LOANS. The Bank also originates primarily residential construction loans, although the Bank has originated commercial real estate and multi-family residential construction loans to a limited degree. The Bank's construction lending activities are limited to the Bank's primary market area. At December 31, 1998, construction loans amounted to $18.2 million or 4.0% of the Bank's total loan portfolio, of which $16.4 million consisted of single-family residential construction loans and $1.8 million consisted of commercial real estate and multi-family residential construction loans. The Bank's construction loans generally have fixed interest rates for a term of six months to nine months. However, the Bank is permitted to originate construction loans with terms of up to two years under its loan policy. Commercial real estate and multi-family residential

construction loans are made with a maximum loan to value ratio of 80%. Construction loans to individuals are typically made with a loan to value ratio of up to 90% and non-owner occupied construction loans are limited to 80%.

With limited exceptions, the Bank's construction loans are made to individual homeowners and a limited number of local real estate builders and developers for the purpose of constructing one- to four-family residential homes. Construction loans to individuals are typically made in connection with the granting of the permanent financing on the property. Such loans convert to a fully amortizing adjustable or fixed-rate loan at the end of the construction term. The Bank typically requires that permanent financing with the Bank or some other lender be in place prior to closing any construction loan to an individual. Interest on construction/permanent loans is due upon completion of the construction phase of the loan. At such time, the loan automatically converts to a permanent loan with an interest rate which is determined upon the closing of the construction/permanent loan.

Upon application, credit review and analysis of personal and, if applicable, corporate financial statements, the Bank makes construction loans to local builders for the purpose of construction of speculative (or unsold) residential properties and for the construction of pre-sold single-family homes. Prior to making a commitment to fund a construction loan, the Bank requires an appraisal of the property by the Bank's appraisal staff. The Bank's appraisal staff also reviews and inspects each project at the commencement of construction and typically before each disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspections of the project based on a percentage of completion or presentation of substantiated costs incurred. Interest on construction loans is due upon maturity.

Construction lending is generally considered to involve a higher level of risk as compared to one- to four-family residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk to the Bank than construction loans to individuals on their personal residences.

The Bank has attempted to minimize the foregoing risks by, among other things, limiting the extent of its construction lending generally and by limiting its construction lending to primarily residential properties. In addition, the Bank has adopted underwriting guidelines which impose stringent loan to value, debt service and other requirements for loans which are believed to involve higher elements of credit risk, by limiting the geographic area in which the Bank will do business and by working with builders with whom it has established relationships. At December 31, 1998, the Bank did not have any nonperforming construction loans. See "- Asset Quality."

COMMERCIAL LOANS. To a limited extent, the Bank offers commercial loans which primarily consist of equipment and inventory loans which are typically cross-collateralized by commercial real estate. The Bank does not actively market such loans and offers such loans primarily as an accommodation to its present customers. At December 31, 1998, such loans amounted to $8.4 million or 1.9% of the total loan portfolio. At December 31, 1998, the Bank had three nonperforming commercial loans totaling $30,000. See "- Asset Quality."

The Bank's commercial loans are originated with fixed interest rates with call provisions between one and five years. Such loans are typically based on a ten year amortization schedule.

CONSUMER LOANS. The Bank offers consumer loans in order to provide a full range of financial services to its customers. The consumer loans offered by the Bank include primarily home equity and second mortgage loans, automobile loans, deposit account secured loans and unsecured loans. Consumer loans amounted to $31.7 million or 7.0% of the total loan portfolio at December 31, 1998, of which $13.3 million, $10.7 million and $7.7 million consisted of home equity and second mortgage loans, automobile loans and other consumer loans, respectively. The Bank intends to continue its emphasis on consumer loans in furtherance of its role as a community oriented financial institution. Consumer loans are subject to Arkansas usury law

which limits the interest rate that may be charged to 5% over the Federal Reserve discount rate, which was 4.50% at December 31, 1998. A change in the usury rate does not affect loans already in portfolio.

The Bank's home equity and second mortgage loans are typically fixed-rate loans with terms of up to 15 years. Although the Bank does not require that it hold the first mortgage on the secured property, the Bank does hold the first mortgage on a significant majority of its home equity and second mortgage loans. The Bank limits the mortgages on the secured property to 85% of the value of the secured property.

The Bank's automobile loans are typically originated for the purchase of new and used cars and trucks. Such loans are generally originated with a maximum term of five years.

Other consumer loans consist primarily of deposit account loans and unsecured loans. Loans secured by deposit accounts are originated for up to 90% of the account balance, with a hold placed on the account restricting the withdrawal of the account balance.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At December 31, 1998, the Bank had $159,000 of nonperforming consumer loans. See "-Asset Quality."

ASSET QUALITY

When a borrower fails to make a required payment on a loan, the Bank attempts to cure the deficiency by contacting the borrower and seeking the payment. Depending upon the type of loan, late notices are sent and/or personal contacts are made. In most cases, deficiencies are cured promptly. While the Bank generally prefers to work with borrowers to resolve such problems, when a mortgage loan becomes 90 days delinquent, the Bank generally institutes foreclosure or other proceedings, as necessary, to minimize any potential loss.

Loans are placed on non-accrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on non-accrual status, previously accrued but unpaid interest is deducted from interest income. The Bank does not accrue interest on loans past due 90 days or more. Loans may be reinstated to accrual status when payments are made to bring the loan under 90 days past due and, in the opinion of management, collection of the remaining balance can be reasonably expected.

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of foreclosure. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations are included in the current period income. Additions to the valuation allowance are included in the provision for real estate losses.

DELINQUENT LOANS. The following table sets forth information concerning delinquent loans at December 31, 1998, in dollar amounts and as a percentage of the Bank's total loan portfolio. The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts which are past due.

<TABLE>
<CAPTION>

	Single-family Residential		Commercial Real Estate		Commercial		Consumer	
	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans	Amount	Percentage of Total Loans
	(Dollars in Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Loans delinquent:								
30-59 days	$1,682	.37%	$ 35	.01%	$ --	--%	$ 257	.06%
60-89 days	612	.14	80	.02	34	.01	38	.01
90 days and over	1,275	.28	--	--	30	.01	159	.04
Total	$3,569		$ 115		$ 64		$ 454	

</TABLE>

Interest income that would have been recorded under the original terms of the Bank's non-accruing loans for the year ended December 31, 1998 amounted to $114,000, and the interest recognized during this period amounted to $64,000.

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

<TABLE>
<CAPTION>

	December-31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Nonperforming loans:					
Single-family residential	$1,275	$1,001	$ 493	$ 223	$ 159
Multi-family residential	--	109	--	--	--
Commercial real estate	--	3,365(1)	--	--	--
Construction loans	--	--	--	--	78
Commercial loans	30	48	--	--	--
Consumer loans	159	434	228	127	33
Total nonperforming loans	1,464	4,957	721	350	270
Real estate owned	4,270(1)	195	154	234	250
Total nonperforming assets	$5,734	$5,152	$ 875	$ 584	$ 520
Total nonperforming loans as a percentage of total loans receivable	0.32%	1.11%	0.18%	0.10%	0.09%
Total nonperforming assets as a percentage of total assets	0.93%	0.94%	0.17%	0.13%	0.12%

</TABLE>

----

(1) The Bank reclassified a previously reported non-accrual commercial real estate loan secured by a 202 room hotel in Oklahoma to real estate owned in 1998. Real estate owned primarily consists of the Bank's 75% ownership of this property. As a result of such 75% ownership interest, the Bank is required to include the 25% minority interest ownership in the real estate owned amount shown above.

CLASSIFIED ASSETS. Federal regulations require that each insured savings association classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful" and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. At December 31, 1998, the Bank had $4.8 million of classified assets, $4.7 million of which were classified as substandard and $91,000 of which were classified as loss. In addition, at such date, the Bank had $16,000 of assets designated as special mention.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses is a valuation allowance to provide for incurred but not yet realized losses. The Bank reviews its non-homogeneous loans for impairment on a quarterly basis. Impairment is determined by assessing the probability that the borrower will not be able to fulfill the contractual terms of the agreement. If a loan is determined to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or by use of the observable market price of the loan or fair value of collateral if the loan is collateral dependent. Throughout the year management estimates the level of probable losses to determine whether the allowance for loan losses is appropriate considering the estimated losses existing in the portfolio. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined by management to be appropriate relative to losses. The allowance for loan losses is increased by charges to income (provisions) and decreased by charge-offs, net of recoveries.

Management's periodic evaluation of the appropriateness of the allowance is based on the Company'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.

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) secured consumer loans to permit consideration of the appropriateness of the allowance for losses of each group of loans on a pool basis. The primary methodology used to determine the appropriateness of the allowance for losses includes segregating certain specific, poorly performing loans based on their performance characteristics from the pools of loans as to type, grading these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, economic conditions in the primary market areas, and other factors which usually are beyond the control of the Bank.

Non-homogeneous loans are those loans that can be included in a particular loan type, such as commercial loans, construction loans, multi-family, and commercial first mortgage loans, but which differ in other characteristics to the extent that valuation on a pool basis is not valid. Those segregated specific loans are evaluated using the present value of future cash flows, usually determined by estimating the fair value of the loan's collateral reduced by any cost of selling and discounted at the loan's effective interest rate if the estimated time to receipt of monies is more that three months or by use of the observable market price of the loan or fair value of collateral if the loan is collateral dependent. After segregating specific, poorly performing loans, the remaining loans are evaluated based on payment experience, known difficulties in the borrower's business or geographic area, loss experience, inherent risks and other factors usually beyond the control of the Bank. A factor, based on experience, is applied to these loans to estimate the probable loss.

Estimates of the probability of loan losses involve an exercise of judgement. While it is possible that in the near term the Bank may sustain losses which are substantial in relation to the allowance for loan losses, it is the judgement of management that the allowance for loan losses reflected in the consolidated statements of financial condition is appropriate considering the estimated probable losses in the portfolio.

The following table summarizes changes in the allowance for loan losses and other selected statistics for the periods presented.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands)				
Total loans outstanding at end of period	$ 453,323	$ 445,955	$ 410,790	$ 348,752	$ 286,557
Average loans outstanding	$ 441,702	$ 415,075	$ 369,185	$ 306,175	$ 257,261
Allowance at beginning of period	$ 1,196	$ 1,251	$ 1,228	$ 1,134	$ 1,447
Charge-offs:					
Single-family residential	(17)	--	--	(2)	(24)
Commercial real estate	(369)	--	--	(8)	(335)
Consumer loans	(103)	(67)	(40)	(30)	(9)
Total charge-offs	(489)	(67)	(40)	(40)	(368)
Recoveries:					
Commercial real estate	--	--	1	--	--
Consumer loans	9	12	2	1	1
Total recoveries	9	12	3	1	1
Net charge-offs	(480)	(55)	(37)	(39)	(367)
Total provisions for losses	55	--	60	133	54
Allowance at end of period	$ 771	$ 1,196	$ 1,251	$ 1,228	$ 1,134
Allowance for loan losses as a percentage of total loans outstanding at end of period	0.17%	0.27%	0.30%	0.35%	0.40%
Net loans charged-off as a percentage of average loans outstanding	0.11%	0.01%	0.01%	0.01%	0.14%

</TABLE>

The following table presents the allocation of the Bank's allowance for loan losses by the type of loan at each of the dates indicated. The significant portion of the allowance which is unallocated is due to historically low levels of nonperforming single-family residential loans, multi-family residential loans, commercial real estate loans, construction loans, commercial loans and consumer loans, which would otherwise require a larger allocation of the allowance, balanced with management's desire to provide for an adequate allowance in light of the size of the Bank's loan portfolio.

<TABLE>
<CAPTION>

	December 31,							
	1998		1997		1996		1995	
	Amount	Percent of Total Loans by Category	Amount	Percent of Total Loans by Category	Amount	Percent of Total Loans by Category	Amount	Percent of Total Loans by Category
	(Dollars in Thousands)							
Single-family residential	$ 46	81.66%	$ 49	83.18%	$ 11	82.36%	$ 11	82.54%
Multi-family residential	--	.34	--	.29	--	.38	--	.30

Commercial real estate	147	5.12	125	4.17	117	4.66	124	5.66
Construction loans	-	4.02	--	4.66	--	4.88	--	3.33
Commercial loans	60	1.86	13	1.27	19	1.06	27	1.15
Consumer loans	135	7.00	221	6.43	270	6.66	241	7.02
Unallocated	383	--	788	--	834	--	825	--
Total	$ 771	100.00%	$1,196	100.00%	$1,251	100.00%	$1,228	100.00%

</TABLE>

<TABLE>
<CAPTION>

	December 31,	
	1994	
	Amount	Percent of Total Loans by Category
	(Dollars in Thousands)	
<S>	<C>	<C>
Single-family residential	$ 16	82.96%
Multi-family residential	--	0.28
Commercial real estate	117	6.12
Construction loans	--	2.61
Commercial loans	21	1.11
Consumer loans	143	6.92
Unallocated	837	--
Total	$1,134	100.00%

</TABLE>

INVESTMENT ACTIVITIES

MORTGAGE-BACKED SECURITIES. Mortgage-backed securities (which also are known as mortgage participation certificates or pass-through certificates) typically represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators, through intermediaries (generally U.S. Government agencies and government sponsored enterprises) that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such U.S. Government agencies and government sponsored enterprises, which guarantee the payment of principal and interest to investors, primarily include the FHLMC, the FNMA and the Government National Mortgage Association ("GNMA").

The FHLMC is a public corporation chartered by the U.S. Government and guarantees the timely payment of interest and the ultimate return of principal within one year. The FHLMC mortgage-backed securities are not backed by the full faith and credit of the United States, but because the FHLMC is a U.S. Government sponsored enterprise, these securities are considered high quality investments with minimal credit risks. The GNMA is a government agency within the Department of Housing and Urban Development which is intended to help finance government assisted housing programs. The GNMA guarantees the timely payment of principal and interest, and GNMA securities are backed by the full faith and credit of the U.S. Government. The FNMA guarantees the timely payment of principal and interest, and FNMA securities are indirect obligations of the U.S. Government.

Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages, i.e., fixed rate or adjustable rate, as well as the prepayment risk, are passed on to the certificate holder. Accordingly, the life of a mortgage-backed pass-through security approximates the life of the underlying mortgages. It has been the Bank's practice to invest only in fixed-rate mortgage-backed securities. Mortgage-backed securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost.

The following table sets forth certain information relating to the composition of the Bank's mortgage-backed securities at the dates indicated.

	December 31,		
	1998	1997	1996
	(In Thousands)		
Mortgage-backed securities held to maturity:			
FHLMC	$ 25	$ 157	$ 227
Total mortgage-backed securities	$ 25	$ 157	$ 227

Mortgage-backed securities are generally backed by insurance or guarantees, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Bank. At December 31, 1998, no mortgage-backed securities were pledged to secure obligations of the Bank.

Of the $25,000 of mortgage-backed securities at December 31, 1998, $5,000 was scheduled to mature between one and five years and $20,000 between five and ten years. The $5,000 and $20,000 of mortgage-backed securities had weighted average yields of 7.13% and 8.50%, respectively. At such date, all of the Bank's mortgage-backed securities were fixed-rate and are disclosed above in the periods in which they are scheduled to mature. The actual maturity of a mortgage-backed security may be less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated will shorten the life of the security and adversely affect its yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the securities, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Bank may be subject to reinvestment risk because to the extent that the Bank's mortgage-backed securities amortize or prepay faster than anticipated, the Bank may not be able to reinvest the proceeds of such repayments and prepayments at a comparable interest rate.

INVESTMENT SECURITIES. The investment policy of the Bank, as established by the Board of Directors, is designed primarily to provide and maintain liquidity and to generate a favorable return on investments without incurring undue interest rate risk, credit risk, and investment portfolio asset concentrations. The Bank's investment policy is currently implemented by the Bank's President within the parameters set by the Board of Directors. The Bank is authorized to invest in obligations issued or fully guaranteed by the U.S. Government, certain federal agency obligations, certain time deposits, negotiable certificates of deposit issued by commercial banks and other insured financial institutions, investment grade corporate debt securities and other specified investments.

Investment securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and are reported at amortized cost. Investment securities classified as available for sale are reported at fair value, with unrealized gains and losses excluded from earnings, net of taxes, and reported as a separate component of equity. At December 31, 1998, the Bank held no investment securities classified as available for sale. At December 31, 1998, approximately $16 million of the Bank's investment securities were pledged to secure obligations of the Bank. At December 31, 1998, investments in the debt and/or equity securities of any one issuer, other than those issued by U.S. Government agencies, did not exceed more than 10% of the

Company's stockholders' equity.

At December 31, 1998, the Bank's investment securities included structured notes of $2.1 million, of which $2.0 million were adjustable-rate FHLB notes and $126,000 were FHLB zero coupon bonds with a face value of $550,000. The adjustable-rate FHLB notes adjust semi-annually based on a multiple of the ten-year CMT index plus 160 basis points with a floor of 4.50% and a cap of 24.0%. The adjustable-rate FHLB notes are non-callable with a stated maturity of March 2000. The CMT index could result in the interest rate on these notes being less than market rates of interest. At December 31, 1998, the FHLB zero coupon bond had a remaining maturity of nineteen years with a call date within one year.

The maturity terms of the investment securities purchased in 1998 totaling $111.4 million generally have been longer term, up to twenty years with three month to two year call protection.

The following table sets forth the amount of investment securities which contractually mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 1998. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay the obligation without prepayment penalties.

<TABLE>
<CAPTION>

	Less Than One Year		One to Five Years		Five to Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(Dollars in Thousands)					
Bonds and other debt securities held to maturity:										
U.S. Government and agency obligations	$10,008	6.12%	$8,188	5.70%	$14,100	6.76%	$94,854	6.74%	$127,150	6.63%
Total investment securities	$10,008		$8,188		$14,100		$94,854		$127,150	

</TABLE>

As of December 31, 1998, there were approximately $113 million of investments with issuer call options, of which approximately $97 million are callable within one year.

The following table sets forth the carrying value of the Company's investment securities classified as held to maturity and available for sale at the dates indicated.

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
		(In Thousands)	
Investment securities held to maturity:			
U.S. Government and agency obligations	$127,150	$95,376	$90,755
Equity securities available for sale:			
FHLMC preferred stock(1)	--	--	340
Total investment securities	$ 127,150	$95,376	$91,095

</TABLE>

----
(1) Reflects carrying value at fair market value. At December 31, 1998 and

1997 the Company held no securities as available for sale.

As a member of the FHLB of Dallas, the Bank is required to maintain an investment in FHLB stock. At December 31, 1998, the Bank's investment in FHLB stock amounted to $3.9 million. No ready market exists for such stock and it has no quoted market value.

SOURCES OF FUNDS

GENERAL. Deposits are the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank derives funds from loan principal repayments and prepayments and interest payments, maturities of investment securities and advances from the FHLB of Dallas. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer term basis for general business purposes. The Bank began utilizing FHLB of Dallas advances as an additional source of funds during 1997.

DEPOSITS. The Bank's deposit products include a broad selection of deposit instruments, including negotiable order of withdrawal ("NOW") accounts, demand deposit accounts ("DDA"), money market accounts, regular savings accounts and term certificate accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the time period the funds must remain on deposit, early withdrawal penalties and the interest rate.

The Bank considers its primary market area to be Northcentral and Northwest Arkansas. The Bank utilizes traditional marketing methods to attract new customers and savings deposits. The Bank does not advertise for deposits outside of its primary market area or utilize the services of deposit brokers, and management believes that an insignificant number of deposit accounts were held by non-residents of Arkansas at December 31, 1998.

The Bank has been competitive in the types of accounts and in interest rates it has offered on its deposit products but does not necessarily seek to match the highest rates paid by competing institutions. Although market demand generally dictates which deposit maturities and rates will be accepted by the public, the Bank intends to continue to promote longer term deposits to the extent possible and consistent with its asset and liability management goals.

The following table shows the distribution of, and certain other information relating to, the Bank's deposits by type of deposit, as of the dates indicated.

<TABLE>
<CAPTION>

	December 31,					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Certificate accounts:						
3.00% - 3.99%	$ 453	.1 %	$ 362	.1%	$ 607	.2%
4.00% - 5.99%	278,335	57.9	241,660	53.6	205,912	48.7
6.00% - 7.99%	91,156	18.9	97,885	21.7	90,568	21.4
8.00% and over	8,821	1.8	20,236	4.5	36,408	8.6
Total certificate accounts	378,765	78.7	360,143	79.9	333,495	78.9
Transaction accounts:						
Passbook and statement savings	25,916	5.4	25,330	5.6	26,451	6.2
Money market accounts	16,164	3.4	15,438	3.4	17,214	4.1
NOW accounts/DDA	60,248	12.5	49,963	11.1	45,698	10.8
Total transaction accounts	102,328	21.3	90,731	20.1	89,363	21.1
Total deposits	$481,093	100.0%	$450,874	100.0%	$422,858	100.0%

</TABLE>

The following table presents the average balance of each type of deposit and the average rate paid on each type of deposit and/or total deposits for the periods indicated.

<TABLE>
<CAPTION>

	Year Ended December 31, 1998 Average Balance	1998 Average Rate Paid	1997 Average Balance	1997 Average Rate Paid	1996 Average Balance	1996 Average Rate Paid
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Passbook and statement savings accounts	$ 26,128	2.72%	$ 26,092	2.72%	$ 27,149	2.72%
Money market accounts and NOW accounts	58,226	2.33	55,486	2.34	54,748	2.42
Demand deposit accounts	11,758	--	9,624	--	9,244	--
Certificates of deposit	366,484	5.99	348,945	6.11	328,921	6.19
Total deposits	$462,596	5.19%	$440,147	5.30%	$420,062	5.33%

</TABLE>

The following table presents, by various interest rate categories, the amount of certificates of deposit at December 31, 1998 and 1997 and the amounts at December 31, 1998 which mature during the periods indicated.

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997	Balance at December 31, 1998 Maturing in the 12 Months Ending December 31, 1999	2000	2001	Thereafter
			(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Certificates of Deposit						
3.00% - 3.99%	$ 453	$ 362	$ 453	$ --	$ --	$ --
4.00% - 5.99%	278,335	241,660	212,808	49,238	10,578	5,711
6.00% - 7.99%	91,156	97,885	20,602	13,328	12,404	44,822
8.00% and over	8,821	20,236	3,167	--	--	5,654
Total certificate accounts	$378,765	$360,143	$237,030	$62,566	$22,982	$56,187

</TABLE>

The following table sets forth the savings flows of the Bank during the periods indicated.

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997	1996
	(In Thousands)		
<S>	<C>	<C>	<C>
Increase (decrease) before interest credited	$11,895	$10,786	$(10,731)
Interest credited	18,324	17,230	16,360
Net increase in deposits	$30,219	$28,016	$ 5,629

</TABLE>

The decrease in deposits before interest credited in 1996 was primarily due to the use of such funds by customers to purchase shares of the Company's common stock in the Conversion.

The following table sets forth maturities of the Bank's certificates of deposit of $100,000 or more at December 31, 1998 by time remaining to maturity.

Period Ending:	Amounts (In Thousands)
March 31, 1999	$20,364
June 30, 1999	20,509
December 31, 1999	10,814
After December 31, 1999	22,757
Total certificates of deposit with balances of $100,000 or more	$74,444

BORROWED FUNDS. The Bank has utilized FHLB advances in its normal operating and investing activities during 1998 and 1997. There were no advances outstanding at previous year ends. The Bank pledges as collateral for FHLB advances their FHLB stock and has entered into blanket collateral agreements with the FHLB whereby the Bank agrees to maintain, free of other encumbrances, qualifying single family first mortgage loans with unpaid principal balances, when discounted at 75% of the such balances, of at least 100% of total outstanding advances.

Advances at December 31, 1998, have maturity dates and weighted average rates as follows:

YEAR ENDING DECEMBER 31	WEIGHTED AVERAGE RATE	AMOUNT
1999	5.71%	$19,000
2000	5.31	14,000
2001	4.85	7,000
2002	6.60	3,985
2003	5.56	1,000
THEREAFTER	6.01	4,000
TOTAL	5.57%	$48,985

THE FOLLOWING TABLE SETS FORTH INFORMATION WITH RESPECT TO THE COMPANY'S FHLB ADVANCES AT AND DURING THE PERIODS INDICATED.

	AT OR FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
MAXIMUM BALANCE	$50,687	$12,997	$2,600
AVERAGE BALANCE	30,452	6,493	916
YEAR END BALANCE	48,985	11,997	--
WEIGHTED AVERAGE INTEREST RATE:			
AT END OF YEAR	5.57%	6.31%	--
DURING THE YEAR	5.81	6.42	5.45%

EMPLOYEES

The Bank had 168 full-time employees and 22 part-time employees at December 31, 1998. None of these employees is represented by a collective bargaining agent, and the Bank believes that it enjoys good relations with its personnel.

SUBSIDIARIES

The Bank is permitted to invest up to 2% of its assets in the capital stock of, or secured or unsecured loans to, subsidiary corporations, with an additional investment of 1% of assets when such additional investment is utilized primarily for community development purposes. The Bank's only subsidiary, First Harrison Service Corporation (the "Service Corporation"), was formed in 1971. At December 31, 1998, the Service Corporation's only significant asset was a $4.0 million repossessed commercial loan collateralized by a hotel in Oklahoma City, Oklahoma. The property has been listed and is being operated by a management company until disposition. The Service Corporation generated net income of approximately $9,000 during 1998.

COMPETITION

The Bank faces strong competition both in attracting deposits and making real estate loans. Its most direct competition for deposits has historically come from other savings associations, credit unions and commercial banks, including many large financial institutions which have greater financial and marketing resources available to them. In addition, during times of high interest rates, the Bank has faced additional significant competition for investors' funds from short-term money market securities, mutual funds and other corporate and government securities. The ability of the Bank to attract and retain savings deposits depends on its ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

The Bank experiences strong competition for real estate loans principally from savings associations, commercial banks and mortgage companies. The Bank competes for loans principally through the interest rates and loan fees it charges and the efficiency and quality of services it provides borrowers. Competition has increased as a result of the continuing reduction of restrictions on the interstate operations of financial institutions.

REGULATION

SET FORTH BELOW IS A BRIEF DESCRIPTION OF THOSE LAWS AND REGULATIONS WHICH, TOGETHER WITH THE DESCRIPTIONS OF LAWS AND REGULATIONS CONTAINED ELSEWHERE HEREIN, ARE DEEMED MATERIAL TO AN INVESTOR'S UNDERSTANDING OF THE EXTENT TO WHICH THE COMPANY AND THE BANK ARE REGULATED. THE DESCRIPTION OF THE LAWS AND REGULATIONS HEREUNDER, AS WELL AS DESCRIPTIONS OF LAWS AND REGULATIONS CONTAINED ELSEWHERE HEREIN, DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO APPLICABLE LAWS AND REGULATIONS.

THE COMPANY

GENERAL. The Company, as a savings and loan holding company within the meaning of the Home Owners Loan Act ("HOLA"), has registered with the OTS and is subject to OTS regulations, examinations, supervision and reporting requirements. As a subsidiary of a savings and loan holding company, the Bank is subject to certain restrictions in its dealings with the Company and affiliates thereof.

ACTIVITIES RESTRICTIONS. There are generally no restrictions on the activities of a savings and loan holding company which holds only one subsidiary savings institution. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director may impose such restrictions as deemed necessary to address such risk, including limiting (i) payment of dividends by the savings institution; (ii) transactions between the savings institution and its affiliates; and (iii) any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Notwithstanding the above rules as to permissible business activities of unitary savings and loan holding companies, if the savings institution subsidiary of such a holding company fails to meet the qualified thrift lender ("QTL") test, as discussed under "- The Bank - Qualified Thrift Lender Test," then such unitary holding company also shall become subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See "- The Bank - Qualified Thrift Lender Test."

If the Company were to acquire control of another savings institution, other than through merger or other business combination with the Bank, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisitions and where each subsidiary savings institution meets the QTL test, as set forth below, the activities of the Company and any of its subsidiaries (other than the Bank or other subsidiary savings institutions) would thereafter be subject to further restrictions. Among other things, no multiple savings and loan holding company or subsidiary thereof which is not a savings institution shall commence or continue for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof any business activity, upon prior notice to, and no objection by the OTS, other than: (i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) those activities authorized by regulation as of March 5, 1987 to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board ("FRB") as permissible for bank holding companies. Those activities described in (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

LIMITATIONS ON TRANSACTIONS WITH AFFILIATES. Transactions between savings institutions and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a holding

company context, the parent holding company of a savings institution (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings institution. Generally, Sections 23A and 23B (i) limit the extent to which the savings institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition to the restrictions imposed by Sections 23A and 23B, no savings institution may (i) loan or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for affiliates which are subsidiaries of the savings institution.

RESTRICTIONS ON ACQUISITIONS. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS, (i) control of any other savings institution or savings and loan holding company or substantially all the assets thereof or (ii) more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state if (i) the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office located in the state of the institution to be acquired as of March 5, 1987; (ii) the acquiror is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act ("FDIA"); or (iii) the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by the state-chartered institutions or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

Under the Bank Holding Company Act of 1956, the FRB is authorized to approve an application by a bank holding company to acquire control of a savings institution. In addition, a bank holding company that controls a savings institution may merge or consolidate the assets and liabilities of the savings institution with, or transfer assets and liabilities to, any subsidiary bank which is a member of the BIF with the approval of the appropriate federal banking agency and the FRB. As a result of these provisions, there have been a number of acquisitions of savings institutions by bank holding companies in recent years.

THE BANK

GENERAL. The OTS has extensive authority over the operations of federally chartered savings institutions. As part of this authority, savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. The last regulatory examination of the Bank by the OTS was completed in January, 1999. The Bank was not required to make any material changes to its operations as a result of such examination. The investment and lending authority of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Those laws and regulations generally are applicable to all federally chartered savings institutions and may also apply to state-chartered savings institutions. Such regulation and supervision is primarily intended for the protection of depositors.

The OTS' enforcement authority over all savings institutions and their holding companies includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS.

INSURANCE OF ACCOUNTS. The deposits of the Bank are insured to the maximum extent permitted by the SAIF, which is administered by the FDIC, and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action.

The deposits of the Bank are currently insured by the SAIF. Both the SAIF and the BIF, the federal deposit insurance fund that covers commercial bank deposits, are required by law to attain and thereafter maintain a reserve ratio of 1.25% of insured deposits. The BIF had achieved a fully funded status in contrast to the SAIF and, therefore, the FDIC substantially reduced the average deposit insurance premium paid by commercial banks to a level approximately 75% below the average premium paid by savings institutions.

The FDIC is authorized to establish separate annual assessment rates for deposit insurance for members of the BIF and the SAIF. The FDIC may increase assessment rates for either fund if necessary to restore the fund's ratio of reserves to insured deposits to its target level within a reasonable time and may decrease such assessment rates if such target level is met. The FDIC has established a risk-based assessment system for both SAIF and BIF members. Under this system, assessments are set within a range, based on the risk the institution poses to its deposit insurance fund. This risk level is determined based on the institution's capital level and the FDIC's level of supervisory concern about the institution.

The premium schedule for BIF and SAIF insured institutions ranges from 0 to 27 basis points. However, SAIF insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s, equal to approximately 6 basis points for each $100 in domestic deposits, while BIF insured institutions pay an assessment equal to approximately 1 basis point for each $100 in domestic deposits. The SAIF assessment is expected to be reduced to about 2 basis points no later than January 1, 2000, when BIF insured institutions fully participate in the assessment. These assessments, which may be revised based upon the level of BIF and SAIF deposits will continue until the bonds mature in the year 2017.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the

hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank's deposit insurance.

REGULATORY CAPITAL REQUIREMENTS. Federally insured savings institutions are required to maintain minimum levels of regulatory capital. The OTS has established capital standards applicable to all savings institutions. These standards generally must be as stringent as the comparable capital requirements imposed on national banks. The OTS also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

Current OTS capital standards require savings institutions to satisfy three different capital requirements. Under these standards, savings institutions must maintain "tangible" capital equal to at least 1.5% of adjusted total assets, "core" capital equal to at least 3.0% of adjusted total assets and "total" capital (a combination of core and "supplementary" capital) equal to at least 8.0% of "risk-weighted" assets. For purposes of the regulation, core capital generally consists of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries, certain nonwithdrawable accounts and pledged deposits and "qualifying supervisory goodwill." Tangible capital is given the same definition as core capital but does not include qualifying supervisory goodwill and is reduced by the amount of all the savings institution's intangible assets, with only a limited exception for purchased mortgage servicing rights. The Bank had no goodwill or other intangible assets at December 31, 1998. Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible to national banks (other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies). These adjustments do not materially affect the Bank's regulatory capital. At December 31, 1998, the Bank exceeded its tangible, core and risk-based capital requirements.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided that the amount of supplementary capital included does not exceed the savings institution's core capital. Supplementary capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as core capital; subordinated debt and intermediate-term preferred stock; and general allowances for loan losses up to a maximum of 1.25% of risk-weighted assets. In determining the required amount of risk-based capital, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for principal categories of assets are (i) 0% for cash and securities issued by the U.S. Government or unconditionally backed by the full faith and credit of the U.S. Government; (ii) 20% for securities (other than equity securities) issued by U.S. Government-sponsored agencies and mortgage-backed securities issued by, or fully guaranteed as to principal and interest by, the FNMA or the FHLMC, except for those classes with residual characteristics or stripped mortgage-related securities; (iii) 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or the FHLMC, qualifying residential bridge loans made directly for the construction of one- to four-family residences and qualifying multi-family residential loans; and (iv) 100% for all other loans and investments, including consumer loans, commercial loans, and one- to four-family residential real estate loans more than 90 days delinquent, and for repossessed assets.

LIQUIDITY REQUIREMENTS. All savings institutions are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings institutions. At the present time, the required minimum liquid asset ratio is 4%. At December 31, 1998, the Bank's liquidity ratio was 28.0%.

QUALIFIED THRIFT LENDER TEST. All savings institutions are required to meet a QTL test to avoid certain restrictions on their operations. A savings institution that does not meet the QTL test must either convert to a bank charter or comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank; (iii) the institution shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the savings institution ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Currently, the QTL test requires that 65% of an institution's "portfolio assets" (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. Assets that qualify without limit for inclusion as part of the 65% requirement are loans made to purchase, refinance, construct, improve or repair domestic residential housing and manufactured housing; home equity loans; mortgage-backed securities (where the mortgages are secured by domestic residential housing or manufactured housing); stock issued by the FHLB of Dallas; and direct or indirect obligations of the FDIC. In addition, the following assets, among others, may be included in meeting the test subject to an overall limit of 20% of the savings institution's portfolio assets: 50% of residential mortgage loans originated and sold within 90 days of origination; 100% of consumer and educational loans (limited to 10% of total portfolio assets); and stock issued by the FHLMC or the FNMA. Portfolio assets consist of total assets minus the sum of (i) goodwill and other intangible assets, (ii) property used by the savings institution to conduct its business, and (iii) liquid assets up to 20% of the institution's total assets. At December 31, 1998, the qualified thrift investments of the Bank were approximately 87.0% of its portfolio assets.

FEDERAL HOME LOAN BANK SYSTEM. The Bank is a member of the FHLB of Dallas, which is one of 12 regional FHLBs that administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. At December 31, 1998, the Bank had $49.0 million of outstanding FHLB advances.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Dallas in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year. At December 31, 1998, the Bank had $3.9 million in FHLB stock, which was in compliance with this requirement. No ready market exists for such stock and it has no quoted market value.

The FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid in the past and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future.

FEDERAL RESERVE SYSTEM. The FRB requires all depository institutions to maintain reserves against their transaction accounts and non-personal time deposits. As of December 31, 1998, no reserves were required to be maintained on the first $4.9 million of transaction accounts, reserves of 3% were required to be maintained against the next $46.5 million of net transaction accounts (with such dollar amounts subject to adjustment by the FRB), and a reserve of 10% (which is subject to adjustment by the FRB to a level between 8% and 14%) against all remaining net transaction accounts. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution's earning assets.

TAXATION

FEDERAL TAXATION

GENERAL. The Company and Bank are subject to the generally applicable corporate tax provisions of the Internal Revenue Code of 1986, as amended ("Code"), and Bank is subject to certain additional provisions of the Code which apply to thrift and other types of financial institutions. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters material to the taxation of the Company and the Bank and is not a comprehensive discussion of the tax rules applicable to the Company and Bank.

YEAR. The Bank files a federal income tax return on the basis of a fiscal year ending on December 31. The Company filed a consolidated federal income tax return with both the Bank and the Service Corporation.

BAD DEBT RESERVES. Prior to the enactment of the Small Business Jobs Protection Act (the "Act"), which was signed into law on August 21, 1996, certain thrift institutions, such as the Bank, were allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualified thrift institutions could compute deductions for bad debts using either the specific charge off method of Section 166 of the Code or the reserve method of Section 593 of the Code.

Under Section 593, a thrift institution annually could elect to deduct bad debts under either (i) the "percentage of taxable income" method applicable only to thrift institutions, or (ii) the "experience" method that also was available to small banks. Under the "percentage of taxable income" method, a thrift institution generally was allowed a deduction for an addition to its bad debt reserve equal to 8% of its taxable income (determined without regard to this deduction and with additional adjustments). Under the experience method, a thrift institution was generally allowed a deduction for an addition to its bad debt reserve equal to the greater of (i) and amount based on its actual average experience for losses in the current and five preceding taxable years, or (ii) an amount necessary to restore the reserve to its balance as of the close of the base year. A thrift institution could elect annually to compute its allowable addition to bad debt reserves for qualifying loans either under the experience method or the percentage of taxable income method. For tax years 1995 and 1994, the Bank used the percentage of taxable income method because such method provided a higher bad debt deduction than the experience method.

Section 1616(a) of the Act repealed the Section 593 reserve method of accounting for bad debts by thrift institutions, effective for taxable years beginning after 1995. Thrift institutions that are treated as small banks are allowed to utilize the experience method applicable to such institutions, while thrift institutions that are treated as large banks are required to use only the specific charge off method. The percentage of taxable income method of accounting for bad debts is no longer available for any financial institution.

A thrift institution required to change its method of computing reserves for bad debts will treat such change as a change in the method of accounting, initiated by the taxpayer and having been made with the consent of the Secretary of the Treasury. Section 481(a) of the Code requires certain amounts to be recaptured with respect to such change. Generally, the amounts to be recaptured will be determined solely with respect to the "applicable excess reserves" of the taxpayer. The amount of the applicable excess reserves will be taken into account ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995, subject to the residential loan requirement described below. In the case of a thrift institution that is treated as a large bank, the amount of the institution's applicable excess reserves generally is the excess of (i) the balances of its reserve for losses on qualifying real property loans (generally loans secured by improved real estate) and its reserve for losses on nonqualifying loans (all other types of loans) as of the close of its last taxable year beginning before January 1, 1996, over (ii) the balances of such reserves as of the close of its last taxable year beginning before January 1, 1988 (i.e., the "pre-1988 reserves"). In the case of a thrift institution that is treated as a small bank, like the Bank, the amount of the institution's applicable excess reserves generally is the excess of (i) the balances of its reserve for losses on qualifying real property loans and its reserve for losses on nonqualifying loans as of the close of its last taxable year beginning before January 1, 1996, over (ii) the greater of the balance of (a) its pre-1988 reserves or, (b) what the thrift's reserves would have been at the close of its last year beginning before January 1, 1996, had the thrift always used the experience method.

For taxable years that begin after December 31, 1995, and before January 1, 1998, if a thrift meets the residential loan requirement for a tax year, the recapture of the applicable excess reserves otherwise required to be taken into account as a Code Section 481(a) adjustment for the year will be suspended. A thrift meets the residential loan requirement if, for the tax year, the principal amount of residential loans made by the thrift during the year is not less than its base amount. The "base amount" generally is the average of the principal amounts of the residential loans made by the thrift during the six most recent tax years beginning before January 1, 1996.

A residential loan is a loan as described in Section 7701(a)(19)(C)(v) (generally a loan secured by residential or church property and certain mobile homes), but only to the extent that the loan is made to the owner of the property.

The balance of the pre-1988 reserves is subject to the provisions of Section 593(e), as modified by the Act, which requires recapture in the case of certain excessive distributions to shareholders. The pre-1988 reserves may not be utilized for payment of cash dividends or other distributions to a shareholder (including distributions in dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). Distribution of a cash dividend by a thrift institution to a shareholder is treated as made: first, out of the institution's post-1951 accumulated earnings and profits; second, out of the pre-1988 reserves; and third, out of such other accounts as may be proper. To the extent a distribution by the Bank to the Company is deemed paid out of its pre-1988 reserves under these rules, the pre-1988 reserves would be reduced and the Bank's gross income for tax purposes would be increased by the amount which, when reduced by the income tax, if any, attributable to the inclusion of such amount in its gross income, equals the amount deemed paid out of the pre-1988 reserves. As of December 31, 1998, the Bank's pre-1988 reserves for tax purposes totaled approximately $4.2 million.

MINIMUM TAX. The Code imposes an alternative minimum tax at a rate of 20%. The alternative minimum tax generally applies to a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI") and is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. Other items of tax preference that constitute AMTI include (a) tax-exempt interest on newly issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds and (b) 75% of the excess (if any) of (i) adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses).

NET OPERATING LOSS CARRYOVERS. A financial institution may, for federal income tax purposes, carry back net operating losses ("NOLs") to the preceding three taxable years and forward to the succeeding 15 taxable years. This provision applies to losses incurred in taxable years beginning after 1986. At December 31, 1998, the Bank had no NOL carryforwards for federal income tax purposes.

CAPITAL GAINS AND CORPORATE DIVIDENDS-RECEIVED DEDUCTION. Corporate net capital gains are taxed at a maximum rate of 35%. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf. However, a corporation may deduct 100% of dividends from a member of the same affiliated group of corporations.

OTHER MATTERS. Federal legislation is introduced from time to time that would limit the ability of individuals to deduct interest paid on mortgage loans. Individuals are currently not permitted to deduct interest on consumer loans. Significant increases in tax rates or further restrictions on the deductibility of mortgage interest could adversely affect the Bank.

The Bank's federal income tax returns for the tax years ended December 31, 1995 forward are open under the statute of limitations and are subject to review by the IRS.

STATE TAXATION

The Bank will continue to be subject to Arkansas corporation income tax which is a progressive rate up to a maximum of 6.5% of all taxable earnings.

The Company is incorporated under Texas law and, accordingly, is subject to Texas franchise tax in an amount equal to 4.5% of net income allocated to Texas pursuant to apportionments of gross receipts based upon where the Company conducts business.

ITEM 2. PROPERTIES.

At December 31, 1998, the Bank conducted its business from its executive office in Harrison, Arkansas, and eleven full service offices, all of which are located in Northcentral and Northwest Arkansas.

The following table sets forth the net book value (including leasehold improvements and equipment) and certain other information with respect to the offices and other properties of the Bank at December 31, 1998.

Description/Address	Leased/ Owned	Net Book Value of Property (In Thousands)	Amount of Deposits
200 West Stephenson Harrison, AR 72601	Owned	$ 1,819(1)	$145,424
128 West Stephenson Harrison, AR 72601	Owned	105	(2)
Corner Central & Willow Harrison, AR 72601	Owned	256	(2)
Ozark Mall - Hwy. 62-65 North Harrison, AR 72601	Leased(3)	24	25,361
324 Hwy. 62-65 Bypass Harrison, AR 72601	Owned	287	40,139
210 South Main Berryville, AR 72616	Owned	271	25,682
668 Highway 62 East Mountain Home, AR 72653	Owned	681	159,623
1337 Highway 62 SW Mountain Home, AR 72653	Owned(5)	320	(5)
301 Highway 62 West Yellville, AR 72687	Owned	114	20,184
307 North Walton Blvd. Bentonville, AR 72712	Owned	290	23,457
3460 North College Fayetteville, AR 72703	Owned	436	27,325
1303 West Hudson Rogers, AR 72756	Owned	230	2,062
201 East Henri De Tonti Blvd. Tontitown, AR 72762	Owned	241	3,889
2025 North Crossover Road Fayetteville, AR 72703	Owned	800	4,611
249 West Main Street Farmington, AR 72730	Leased(4)	181	3,336

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(1) Includes property acquisition for expansion in North Harrison.
(2) Such offices do not open deposit accounts.
(3) Such property is subject to a month-to-month lease.
(4) Such property is subject to a five year lease expiring November 1, 2002.
(5) Such property was under construction at December 31, 1998 and opened in February 1999.

ITEM 3. LEGAL PROCEEDINGS.

Neither the Company nor the Bank is involved in any pending legal proceedings other than nonmaterial legal proceedings occurring in the ordinary course of business.

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

None.

PART II.

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

The information required herein, to the extent applicable, is incorporated by reference from page 44 of the Company's 1998 Annual Report to Stockholders ("1998 Annual Report").

ITEM 6. SELECTED FINANCIAL DATA.

The information required herein is incorporated by reference from pages 3 and 4 of the 1998 Annual Report.

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

The information required herein is incorporated by reference from pages 6 to 16 of the 1998 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The information required herein is incorporated by reference from pages 6 and 7 of the 1998 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required herein is incorporated by reference from page 5 and pages 18 to 42 of the 1998 Annual Report.

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

Not Applicable.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required herein is incorporated by reference from pages 3 to 5 of the definitive proxy statement of the Company for the Annual Meeting of Stockholders to be held on April 21, 1999 ("Definitive Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from pages 8 to 11 of the Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required herein is incorporated by reference from pages 6 and 7 of the Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required herein is incorporated by reference from page 12 of the Definitive Proxy Statement.

PART IV.

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

(A) DOCUMENTS FILED AS PART OF THIS REPORT

(1) The following financial statements are incorporated by reference from Item 8 hereof (see Exhibit 13):

Independent Auditors' Report
Consolidated Statements of Financial Condition at December 31, 1998 and 1997
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996.
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.
Notes to Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements and related notes thereto.

(3) The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

EXHIBIT INDEX

2.1*	Plan of Conversion
3.1*	Articles of Incorporation of First Federal Bancshares of Arkansas, Inc.
3.2*	Bylaws of First Federal Bancshares of Arkansas, Inc.
4.0**	Stock Certificate of First Federal Bancshares of Arkansas, Inc.
10.5*	Employment Agreement between the Company, the Bank and Frank L. Coffman, Jr.
10.6*	Employment Agreement between the Company, the Bank and Larry J. Brandt
10.7*	Employment Agreement between the Company, the Bank and Carolyn M. Thomason
13.0	1998 Annual Report to Stockholders
22.0	Subsidiaries of the Registrant - Reference is made to "Item 1 Business - Subsidiaries" for the required information
27.0	Financial Data Schedule

(*) Incorporated herein by reference from the Company's Registration Statement on Form S-1 (File No. 333-612) filed with the SEC.

(**) Incorporated herein by reference from the Company's Registration Statement on Form 8-A filed with the SEC.

SIGNATURES

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

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

By: /S/ LARRY J. BRANDT

Larry J. Brandt
President and Chief Operating Officer

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

/S/ FRANK L. COFFMAN, JR. Frank L. Coffman, Jr. Chairman of the Board and Chief Executive Officer	March 24, 1999
/S/ LARRY J. BRANDT Larry J. Brandt President and Chief Operating Officer	March 24, 1999
/S/ JOHN P. HAMMERSCHMIDT John P. Hammerschmidt Director	March 24, 1999
/S/ JAMES D. HEUER James D. Heuer Director	March 24, 1999
/S/ WILLIAM F. SMITH William F. Smith Director	March 24, 1999
/S/ TOMMY W. RICHARDSON Tommy W. Richardson Senior Vice President and Chief Financial Officer	March 24, 1999

Exhibit 13

FIRST FEDERAL BANCSHARES
OF ARKANSAS, INC.

1998

ANNUAL REPORT

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[GRAPHIC OMITTED]

FIRST FEDERAL

BANCSHARES

OF ARKANSAS, INC.

Dear Stockholder:

First Federal Bancshares of Arkansas continued to have another great year in 1998. We again had record profits with over $6 million in net income. Our earnings per share exceeded analysts' expectations with a 10.7% increase to $1.35 per share. In addition, in 1998 we increased our quarterly dividend by 16.7% to 7 cents per share.

In 1998 we completed a second repurchase program of 5% of our stock totaling 244,803 shares. Immediately after completion of our second repurchase, we were approved for a third repurchase of 5% of our stock. We subsequently completed that repurchase of 232,563 shares on February 8, 1999. The shares acquired through both repurchase programs will be held as treasury stock and further reflect the board's commitment to enhance shareholder value.

We continued to excel in both mortgage and installment lending with approximately $189 million in new loans originated in 1998 in Northwest and

Northcentral Arkansas. The secondary mortgage division exceeded all their goals and projections to add to the banner year in lending.

In 1998 we also signed two major contracts for financial services. The first was with Primevest Financial Services, a broker/dealer. Our Primevest affiliation will enable the bank to offer full-service stock brokerage, mutual funds, annuities, bonds and other financial services in all our locations. Our second contract was with nFront for Internet banking services through our computer service bureau, BISYS. Internet banking will become a reality for our customers in 1999.

We recently opened our fifteenth office and second location in the excellent market area of Mountain Home, Arkansas. The state-of-the-art facility features a full service lobby, four drive-thru lanes and an ATM. We are committed to readily meeting the family banking needs of this major retirement area in Arkansas.

Our Year 2000 Project plan continues to make progress toward Year 2000 preparedness. We anticipate completion of our testing during the second quarter of 1999. We do not anticipate any major problems with the century rollover but we do have a business resumption contingency plan in place.

As we enter our 65th year of banking services to Northwest and Northcentral Arkansas, the board, management, and all "First Team" members remain committed to our mission of "being the best provider of family banking services in our market areas and maximizing our shareholders' value". Our vision of "being the premier family bank in Arkansas" is only possible through the loyalty and support of our customers and stockholders. We appreciate you and pledge to do our best to continue to merit your confidence in 1999 and future years.

Sincerely,

/s/ Larry J. Brandt

Larry J. Brandt
President

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 the portion of the net Conversion proceeds retained and invested by the Company. The Company has no significant liabilities.

The Bank is a federally chartered stock savings and loan association which was formed in 1934. First Federal conducts business from its main office and eleven 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 savings institution which has traditionally offered a wide variety of savings products to its retail customers while concentrating its lending activities on the origination of loans secured by one- to four-family residential dwellings. To a significantly lesser extent, the Bank's activities have also included origination of multi-family residential loans, commercial real estate loans, construction loans, commercial loans and consumer loans. In addition, the Bank maintains a significant portfolio of investment securities.

At December 31, 1998, the Company had total assets of $615.1 million, total deposits of $481.1 million and stockholders' equity of $81.0 million. The Company's and the Bank's principal executive offices are located at 200 West Stephenson, 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 does not purport to be 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.

<TABLE>
<CAPTION>

	At or For the YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
			(In Thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
SELECTED FINANCIAL CONDITION DATA:					
Total assets	$615,055	$549,607	$505,739	$454,479	$428,312
Cash and cash equivalents	26,163	6,627	6,819	8,845	8,280
Investment securities	127,175	95,533	91,322	96,312	130,527
Loans receivable, net	442,486	433,942	396,508	339,505	279,783
Allowance for loan losses	771	1,196	1,251	1,228	1,134
Deposits	481,093	450,874	422,858	417,229	395,483
Federal Home Loan Bank advances	48,985	11,997	-	-	-
Stockholders' equity	81,023	82,884	80,758	35,308	31,242
SELECTED OPERATING DATA:					
Interest income	$ 43,814	$ 40,445	$ 37,192	$ 32,964	$ 29,790
Interest expense	25,774	23,748	22,449	21,538	17,700
Net interest income	18,040	16,697	14,743	11,426	12,090
Provision for loan losses	55	-	60	133	54
Net interest income after provision for loan losses	17,985	16,697	14,683	11,293	12,036
Gain on sale of mortgage-backed and investment securities	--	394	-	311	446
Noninterest income	1,836	1,526	1,222	1,107	1,137
Noninterest expense(1)	10,482	10,016	10,749	6,836	6,667
Income before income taxes	9,339	8,601	5,156	5,875	6,952
Provision for income taxes	3,309	3,099	1,756	1,871	2,250
Net income(1)	$ 6,030	$ 5,502	$ 3,400	$ 4,004	$ 4,702
EARNINGS PER SHARE:					
Basic	$1.35	$1.22	$0.72	NA	NA
Diluted	1.33	1.21	0.72	NA	NA
CASH DIVIDENDS DECLARED	$0.28	$0.22	--	NA	NA

</TABLE>

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(1) The year ended December 31, 1996 includes a nonrecurring SAIF special assessment of approximately $2.6 million or approximately $1.7 million net of the income tax benefit.

<TABLE>
<CAPTION>

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>

SELECTED OPERATING RATIOS(1):					
Return on average assets(2)	1.04%	1.03%	.69%	.91%	1.12%
Return on average equity(2)	7.22	6.76	5.22	12.03	16.22
Average equity to average assets	14.36	15.26	13.23	7.55	6.91
Interest rate spread(3)	2.55	2.47	2.48	2.37	2.74
Net interest margin(3)	3.20	3.22	3.08	2.66	2.96
Net interest income after provision for loan losses to noninterest expense	171.58	166.70	136.60	165.20	180.53
Noninterest expense to average assets	1.80	1.88	2.18	1.55	1.59
Average interest-earning assets to average interest-bearing liabilities	114.20	116.21	112.96	105.92	105.23
Operating efficiency(4)	52.74	53.80	67.33	53.22	48.76
ASSET QUALITY RATIOS(5):					
Nonperforming loans to total loans(6)	0.32	1.11	0.18	0.10	0.09
Nonperforming assets to total assets(6)	0.93	0.94	0.17	0.13	0.12
Allowance for loan losses to non-performing loans(6)	52.65	24.12	173.51	350.86	420.00
Allowance for loan losses to total loans	0.17	0.27	0.30	0.35	0.40
CAPITAL RATIOS(5):					
Tangible capital to adjusted total assets	11.67	11.98	12.30	7.74	7.29
Core capital to adjusted total assets	11.67	11.98	12.30	7.74	7.29
Risk-based capital to risk-weighted assets	22.44	22.52	23.24	15.57	16.62
OTHER DATA:					
Dividend payout ratio(7)	22.11	19.58	-	-	--
Full service offices at end of period	12	12	10	8	8

</TABLE>

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(1) Ratios for 1998 and 1997 are based on average daily balances. Ratios prior to 1997 are based on average month end balances.

(2) The year ended December 31, 1996 includes a nonrecurring SAIF special assessment of approximately $2.6 million or approximately $1.7 million net of the income tax benefit. For the year ended December 31, 1996, return on average assets, without the SAIF special assessment, would have been 1.04% and return on average equity for the same period would have been 7.83%.

(3) 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.

(4) Noninterest expense to net interest income plus noninterest income.

(5) Asset quality ratios and capital ratios are end of period ratios.

(6) Nonperforming assets consist of nonperforming loans and real estate owned ("REO"). Nonperforming loans consist of non-accrual loans while REO consists of real estate acquired in settlement of loans.

(7) The calendar year ended December 31, 1997 was the first full year the Company was publicly traded. Dividend payout ratio is the total dividends declared divided by net income.

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

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31, 1998	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
<S>	<C>	<C>	<C>	<C>
Interest income	$11,270	$11,052	$10,864	$10,628
Interest expense	6,676	6,545	6,375	6,178
Net interest income	4,594	4,507	4,489	4,450
Provision for loan losses	30	--	10	15

Net interest income after provision for loan losses	4,564	4,507	4,479	4,435
Noninterest income	426	514	438	458
Noninterest expense	2,565	2,583	2,671	2,663
Income before income taxes	2,425	2,438	2,246	2,230
Provision for income taxes	854	861	784	810
Net income	$ 1,571	$ 1,577	$ 1,462	$ 1,420
Earnings per share(1):				
Basic	$0.37	$0.35	$0.32	$0.31
Diluted	$0.37	$0.35	$0.31	$0.30
Selected Ratios (Annualized):				
Net interest margin	3.15%	3.18%	3.23%	3.26%
Return on average assets	1.04	1.08	1.02	1.01
Return on average equity	7.71	7.52	6.89	6.77

</TABLE>

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31, 1997	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
<S>	<C>	<C>	<C>	<C>
Interest income	$10,456	$10,226	$10,048	$9,715
Interest expense	6,191	6,153	5,831	5,573
Net interest income	4,265	4,073	4,217	4,142
Provision for loan losses	--	--	--	--
Net interest income after provision for loan losses	4,265	4,073	4,217	4,142
Noninterest income	370	360	872	318
Noninterest expense	2,501	2,374	3,029	2,112
Income before income taxes	2,134	2,059	2,060	2,348
Provision for income taxes	774	748	739	838
Net income	$ 1,360	$ 1,311	$ 1,321	$ 1,510
Earnings per share(1):				
Basic	$0.30	$0.29	$0.29	$0.33
Diluted	$0.30	$0.29	$0.29	$0.33
Selected Ratios (Annualized):				
Net interest margin	3.19%	3.07%	3.29%	3.33%
Return on average assets	0.99	0.96	1.00	1.18
Return on average equity	6.62	6.50	6.50	7.41

</TABLE>

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(1) Basic and Diluted Shares Outstanding

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31, 1998	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
<S>	<C>	<C>	<C>	<C>
Basic weighted - average shares	4,262,883	4,465,271	4,560,765	4,552,948
Effect of dilutive securities	3,790	62,085	152,851	114,397
Diluted weighted - average shares	4,266,673	4,527,356	4,713,616	4,667,345
YEAR ENDED DECEMBER 31, 1997				
Basic weighted - average shares	4,542,544	4,532,143	4,521,744	4,511,344
Effect of dilutive securities	59,015	45,714	1,964	0
Diluted weighted - average shares	4,601,559	4,577,857	4,523,708	4,511,344

</TABLE>

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 in understanding the consolidated financial condition and results of operations of the Company. 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 Company's results of operations depend primarily on its net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Company's results of operations also are affected by the provision for loan losses, the level of its noninterest income and expenses, and income tax expense.

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 which 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, 1998, the Bank estimates that the ratio of its one-year gap to total assets was a negative 9.8% and its ratio of interest-earning assets to interest-bearing liabilities maturing or repricing within one year was 78.7%.

In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on the Company's results of operations, the Company's management has implemented and continues to monitor asset and liability management policies to better match the maturities and repricing terms of the Bank's interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of: (i) emphasizing the origination of adjustable-rate mortgage loans ("ARMs"); (ii) lengthening the maturity on deposits by offering longer term certificates of deposit; and (iii) utilizing Federal Home Loan Bank ("FHLB") of Dallas advances. Presently, deposits into longer term certificates of deposit are minimal due to the prevailing low interest rate environment.

The Bank focuses its lending activities on the origination of one-, three-, five- and seven-year adjustable-rate residential mortgage loans. 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 a result of the Bank's efforts, as of December 31, 1998, $234.5 million or 63.3% of the Bank's portfolio of one- to four-family residential mortgage loans consisted of ARMs, including $190.3 million in seven-year ARMs.

The Company's investment securities portfolio amounted to $127.2 million or 20.7% of the Company's total assets at December 31, 1998. Of such amount, $10.0 million or 7.9% is contractually due within one year and $8.2 million or 6.4% is contractually due after one year to five years. However, actual maturities are normally 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, 1998, there was approximately $113 million of investment securities with call options held by the issuer, of which approximately $97 million are callable within one year.

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. In 1998, the Bank utilized FHLB of Dallas advances as an additional funding source. At December 31, 1998, the Bank had $49.0 million of FHLB advances.

NET PORTFOLIO VALUE

Management also presently monitors and evaluates the potential impact of interest rate changes upon the market value of the Bank's portfolio equity and the level of net interest income on a quarterly basis. The Office of Thrift Supervision ("OTS") adopted a final rule in August 1993 incorporating an interest rate risk component into the risk- based capital rules. Under the rule, an institution with a greater than "normal" level of interest rate risk will be subject to a deduction of its interest rate component from total capital for purposes of calculating the risk-based capital requirement. An institution with a greater than "normal" interest rate risk is defined as an institution that would incur a loss of net portfolio value ("NPV") exceeding 2% of the estimated market value of its assets in the event of a 200 basis point increase or decrease in interest rates. NPV is the difference between incoming and outgoing discounted cash flows from assets, liabilities, and off-balance sheet contracts. A resulting change in NPV of more than 2% of the estimated market value of an institution's assets will require the institution to deduct from its capital 50% of that excess change. The rule provides that the OTS will calculate the interest rate risk component quarterly for each institution. The OTS has indicated that no institution will be required to deduct capital for interest rate risk until further notice. However, utilizing this measurement concept, at December 31, 1998, there would be a decrease of approximately 296 basis points in the Bank's NPV as a percentage of present value of assets, assuming a 200 basis point increase in interest rates.

The following table presents the Bank's NPV as of December 31, 1998, as calculated by the OTS, based on information provided to the OTS by the Bank.

<TABLE>
<CAPTION>

NET PORTFOLIO VALUE

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)		
<S>	<C>	<C>	<C>	<C>
+400	$47,226	8.17%	$(48,644)	(51)%
+300	59,870	10.06	(36,000)	(38)
+200	72,793	11.88	(23,077)	(24)
+100	85,269	13.53	(10,061)	(11)
--	95,870	14.84	--	--
-100	104,300	15.80	8,430	9
-200	113,775	16.84	17,905	19
-300	125,218	18.07	29,348	31
-400	136,098	19.16	40,228	42

</TABLE>

CHANGES IN FINANCIAL CONDITION

GENERAL. At December 31, 1998, the Company's total assets amounted to $615.1 million as compared to $549.6 million at December 31, 1997. The $65.5 million or 11.9% increase was primarily due to an increase of $19.5 million or 249.8% in cash and cash equivalents, a $8.5 million or 2.0% increase in loans receivable, net, a $31.6 million or 33.1% increase in investment securities held to maturity, and a $4.1 million increase in real estate acquired in settlement of loans, net.

The loans receivable increase resulted from the continued origination of loans during the year ended December 31, 1998. Originations for the year ended December 31, 1998 consisted of $114.5 million in one- to four-family residential loans, $600,000 in multi-family residential, $20.9 million in commercial loans, $24.0 million in construction loans and $28.8 million in consumer installment loans, of which $10.3 million consisted of automobile loans and $9.7 million consisted of home equity loans. At December 31, 1998, the Bank had outstanding loan commitments of $3.6 million, unused lines of credit of $4.0 million, and the undisbursed portion of construction loans of $6.8 million. Real estate acquired in settlement of loans increased $4.1 million primarily due to the Bank accepting a deed in lieu of foreclosure on a commercial real estate loan, as discussed below. Liabilities increased $66.4 million or 14.2% to $533.1 million at December 31, 1998 compared to $466.7 million at December 31, 1997. The increase in liabilities was primarily due to an increase of $30.2 million or 6.7% in deposits, and a $36.7 million increase in advances from the FHLB of Dallas. The increases in deposits and advances from the FHLB of Dallas were used to fund the net loan increase, to increase cash and cash equivalents, and to purchase additional investment securities. Stockholders' equity amounted to $81.0 million or 13.17% of total assets at December 31, 1998 compared to $82.9 million or 15.08% of total assets at December 31, 1997.

Nonperforming assets, consisting of nonperforming loans and repossessed assets, amounted to $5.7 million or .93% of total assets at December 31, 1998, compared to $5.2 million, or .94% of total assets at December 31, 1997. The Bank reclassified a previously reported non-accrual commercial real estate loan to real estate acquired in settlement of loans in the first quarter of 1998. The majority ownership of a partnership, which owns and operates this commercial real estate property, was consolidated with the Bank's financial position and results of operations during the quarter ended September 30, 1998. Such property has a carrying value at December 31, 1998 of $4.0 million. As a result of such consolidation, the Bank's real estate acquired in settlement of loans increased $1.0 million reflecting the minority interest ownership. The property is currently operated by a management company and is being marketed for disposition.

LOANS RECEIVABLE. Net loans receivable increased by $8.5 million, or 2.0%, to $442.5 million at December 31, 1998 from $433.9 million at December 31, 1997. Loan originations for 1998 totaled $188.8 million. The net loans receivable increase was composed of increases in commercial loans of $7.4 million or 30.5%, and consumer loans of $3.0 million or 10.5%, and decreases in single-family residential loans of $700,000 or .2% and construction loans, net of undisbursed funds of $2.5 million or 1.2%. Loans were originated using the Bank's normal underwriting standards, rates, and terms.

Unearned loan fee income at December 31, 1998 amounted to $3.3 million, down from $3.5 million at December 31, 1997. These unearned fees are recognized as an adjustment to yield over the contractual lives of the related loans. Undisbursed amounts of loans in process related to construction loans at December 31, 1998 were $6.8 million, compared to $7.3 million at December 31, 1997.

ALLOWANCE FOR LOAN LOSSES. The reduction in the allowance for loan losses from $1.2 million at December 31, 1997, to $800,000 at December 31, 1998 resulted primarily from two changes. First, nonperforming commercial real estate loans decreased from $3.4 million at December 31, 1997 to $0 at December 31, 1998. Additionally, nonperforming consumer loans decreased from $434,000 at December 31, 1997 to $159,000 at December 31, 1998. Otherwise, the composition of the allowance remained relatively unchanged. There were no changes in concentrations, terms, methods or assumptions that occurred or significantly affected the allowance during

the year ended December 31, 1998. Management compared the loan portfolio's loss experience ratios from year to year and adjusted the ratios to reflect current loss experience. Management also considered whether there were any other matters that might affect the adequacy of the allowance and identified no such matters.

INVESTMENT SECURITIES. Investment securities all of which were classified as held to maturity amounted to $127.2 million as of December 31, 1998 compared to $95.5 million as of December 31, 1997. In 1998, approximately $110.2 million of government agency obligations and $900,000 of municipal bonds were purchased. Securities which matured or were called during 1998 amounted to $79.5 million, which resulted in an increase of $31.6 million or 33.1% in investment securities at December 31, 1998 compared to December 31, 1997.

DEPOSITS. Deposits at December 31, 1998 amounted to $481.1 million, an increase of $30.2 million or 6.7% from the December 31, 1997 balance of $450.9

million. 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 1997, the Bank began offering special promotion certificate of deposits which continued throughout 1998.

BORROWED FUNDS. Borrowed funds, which consist entirely of FHLB of Dallas advances, increased by $37.0 million to $49.0 million at December 31, 1998 from $12.0 million at December 31, 1997. The weighted average rate on such borrowings was 5.57% at December 31, 1998. These borrowings were used to fund loan growth, to purchase additional investment securities and to increase cash and cash equivalents.

STOCKHOLDERS' EQUITY. Stockholders' equity decreased $1.9 million to $81.0 million at December 31, 1998 from $82.9 million at December 31, 1997. The decrease in stockholders' equity was primarily due to the purchase of treasury stock totaling $8.0 million. In addition, during the twelve months ended December 31, 1998 cash dividends aggregating $1.3 million were paid. Such decreases in stockholders' equity were partially offset by net income in the amount of $6.0 million for the year ended December 31, 1998.

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, 1998. 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, 1998. For the years ended December 31, 1998 and 1997, average balances are based on daily balances during the period. For the year ended December 31, 1996, average balances are based on month end balances during the period.

<TABLE>
<CAPTION>

	December 31, 1998	Year Ended December 31,			
		1998			1997
	Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance
				(Dollars in Thousands)	
<S>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:					
Loans receivable(1)	8.05%	$441,702	$35,762	8.10%	$415,075
Investment securities(2)	6.61	116,504	7,802	6.70	96,170
Mortgage-backed securities	8.24	86	6	7.02	202
Other interest-earning assets	4.65	4,777	244	5.09	7,615
Total interest-earning assets	7.63	563,069	43,814	7.78	519,062
Noninterest-earning assets		18,502			14,550
Total assets		$581,571			$533,612
Interest-bearing liabilities:					
Deposits	5.01	$462,596	24,004	5.19	$440,147
Other borrowings	5.57	30,452	1,770	5.81	6,493
Total interest-bearing liabilities	5.07	493,048	25,774	5.23	446,640
Noninterest-bearing liabilities		5,019			5,561
Total liabilities		498,067			452,201
Stockholders' equity		83,504			81,411
Total liabilities and stockholders' equity		$581,571			$533,612
Net interest income			$ 18,040		

Net earning assets		$ 70,021		$ 72,422
Interest rate spread	2.56%		2.55%	
Net interest margin			3.20%	
Ratio of interest-earning assets to interest-bearing liabilities			114.20%	

</TABLE>

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1997		1996		
	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
<S>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:					
Loans receivable(1)	$33,804	8.14%	$369,185	$30,498	8.26%
Investment securities(2)	6,207	6.45	102,398	6,258	6.11
Mortgage-backed securities	17	8.46	264	22	8.33
Other interest-earning assets	417	5.48	6,335	414	6.54
Total interest-earning assets	40,445	7.79	478,182	37,192	7.78
Noninterest-earning assets			13,821		
Total assets			$492,003		
Interest-bearing liabilities:					
Deposits	23,331	5.30	$420,062	22,409	5.33
Other borrowings	417	6.42	3,264	40	1.23
Total interest-bearing liabilities	23,748	5.32	423,326	22,449	5.30
Noninterest-bearing liabilities			3,564		
Total liabilities			426,890		
Stockholders' equity			65,113		
Total liabilities and stockholders' equity			$492,003		
Net interest income	$ 16,697			$ 14,743	
Net earning assets			$ 54,856		
Interest rate spread		2.47%			2.48%
Net interest margin		3.22%			3.08%
Ratio of interest-earning assets to interest-bearing liabilities		116.21%			112.96%

</TABLE>

----

(1) Includes non-accrual loans.
(2) Includes FHLB of Dallas stock and for the year 1996 Federal Home Loan Mortgage Corporation ("FHLMC") preferred stock at cost.

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.

<TABLE>
<CAPTION>

	Year Ended December 31, 1998 vs. 1997 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total Increase (Decrease)
	(In Thousands)			
Interest income:				
Loans receivable............	$2,169	$ (198)	$ (13)	$1,958
Investment securities........	1,312	234	49	1,595
Mortgage-backed securities	(10)	(3)	2	(11)
Other interest-earning assets	(155)	(29)	11	(173)
Total interest-earning assets................	3,316	4	49	3,369
Interest expense:				
Deposits.....................	1,190	(492)	(25)	673
Other borrowings............	1,538	(40)	(145)	1,353
Total interest-bearing liabilities.............	2,728	(532)	(170)	2,026
Net change in interest income..	$ 588	$ 536	$ 219	$ 1,343

</TABLE>

<TABLE>
<CAPTION>

	Year Ended December 31, 1997 vs. 1996 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total Increase (Decrease)
	(In Thousands)			

Interest income:				
Loans receivable.............	$3,791	$(431)	$(54)	$3,306
Investment securities........	(381)	351	(21)	(51)
Mortgage-backed securities	(5)	-	-	(5)
Other interest-earning assets	84	(67)	(14)	3
Total interest-earning assets.................	3,489	(147)	(89)	3,253
Interest expense:				
Deposits.....................	1,072	(143)	(7)	922
Other borrowings.............	39	170	168	377
Total interest-bearing liabilities.............	1,111	27	161	1,299
Net change in interest income..	$2,378	$(174)	$(250)	$1,954

</TABLE>

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997.

GENERAL. The Company reported net income of $6.0 million for the year ended December 31, 1998 compared to $5.5 million for the same period in 1997. The increase of $528,000 or 9.6% in net income in the 1998 period compared to the same period in 1997 was due to an increase in net interest income which was partially offset by an increase in noninterest expenses and income taxes and a reduction in noninterest income. Net interest income increased by $1.3 million or 8.0% from $16.7 million to $18.0 million for the years ended December 31, 1997 and 1998, respectively. The Company's net interest margin remained relatively unchanged at 3.20% and the interest rate spread increased to 2.55% for 1998 compared to 3.22% and 2.47%, respectively, for 1997.

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 amounted to $18.0 million in 1998, an increase of $1.3 million or 8.0% compared to $16.7 million for 1997. The Company's interest rate spread increased to 2.55% for 1998 from 2.47% for 1997. The Company's net interest margin remained stable at 3.20% for 1998 compared to 3.22% for 1997.

INTEREST INCOME. Interest income amounted to $43.8 million for the year ended December 31, 1998 compared to $40.4 million for the same period in 1997. The increase of $3.4 million or 8.3% was primarily due to an increase in the average balance of loans receivable and investment securities. The average balance of loans receivable increased as a result of continued loan demand and portfolio growth. Such increase was partially offset by a decline in the average yield earned on such assets due primarily to the origination or modification of loans at market interest rates which are

currently lower than the average yield of the Bank's loan portfolio. The average balance of investment securities increased due to additional purchases of investment securities. The average balance and rate earned on investment securities increased due to the purchase of longer-term investments at rates higher than the average yield earned on such assets in portfolio. Such increases were partially offset by a decline in the average balance of other interest-earning assets, primarily overnight interest-bearing cash accounts.

INTEREST EXPENSE. Interest expense increased $2.0 million or 8.5% to $25.8 million for the year ended December 31, 1998 compared to $23.8 million for the same period in 1997. Such increase was primarily due to an increase in the average balance of FHLB of Dallas advances as well as an increase in the average balance of deposits. Such increases were offset by a decrease in the average yield paid on both deposit accounts and FHLB of Dallas advances.

PROVISION FOR LOAN LOSSES. Provisions for loan losses amounted to $55,000 for 1998. No provisions for loan losses were provided for in 1997. Provisions for loan losses include charges to reduce the recorded balance of mortgage loans to their estimated fair value. Such provision and the adequacy of the allowance for loan losses is evaluated for adequacy 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. The increase in the provision for loan losses in 1998 compared to 1997 was due to management's evaluation of the adequacy of the allowance for loan losses.

NONINTEREST INCOME. Noninterest income amounted to $1.8 million for the year ended December 31, 1998 compared to $1.9 million for the same period in 1997. The decrease of $84,000 or 4.4% was due primarily to a gain of $394,000 recognized in 1997 on the sale of FHLMC stock and to the recognition in 1997 of $145,000 on previously deferred profit on the sale of real estate owned. There were no similar gains in 1998. The decrease in noninterest income for the year ended December 31, 1998 compared to the year ended December 31, 1997 was partially offset by an increase of $240,000 from $30,000 to $270,000 in gain on the sale of mortgage loans in the secondary mortgage market. In addition, deposit fee income increased $82,000 or 10.1% to $896,000 compared to $814,000 for the year ended December 31, 1998 and 1997, respectively.

NONINTEREST EXPENSE. Noninterest expenses increased $466,000 or 4.7% to $10.5 million compared to $10.0 million for the year ended December 31, 1998 and December 31, 1997, respectively. This increase was primarily due to increased costs associated with the Company's ESOP as a result of an increase in the Company's daily average stock price, occupancy costs due to branch expansions, salaries and benefits due to increased personnel and normal salary and merit increases, and a loss on disposition of real estate held for investment. Such increases were partially offset by a decrease in costs related to the Management Recognition and Retention Plan ("MRR Plan"). Such costs amounted to $754,000 compared to $1.2 million for the year ended December 31, 1998 and 1997, respectively, resulting in a $440,000 decrease. This decrease was due to the cost recognition, in the second quarter of 1997, of an immediate 20% vesting after the plan was approved by the Company's shareholders.

INCOME TAXES. Income taxes amounted to $3.3 million and $3.1 million for the year ended December 31, 1998 and December 31, 1997, respectively, resulting in effective tax rates of 35.4% and 36.0%, respectively.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996.

GENERAL. Net income amounted to $5.5 million for 1997 compared to $3.4 million for 1996. The increase in net income of $2.1 million was due primarily to an increase in net interest income and noninterest income offset by an increase in noninterest expenses, excluding the one-time SAIF special assessment.

NET INTEREST INCOME. The Company's net interest income amounted to $16.7 million in 1997, an increase of $2.0 million or 13.3% compared to $14.7 million for 1996. The Company's interest rate spread remained virtually unchanged at 2.47% for 1997 compared to 2.48% for 1996. The Company's net interest margin increased to 3.22%

for 1997 compared to 3.08% for 1996. Such increase in the Bank's net interest margin was due to the increased investment in loans receivable, and an increase in the ratio of interest-earning assets to interest-bearing liabilities to 116.21% for 1997 compared to 112.96% for 1996, which was partially offset by an increase in interest expense due to deposit growth and borrowings of FHLB advances.

INTEREST INCOME. Interest income increased $3.3 million or 8.7% to $40.4 million for 1997 compared to $37.2 million for 1996. The interest income increase resulted from an increase of $3.3 million in interest income on loans receivable which was partially offset by a decrease of $51,000 in interest income from investment securities. The increase in interest income on loans receivable was due to an increase of $45.9 million or 12.4% in the average balance of loans receivable as a result of continued loan originations. The positive impact of the increase on the average balance of loans receivable was partially offset by a decrease in the average yield earned on such assets to 8.14% for 1997 from 8.26% in 1996. Such decrease in the average yield was due to originations of loans at lower interest rates and refinancing of higher rate loans. Interest income on investment securities declined primarily as a result of a decrease in the average balance of such assets due to maturities and calls of such investments. The decline was substantially offset by an increase in the average yield earned on investment securities from 6.11% in 1996 to 6.45% in 1997 due to purchasing investment securities with higher yields and longer maturity terms. Such bonds typically contain call features.

INTEREST EXPENSE. Interest expense increased $1.3 million or 5.8% to

$23.7 million in 1997 compared to $22.4 million in 1996. The increase was due primarily to an increase of $20.1 million or 4.8% in the average balance of deposits resulting from the Bank offering special promotion certificates of deposit and from interest credited on existing accounts.

PROVISION FOR LOAN LOSSES. Provisions for loan losses amounted to $60,000 for 1996. No provisions for loan losses were provided for in 1997. Provisions for loan losses include charges to reduce the recorded balance of mortgage loans to their estimated fair value. Such provision and the adequacy of the allowance for loan losses is evaluated for adequacy 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. The decrease in the provision for loan losses in 1997 compared to 1996 was due to management's evaluation of the adequacy of the allowance for loan losses.

NONINTEREST INCOME. Noninterest income increased $698,000 or 57.1% to $1.9 million compared to $1.2 million for 1997 and 1996, respectively. The increase was due primarily to a gain of $394,000 on the sale of Federal Home Loan Mortgage Corporation stock, which was previously classified as an available for sale investment security, and to the current recognition of $145,000 on previously deferred profit on the sale of real estate owned.

NONINTEREST EXPENSE. Noninterest expenses, excluding the SAIF special assessment of $2.6 million in 1996, increased $1.9 million or 23.1% to $10.0 million in 1997 compared to $8.1 million in 1996. The increase was primarily due to an increase in salaries and employee benefits, including costs associated with the implementation of the Company's ESOP and the Company's MRR Plan, additional costs attributable to being a public company, advertising costs related to targeting special promotions and branch openings and occupancy costs due to branch expansions. Such increases were partially offset by a decline in the quarterly FDIC premiums from $902,000 in 1996 to $272,000 in 1997.

The salaries and employee benefits increased $2.1 million or 47.6% to $6.4 million compared to $4.3 million for 1997 and 1996, respectively. Such increase included the $754,000 fair market value of 39,170 vested shares of stock granted to key officers as well as to non-employee directors during the second quarter ended June 30, 1997 pursuant to the MRR Plan adopted by the Company's shareholders on May 7, 1997. An additional cost of $440,000 was accrued during the year for shares awarded under the plan that will vest in May 1998. The costs related to the Company's ESOP amounted to $745,000 for 1997 compared to $402,000 for 1996. This $343,000 or 85.3% increase resulted, in part, from the recognition of compensation expense for ESOP shares committed to be released at the fair

market value which increased during 1997. In addition, the ESOP expense for 1996 represented a partial year commencing upon conversion on May 3, 1996. Other increases in salaries and employee benefits are attributable to an increase in the number of employees due to expansion and growth.

Net occupancy expense amounted to $804,000 in 1997 compared to $672,000 in 1996, an increase of $132,000 or 19.7%. Such increase was primarily due to branch expansion as previously discussed. Advertising costs increased $81,000 or 41.6% to $275,000 for 1997 compared to $194,000 for 1996. The increase was related to targeting special promotions for product offerings and advertising branch openings. Noninterest expenses also increased as a result of additional costs attributable to being a public company. Noninterest expense increases were partially offset by a reduction in the FDIC premiums which amounted to $272,000 in 1997 compared to $902,000 in 1996. Such reduction in the premium was mandated by the legislation requiring the payment, in the third quarter of 1996, of the one-time special assessment used to recapitalize the SAIF.

INCOME TAXES. Income taxes amounted to $3.1 million and $1.8 million for 1997 and 1996, respectively, resulting in effective tax rates of 36.0% and 34.1%, respectively. Such increase was primarily due to an increase in pre-tax income and additional state income tax in 1997 attributable to tax exempt investment security interest income not sufficient to reduce state taxable income to the 1996 level of zero.

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, 1998, the Bank had outstanding advances from the FHLB of Dallas of $49.0 million. Such advances were used in the Bank's normal operating and investing activities.

All savings institutions are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings institutions. At the present time, the required minimum liquid asset ratio is 4%. At December 31, 1998, the Bank's liquidity ratio was 28.0%.

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. 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. At December 31, 1998, the total approved mortgage loan origination commitments outstanding, excluding the undisbursed portion of construction loans, amounted to $3.6 million. At the same date, the undisbursed portion of construction loans approximated $6.8 million. The Bank's unused lines of credit at December 31, 1998 were approximately $4.0 million. Certificates of deposit scheduled to mature in one year or less at December 31, 1998 totaled $237.0 million. Management believes that a significant portion of maturing deposits will remain with the Bank. FHLB of Dallas advances scheduled to mature within one year at December 31, 1998 totaled $19.0 million. Investment securities scheduled to mature in one year or less at December 31, 1998 totaled $10.0 million. However, actual maturities are normally 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, 1998, there was approximately $97.4 million of investment securities with call options held by the issuer exercisable within one year.

As of December 31, 1998, the Bank's regulatory capital was well in excess of all applicable regulatory requirements. At December 31, 1998, the Bank's tangible, core and risk-based capital ratios amounted to 11.67%, 11.67% and 22.44%, 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.

THE YEAR 2000 ISSUE

The Year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. Computer programs that have time-sensitive coding may recognize a date using "00" as the year 1900 rather than the Year 2000. Systems that do not properly recognize such information could result in a system failure or generation of erroneous data.

The Federal Financial Institutions Examination Council ("FFIEC"), through bank regulatory agencies including the OTS and the FDIC, has issued mandatory guidelines requiring all financial institutions to develop and implement plans for addressing Year 2000 issues as they relate to the operations of financial institutions. The Bank has developed a Year 2000 Project plan, required by these guidelines, that is intended to ensure that its computer systems and software will function properly with respect to dates in the Year 2000 and thereafter. The Year 2000 Project consists of various phases including an awareness phase, assessment phase, renovation phase, testing phase and implementation phase. The awareness and assessment phases are substantially complete. In the assessment phase, hardware, software, third-party vendors, customers, and non-technological systems that could be affected by the century rollover were identified. In this assessment, various systems were identified as mission-critical. The primary focus of the renovation and testing phases is on these mission-critical systems. The testing phase for mission-critical systems is well underway and the Bank expects that such testing will be completed in the second quarter of 1999.

The majority of the Bank's data processing is performed by a third party service bureau. Processing by the servicer includes account processing for all deposit and loan accounts. The servicer has completed the remediation of its host deposit and loan systems. The Bank is substantially complete with testing of the servicer's system. Dates tested on the servicer's system included the century date rollover from December 31, 1999 through January 3, 2000, leap year 2000, year-end 2000 and 2001 rollover. This testing was performed by Bank personnel.

The Bank utilizes various third party software systems that interface with the servicer's system that are deemed to be mission-critical. Approximately 50% of these software packages currently utilized by the Bank are not Year 2000 compliant, but upgrades or replacement systems are currently available and will be installed by the Bank. These upgrades or replacements for Year 2000 will also upgrade the systems to a Windows operating system. The majority of the other third party software systems will be converted to a Windows operating environment as well. These upgrades or replacements are scheduled to be installed by the end of the second quarter of 1999. The testing of these systems is scheduled to be conducted as the software is replaced and should also be completed in the second quarter of 1999.

Approximately 85% of the computers within the Bank were identified as not being Year 2000 compliant. These computers are currently being replaced with completion scheduled in the second quarter of 1999. Installation of a wide area network and conversion to a Windows operating environment will be implemented along with the replacement of the computers. Testing of the computers and the network is scheduled to be conducted as the hardware and the network are installed and should be completed in the second quarter of 1999.

The majority of the software and hardware being replaced are or will be fully depreciated and are a part of a scheduled plan to upgrade the Bank's systems to a Windows operating environment. Therefore, the Bank is not accelerating the replacement due to Year 2000 issues and all costs associated with the replacement of systems are considered costs incurred in the ordinary course of business. To date the Bank has spent approximately $5,000 in costs directly related to Year 2000. These costs were primarily related to customer communications regarding the century date rollover. Any additional costs related to Year 2000 are not expected to be material to the on-going operating costs of the Company.

The failure to correct a Year 2000 problem of a mission-critical system could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity, and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of third-party suppliers, including power companies and telephone companies, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's result of operations, liquidity or financial condition. The Bank's Year 2000 Project is anticipated to significantly reduce the uncertainty about the Year 2000 problem and, in particular, about the Year 2000 readiness of the Bank's data processing servicer. The Company believes that, based on the data processing servicer's Year 2000 efforts, the Bank's testing of the servicer's system, and the completion of the Year 2000 Project by the Bank, the likelihood of significant interruptions of normal operations should be reduced. However, a "worst case scenario" would be one in which the servicer's system was not available for an extended period of time. Non-availability of the servicer's system would most likely be the result of a power or telecommunications failure. In this "worst case scenario" the Bank could experience material disruptions in its ability to process customer accounts and otherwise conduct its business.

Contingency plans for Year 2000 issues relating to mission-critical systems are being addressed by the Bank. The Bank currently has a business resumption recovery plan that addresses various contingencies within the Bank including the servicer's computer system being inoperable as well as other mission-critical systems. Contingency planning for a "worst case scenario", such as a power failure, is being addressed as well. Due to the possibility of a power outage occurring at any given time, even outages unrelated to Year 2000, the Bank is installing a generator powered by natural gas at the corporate office of the Bank to provide power to mission critical equipment. Contingency planning for Year 2000 is ongoing as systems are replaced and additional information becomes available regarding Year 2000 issues. The updating and validation of the business resumption recovery plan, including contingency plans for Year 2000 related issues, is expected to be completed by June 30, 1999.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
First Federal Bancshares of Arkansas, Inc.:

We have audited the consolidated statements of financial condition of First Federal Bancshares of Arkansas, Inc. and its subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

[GRAPHIC OMITTED]

/s/ Deloitte & Touche LLP

Little Rock, Arkansas
February 26, 1999

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 1998 AND 1997 (IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

ASSETS	1998	1997
Cash and cash equivalents:		
Cash and collection items	$ 8,842	$ 6,548
Interest-bearing deposits with banks	17,321	79
Total cash and cash equivalents	26,163	6,627
Investment securities:		
Held to maturity, at amortized cost (fair value at December 31, 1998 and 1997, of $127,013 and $95,614, respectively)	127,175	95,533
Federal Home Loan Bank stock	3,912	3,603
Loans receivable, net of allowance at December 31, 1998 and 1997, of $771 and $1,196, respectively	442,486	433,942
Accrued interest receivable	4,755	4,134
Real estate acquired in settlement of loans, net	4,270	195
Office properties and equipment, net	6,055	5,218
Prepaid expenses and other assets	239	355
TOTAL	$ 615,055	$ 549,607
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits	$ 481,093	$ 450,874
Federal Home Loan Bank advances	48,985	11,997
Advance payments by borrowers for taxes and insurance	1,006	900
Other liabilities	1,990	2,952
Total liabilities	533,074	466,723
MINORITY INTEREST	958	--
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized, none issued		
Common stock, $.01 par value, 20,000,000 shares authorized, 5,153,751 shares issued, 4,512,760 and 4,896,063 shares outstanding at December 31, 1998 and 1997, respectively	52	52
Additional paid-in capital	50,487	50,237
Employee stock benefit plans	(5,037)	(6,207)
Retained earnings - substantially restricted	47,678	42,982
	93,180	87,064
Treasury stock, at cost, 640,991 and 257,688 shares at December 31, 1998 and 1997, respectively	(12,157)	(4,180)
Total stockholders' equity	81,023	82,884
TOTAL	$ 615,055	$ 549,607

</TABLE>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
INTEREST INCOME:			
Loans receivable	$ 35,762	$ 33,804	$ 30,498
Investment securities	7,802	6,207	6,258
Mortgage-backed securities	6	17	22
Other	244	417	414
Total interest income	43,814	40,445	37,192
INTEREST EXPENSE:			
Deposits	24,004	23,331	22,409
Federal Home Loan Bank advances	1,770	417	40
Total interest expense	25,774	23,748	22,449
NET INTEREST INCOME	18,040	16,697	14,743
PROVISION FOR LOAN LOSSES	55	--	60
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,985	16,697	14,683
NONINTEREST INCOME:			
Gain on sales of available for sale investment securities	--	394	--
Deposit fee income	896	814	764
Other	940	712	458
Total noninterest income	1,836	1,920	1,222
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,525	6,384	4,325
Net occupancy expense	874	804	672
Federal insurance premiums	276	272	902
SAIF special assessment	--	--	2,611
Provision for real estate losses	15	37	38
Data processing	804	810	745
Postage and supplies	393	369	309
Other	1,595	1,340	1,147
Total noninterest expenses	10,482	10,016	10,749
INCOME BEFORE INCOME TAXES	9,339	8,601	5,156
INCOME TAX PROVISION	3,309	3,099	1,756
NET INCOME	6,030	5,502	3,400
OTHER COMPREHENSIVE INCOME, Net of tax:			
Unrealized holding gain on securities arising during period	--	58	51
Less: reclassification adjustment for gains included in net income	--	(260)	--
COMPREHENSIVE INCOME	$ 6,030	$ 5,300	$ 3,451
EARNINGS PER SHARE:			
Basic	$ 1.35	$ 1.22	$ 0.72
Diluted	$ 1.33	$ 1.21	$ 0.72

</TABLE>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	ISSUED COMMON STOCK	ADDITIONAL PAID-IN	EMPLOYEE STOCK	ACCUMULATED OTHER COMPREHENSIVE	RETAINED

<S>	SHARES	AMOUNT	CAPITAL	BENEFIT PLANS	INCOME	EARNINGS
BALANCE, JANUARY 1, 1996					$ 151	$ 35,157
Net income						3,400
Issuance of common stock	$ 5,153,751	$ 52	$ 49,848			
Loan to Employee Stock Ownership Plan ("ESOP")				$ (4,123)		
Release of ESOP shares			127	275		
Net change in unrealized gain on securities available for sale					51	
Purchase of treasury stock, at cost						
BALANCE, DECEMBER 31, 1996	5,153,751	52	49,975	(3,848)	202	38,557
Net income						5,502
Release of ESOP shares			414	416		
Common stock acquired or committed to be acquired for employee stock benefit plan			(152)	(3,968)		
Stock compensation expense				1,193		
Net change in unrealized gain on securities available for sale					(202)	
Dividends paid						(1,077)
BALANCE, DECEMBER 31, 1997	5,153,751	52	50,237	(6,207)	--	42,982
Net income						6,030
Release of ESOP shares			564	416		
Common stock acquired for employee stock benefit plan			(434)			
Stock compensation expense				754		
Shares released from restricted stock trust			120			
Purchase of treasury stock, at cost						
Dividends paid						(1,334)
BALANCE, DECEMBER 31, 1998	5,153,751	$ 52	$ 50,487	$ (5,037)	$ --	$ 47,678

</TABLE>

<TABLE>
<CAPTION>

<S>	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	TOTAL STOCKHOLDERS' EQUITY
BALANCE, JANUARY 1, 1996			$ 35,308
Net income			3,400
Issuance of common stock			49,900
Loan to Employee Stock Ownership Plan ("ESOP")			(4,123)
Release of ESOP shares			402
Net change in unrealized gain on securities available for sale			51
Purchase of treasury stock, at cost	257,688	(4,180)	(4,180)
BALANCE, DECEMBER 31, 1996	257,688	(4,180)	80,758
Net income			5,502
Release of ESOP shares			830
Common stock acquired or committed to be acquired for employee stock benefit plan			(4,120)
Stock compensation expense			1,193
Net change in unrealized gain on securities available for sale			(202)
Dividends paid			(1,077)
BALANCE, DECEMBER 31, 1997	257,688	(4,180)	82,884
Net income			6,030
Release of ESOP shares			980
Common stock acquired for employee stock benefit plan			(434)
Stock compensation expense			754
Shares released from restricted stock trust			120
Purchase of treasury stock, at cost	383,303	(7,977)	(7,977)
Dividends paid			(1,334)
BALANCE, DECEMBER 31, 1998	640,991	$(12,157)	$ 81,023

</TABLE>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

	1998	1997	1996
OPERATING ACTIVITIES:			
Net income	$ 6,030	$ 5,502	$ 3,400
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	55	--	60
Provision for real estate losses	15	37	38
Deferred tax provision	227	27	111
Gain on sale of investment securities - available for sale	--	(394)	--
Gain (loss) on sale of real estate owned, net	47	(158)	(10)
Gain on sale of mortgage loans originated to sell	(270)	(30)	--
Depreciation	508	465	403
Real estate owned depreciation	115	--	--
Accretion of deferred loan fees, net	(855)	(621)	(640)
Release of ESOP shares	980	830	402
Stock compensation expense	754	1,193	--
Other	(42)	--	--
Changes in operating assets and liabilities:			
Accrued interest receivable	(621)	(514)	(143)
Prepaid expenses and other assets	116	370	(433)
Other liabilities	314	299	(21)
Net cash provided by operating activities	7,373	7,006	3,167
INVESTING ACTIVITIES:			
Purchases of investment securities - held to maturity	(111,418)	(51,678)	(41,172)
Proceeds from sales of investment securities - available for sale	--	406	--
Proceeds from maturities of investment securities - held to maturity	79,467	46,550	46,040
Loan originations, net of repayments	(31,688)	(39,305)	(56,518)
Proceeds from sales of mortgage loans originated to sell	20,709	2,251	--
Proceeds from sales of real estate owned	253	205	146
Purchases of office properties and equipment	(1,345)	(2,118)	(975)
Net cash used by investing activities	(44,022)	(43,689)	(52,479)
FINANCING ACTIVITIES:			
Net increase in deposits	30,219	28,016	5,629
Advances from Federal Home Loan Bank	36,988	11,997	--
Net increase in advance payments by borrowers for taxes and insurance	106	94	60
Issuance of common stock, net of related expenses	--	--	45,777
Purchase of treasury stock	(7,977)	--	(4,180)
Common stock acquired for employee stock benefit plan	(1,817)	(2,539)	--
Dividends paid	(1,334)	(1,077)	--
Net cash provided by financing activities	56,185	36,491	47,286
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,536	(192)	(2,026)
CASH AND CASH EQUIVALENTS:			
Beginning of year	6,627	6,819	8,845
End of year	$ 26,163	$ 6,627	$ 6,819

(Continued)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -			
Cash paid for:			
Interest	$ 25,635	$ 23,656	$ 22,451
Income taxes	$ 3,125	$ 2,908	$ 1,899
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:			
Real estate acquired in settlement of loans	$ 3,888	$ 272	$ 95
Loans to facilitate sales of real estate owned	$ 341	$ --	$ 110

</TABLE>

(Concluded)

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION - First Federal Bancshares of Arkansas, Inc. (the "Company") was incorporated in January 1996 by First Federal Bank of Arkansas, FA (the "Bank") in connection with the conversion of the Bank from a federally chartered mutual savings and loan association to a federally chartered stock savings and loan association, the issuance of the Bank's common stock to the Company, and the offer and sale of the Company's common stock by the Company (the "Conversion"). Upon consummation of the Conversion on May 3, 1996, the Company became a unitary holding company for the Bank. Approximately 50% of the net proceeds from the Conversion were used to acquire 100% of the common stock of the Bank. The remaining net proceeds from the Conversion were retained by the Company. The Conversion was accounted for at historical cost in a manner similar to that in pooling of interests accounting.

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"), whose activities are limited to owning an interest in a repossessed commercial property. During the first quarter of 1998, in settlement of a loan, FHSC obtained 75% ownership of a partnership that owned and operated a 202 room hotel in Oklahoma. The financial position and results of operations of this hotel property have been consolidated in the 1998 financial statements. The 25% ownership is reflected in the consolidated statement of financial condition at December 31, 1998, as minority interest. All material intercompany transactions have been eliminated in consolidation. Results of operations and cash flows of the Bank for the period from January 1, 1996 to May 3, 1996, are included in the consolidated financial statements of the Company for the year ended December 31, 1996.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles 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.

LIQUIDITY REQUIREMENT - Regulations require the Bank to maintain an amount equal to 4% of deposits (net of loans on deposits) plus short-term borrowings in cash and U.S. Government and other approved securities.

CASH AND CASH EQUIVALENTS - For purposes of reporting 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 as a separate component of stockholders' equity until realized. 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.

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.

The overall return or yield earned on mortgage-backed securities depends on the amount of interest collected over the life of the security and the amortization of any premium or accretion of any discount. Premiums and discounts are recognized in income using a method that approximates the level-yield method over the assets' remaining lives adjusted for actual and anticipated prepayments. Although the Company receives the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any discount accretion or premium amortization is lost. Accordingly, the actual yields and maturities of mortgage-backed securities depend on when the underlying mortgage principal and interest are prepaid. Prepayments generally result when market interest rates fall below a mortgage's contractual interest rate and it is to the borrower's advantage to prepay the existing loan and obtain new, lower rate financing. In addition to changes in interest rates, mortgage prepayments depend on other factors such as loan types and geographic location of the related properties.

If the fair value of an investment security declines for reasons other than temporary market conditions, the carrying value of such a security is written down to fair value by a charge to operations.

LOANS RECEIVABLE - Loans receivable that management has the intent and ability to hold until maturity or pay-off are stated at unpaid principal balances adjusted for any charge-offs, the allowance for loan losses and deferred loan fees or costs and discounts. 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. At December 31, 1998 and 1997, the balances of such loans are not material, and are carried at cost due to the short period of time between funding and sale, generally one to two 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. Interest income is subsequently recognized only to the extent cash payments in excess of principal due are received, until such time that in management's opinion, the borrower will be able to meet payments as they become due.

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is a valuation allowance to provide for incurred but not yet realized losses. The Bank reviews its non-homogeneous loans for impairment on a quarterly basis.

Impairment is determined by assessing the probability that the borrower will not be able to fulfill the contractual terms of the agreement. If a loan is determined to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at

the loan's effective interest rate or by use of the observable market price of the loan or fair value of collateral if the loan is collateral dependent. Throughout the year management estimates the level of probable losses to determine whether the allowance for loan losses is appropriate considering the estimated losses existing in the portfolio. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined by management to be appropriate relative to losses. The allowance for loan losses is increased by charges to income (provisions) and decreased by charges-offs, net of recoveries.

Management's periodic evaluation of the appropriateness of the allowance is based on the Company'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.

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) secured consumer loans to permit consideration of the appropriateness of the allowance for losses of each group of loans on a pool basis. The primary methodology used to determine the appropriateness of the allowance for losses includes segregating certain specific, poorly performing loans based on their performance characteristics from the pools of loans as to type, grading these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, economic conditions in the primary market areas, and other factors which usually are beyond the control of the Bank.

Non-homogeneous loans are those loans that can be included in a particular loan type, such as commercial loans, construction loans, multi-family, and commercial first mortgage loans, but which differ in other characteristics to the extent that valuation on a pool basis is not valid. Those segregated specific loans are evaluated using the present value of future cash flows, usually determined by estimating the fair value of the loan's collateral reduced by any cost of selling and discounted at the loan's effective interest rate if the estimated time to receipt of monies is more than three months or by use of the observable market price of the loan or fair value of collateral if the loan is collateral dependent. After segregating specific, poorly performing loans, the remaining loans are evaluated based on payment experience, known difficulties in the borrowers business or geographic area, loss experience, inherent risks, and other factors usually beyond the control of the Bank. A factor, based on experience, is applied to these loans to estimate the probable loss.

Estimates of the probability of loan losses involve judgment. While it is possible that in the near term the Bank may sustain losses which are substantial in relation to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated statements of financial condition is appropriate considering the estimated probable losses in the portfolio.

FORECLOSED REAL ESTATE - Real estate acquired in settlement of loans is initially recorded at estimated fair value less estimated costs to sell and is subsequently carried at the lower of carrying amount or fair value less estimated disposal costs. Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations or the balance is written off if the carrying value of a property exceeds its estimated fair value. Costs relating to the development and improvement of the property are capitalized, whereas those relating to holding the property are expensed.

OFFICE PROPERTIES AND EQUIPMENT - Office properties and equipment are stated at cost less accumulated depreciation and amortization. The Company computes depreciation of office properties and equipment using the straight-line method over the estimated useful lives of the individual assets which range from 3 to 30 years.

LOAN ORIGINATION FEES - Loan origination fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the level-yield method over the contractual life of the loans. When a loan is fully repaid or sold, the amount of unamortized fee or cost is recorded in income.

INCOME TAXES - The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

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.

EARNINGS PER SHARE - Earnings per share of common stock has been computed on the basis of the weighted-average number of shares of common stock outstanding, assuming the Company was a public company since January 1, 1996.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, EARNINGS PER SHARE ("SFAS 128") for the year ended December 31, 1997, and prior periods were restated. As required by SFAS 128, dual presentation of basic and diluted earnings per share ("EPS") is included on the face of the income statement and a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation is presented in the notes to the consolidated financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period.

RECENTLY ISSUED ACCOUNTING STANDARDS - In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as "derivatives"), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 1999. Management has not yet made a determination as to the effect, if any, the adoption of SFAS 133 will have on the Company's financial position or results of operations.

In October 1998, the FASB issued Statement No. 134, ACCOUNTING FOR MORTGAGE-BACKED SECURITIES RETAINED AFTER THE SECURITIZATION OF MORTGAGE LOANS HELD FOR SALE BY A MORTGAGE BANKING ENTERPRISE ("SFAS 134"). This statement amends SFAS 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This statement conforms the subsequent accounting for securities retained after the securitization of mortgage loans by a mortgage banking enterprise with the subsequent accounting for securities retained after the securitization of other types of assets by a nonmortgage banking enterprise. The adoption of SFAS No. 134 is not expected to have a material effect on the Company's consolidated financial statements.

RECENTLY ADOPTED ACCOUNTING STANDARDS - In 1998, the Company adopted Statement of Financial Accounting Standards No. 130, REPORTING COMPREHENSIVE INCOME ("SFAS 130"). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in the financial statements. In addition, SFAS 130 requires the Company to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately in the stockholders' equity section of the statement of financial condition.

The Company also adopted Statement of Financial Accounting Standards No. 132, EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS, an amendment of FASB Statement Nos. 87, 88, and 106 ("SFAS 132"). The statement revises employers' disclosure about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pension and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when FASB Statement Nos. 87, 88, and 106 were issued.

RECLASSIFICATIONS - Certain amounts in the 1997 and 1996 consolidated financial statements have been reclassified to conform to the classifications adopted for reporting in 1998.

2. INVESTMENT SECURITIES

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

<TABLE>
<CAPTION>

	1998			
HELD TO MATURITY	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Government and Agency obligations	$ 127,150	$ 397	$ 560	$ 126,987
Mortgage-backed securities - FHLMC	25	1		26
Total	$ 127,175	$ 398	$ 560	$ 127,013

</TABLE>

<TABLE>
<CAPTION>

	1997			
HELD TO MATURITY	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. Government and Agency obligations	$ 95,376	$ 428	$ 351	$ 95,453
Mortgage-backed securities - FHLMC	157	4		161
Total	$ 95,533	$ 432	$ 351	$ 95,614

</TABLE>

The Company has pledged investment securities held to maturity with carrying values of approximately $16 million and $15 million at December 31, 1998 and 1997, respectively, as collateral for certain deposits in excess of $100,000.

Gross realized gains on sales of available for sale securities were approximately $394,000 in 1997. There were no significant gross losses.

The scheduled maturities of debt securities at December 31, 1998, 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.

<TABLE>
<CAPTION>

	1998	
	AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>
Due in one year or less	$ 10,008	$ 10,063
Due from one year to five years	8,188	8,236
Due from five years to ten years	14,100	14,245
Due after ten years	94,854	94,443
Mortgage-backed securities	25	26
Total	$ 127,175	$ 127,013

</TABLE>

As of December 31, 1998 and December 31, 1997, there were approximately $113 million and $71 million, respectively, of investments with call options held by the issuer, of which approximately $97 million and $60 million, respectively, are callable within one year.

3. LOANS RECEIVABLE

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

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
First mortgage loans:		
One- to- four family residences	$ 370,211	$ 370,955
Other properties	24,736	19,896
Construction	18,226	20,753
Less:		
Unearned discounts	(287)	(331)
Undisbursed loan funds	(6,770)	(7,305)
Deferred loan fees, net	(3,174)	(3,320)
Total first mortgage loans	402,942	400,648
Consumer and other loans:		
Commercial loans	8,437	5,649
Automobile	10,693	8,307
Consumer loans	3,977	4,065
Home equity and second mortgage	13,308	13,023
Savings loans	1,537	1,339
Other	2,199	1,968

Deferred loan costs	164	139
Total consumer and other loans	40,315	34,490
Allowance for loan losses	(771)	(1,196)
Loans receivable, net	$ 442,486	$ 433,942

</TABLE>

The Company originates and maintains loans receivable which are substantially concentrated in its lending territory (primarily Northwest and Northcentral Arkansas). The majority of the Company's loans are residential mortgage loans and construction loans for residential property. The Company'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 Company.

In the normal course of business, the Company 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 totaled approximately $2.6 million and $2.9 million at December 31, 1998 and 1997, respectively.

Loans identified by management as impaired at December 31, 1998 and 1997, were not significant. The Company is not committed to lend additional funds to debtors whose loans have been modified.

4. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Mortgage loans underlying FHLMC pass-through securities	$ -	$ 297
Mortgage loan portfolios serviced for other investors	849	1,037
Total	$ 849	$ 1,334

</TABLE>

Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees.

5. ACCRUED INTEREST RECEIVABLE

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

	1998	1997
Loans	$ 2,482	$ 2,645
Investment securities	2,273	1,489
Total	$ 4,755	$ 4,134

6. ALLOWANCE FOR LOAN LOSSES

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

	1998	1997	1996
Balance, beginning of year	$ 1,196	$ 1,251	$ 1,228
Provisions for estimated losses	55		60
Recoveries	9	12	3
Losses charged off	(489)	(67)	(40)
Balance, end of year	$ 771	$ 1,196	$ 1,251

7. FEDERAL HOME LOAN BANK STOCK

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 greater of 1% of its outstanding home loans or .3% of its total assets. No ready market exists for such stock and it has no quoted market value. The carrying value of the stock is its cost.

8. OFFICE PROPERTIES AND EQUIPMENT

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

	1998	1997
Land	$ 2,226	$ 2,014
Buildings and improvements	3,600	3,276
Furniture and equipment	3,956	3,237
Automobiles	443	410
Total	10,225	8,937
Accumulated depreciation	(4,170)	(3,719)
Office properties and equipment, net	$ 6,055	$ 5,218

9. DEPOSITS

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

	1998	1997
Demand and NOW accounts, including noninterest-bearing deposits of $14,133 and $10,539 in 1998 and 1997, respectively	$ 60,248	$ 49,963
Money market	16,164	15,438
Regular savings	25,916	25,330
Certificates of deposit	378,765	360,143
Total	$481,093	$450,874

The aggregate amount of short-term jumbo certificates of deposit with a minimum denomination of $100 thousand was approximately $31 million and $27 million at December 31, 1998 and 1997, respectively.

At December 31, 1998, scheduled maturities of certificates of deposit are as follows (in thousands):

Years ending December 31:	
1999	$237,029
2000	62,567
2001	22,982
2002	18,759
2003 and thereafter	37,428
Total	$378,765

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

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
NOW and money market	$ 1,358	$ 1,299	$ 1,324
Regular savings and certificate accounts	22,745	22,145	21,178
Early withdrawal penalties	(99)	(113)	(93)
Total	$ 24,004	$ 23,331	$ 22,409

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").

Legislation, passed by the U.S. House of Representatives and the Senate, was signed into law by the President on September 30, 1996, to recapitalize the SAIF. As a result of such legislation, the Bank was required to pay a one-time special assessment of $2.6 million which had an approximate $1.7 million after-tax effect. The legislation also mandated that the deposit insurance premiums charged SAIF-insured institutions (such as the Bank) decline to approximately 6.5 basis points effective January 1, 1997. Effective July 1, 1998, the deposit insurance premium declined to 6.10 basis points.

10. FEDERAL HOME LOAN BANK ADVANCES

The Bank pledges as collateral for FHLB advances their FHLB stock and has entered into blanket collateral agreements with the FHLB whereby the Bank agrees to maintain, free of other encumbrances, qualifying single family first mortgage loans with unpaid principal balances, when discounted at 75% of such balances, of at least 100% of total outstanding advances. Advances at December 31, 1998 and 1997, consisted of the following:

<TABLE>
<CAPTION>

	1998		1997	
	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT
<S>	<C>	<C>	<C>	<C>
Amounts maturing in years ending December 31:				
1999	5.71 %	$19,000	6.19 %	$ 4,000
2000	5.31 %	14,000	6.04 %	2,000
2001	4.85 %	7,000		
2002	6.60 %	3,985	6.59 %	3,997
2003	5.56 %	1,000		
Thereafter	6.01 %	4,000	6.26 %	2,000
Total	5.57 %	$48,985	6.31 %	$11,997

</TABLE>

11. INCOME TAXES

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Income tax provision:			
Current	$ 3,082	$ 3,072	$ 1,645
Deferred	227	27	111
Total	$ 3,309	$ 3,099	$ 1,756

</TABLE>

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,					
	1998		1997		1996	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Taxes at statutory rate	$ 3,175	34.0 %	$ 2,924	34.0 %	$ 1,753	34.0 %
Increase resulting from:						

State income tax, net	48	0.5 %	119	1.4 %	-	-
Other, net	86	0.9 %	56	0.6 %	3	0.1 %
Total	$ 3,309	35.4 %	$ 3,099	36.0 %	$ 1,756	34.1 %

</TABLE>

During the year ended December 31, 1996, new legislation was enacted which provides for the recapture into taxable income of certain amounts previously deducted as additions to the bad debt reserves for income tax purposes. The Bank began changing its method of determining bad debt reserves for tax purposes following the year ended December 31, 1995. The amounts to be recaptured for income tax reporting purposes are considered by the Bank in the determination of the net deferred tax liability.

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

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Deferred tax assets:		
Loan fees deferred	$ 79	$ 158
Stock based compensation	168	168
Loan loss reserves	4	--
Other	--	72
Total deferred tax assets	251	398
Deferred tax liabilities:		
Office properties	(159)	(168)
Federal Home Loan Bank stock	(629)	(544)
Loan loss reserves	--	(61)
Other	(65)	--
Total deferred tax liabilities	(853)	(773)
Net deferred tax liability	$(602)	$(375)

</TABLE>

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, 1998 and 1997. 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.

12. OTHER COMPREHENSIVE INCOME

The amount of income tax expense or benefit allocated to each component of comprehensive income, including reclassification adjustments, are shown below. There were no other comprehensive income components for the year ended December 31, 1998.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1997		
<S>	BEFORE-TAX AMOUNT <C>	TAX (EXPENSE) OF BENEFIT <C>	NET-OF-TAX AMOUNT <C>
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 66	$ (8)	$ 58
Less: reclassification of adjustment for gains realized in net income	(394)	134	(260)

Other comprehensive income	$(328)	$ 126	$(202)

	YEAR ENDED DECEMBER 31, 1996		
	BEFORE-TAX AMOUNT	TAX (EXPENSE) OF BENEFIT	NET-OF-TAX AMOUNT
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 83	$ (32)	$ 51
Less: reclassification of adjustment for gains realized in net income	-	-	-
Other comprehensive income	$ 83	$ (32)	$ 51

13. BENEFIT PLANS

In 1997, the Company's shareholders approved the Stock Option Plan ("SOP") and Management Recognition and Retention Plan ("MRR Plan").

STOCK OPTION PLAN - The 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 515,375 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. Two-fifths of the options granted during 1997 have vested as of December 31, 1998. 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 in 1997 have exercise prices ranging from $19.25 to $20.38, and a weighted average remaining contract life of 8.4 years at December 31, 1998. Options granted in 1998 have exercise prices ranging from $23.25 to $24.00 and a weighted average remaining contract life of 9.1 years at December 31, 1998.

A summary of the status of the Company's SOP as of December 31, 1998 and 1997, and changes during the years ending on those dates are presented below:

OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 1997	--	$ --
Granted	496,073	19.27
Exercised	--	--
Forfeited	(1,600)	19.25
Outstanding at December 31, 1997	494,473	19.27
Granted	13,000	23.31
Exercised	--	--
Forfeited	(3,600)	20.00

Outstanding at December 31, 1998	503,873	$ 19.37
Options exercisable at December 31, 1998	200,630	$ 19.33

</TABLE>

The Company applies the provisions of APB Opinion No. 25 in accounting for its stock option plan, as allowed under SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION ("SFAS 123"). Accordingly, no compensation cost has been recognized for options granted to employees. 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:

<TABLE>
<CAPTION>

	1998		1997	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
<S>	<C>	<C>	<C>	<C>
Net income (in thousands)	$ 6,030	$ 5,505	$ 5,502	$ 4,987
Earnings per share:				
Basic	$ 1.35	$ 1.23	$ 1.22	$ 1.10
Diluted	$ 1.33	$ 1.21	$ 1.21	$ 1.10

</TABLE>

In determining the above pro forma disclosure, the fair value of options granted during 1997 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility - 22%, expected life of options - 6.5 years, risk-free interest rate - 5.7%, and expected dividend rate - 1.05%. The weighted average fair value of options granted during the fiscal year ended December 31, 1997, was $7.85 per share.

The fair value of options granted during 1998 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected volatility - 20.28% to 21.09%, expected life of options - 7.0 years, risk-free interest rate - 5.59% and expected dividend rate - 1.04% to 1.17%. The weighted average fair value of options granted during the fiscal year ended December 31, 1998, was $9.02 per share.

MANAGEMENT RECOGNITION AND RETENTION PLAN - The 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 206,150 shares of the Company stock, of which 195,844 shares were granted during 1997. Compensation expense will be recognized based on

the fair market value of the shares on the grant date of $19.25 over the vesting period. One-fifth of the shares granted to date (39,170 shares) vested immediately on the date of grant. The remainder will vest at a rate of 25% per year over the next four anniversary dates of the grants. Two-fifths of the shares granted to date have vested as of December 31, 1998. Shares granted will be deemed vested in the event of disability or death. All shares granted under the plan have been purchased in the open market at a total cost of $4.4 million. A liability has been established, based on the grant price, for the remainder of the shares to be purchased. Differences between the price at the date of grant and the actual purchase price will be recorded as an adjustment to stockholders' equity. Approximately $754,000 and $1.2 million in compensation expense was recognized during the years ended December 31, 1998 and 1997, respectively.

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, 1998, 1997, and 1996, 41,604, 41,604, and 27,465 shares, respectively, were released by the ESOP to participant accounts. At December 31, 1998, there were 109,061 shares allocated to participant accounts and 301,627 unallocated shares. The fair value of the unallocated shares amounted to approximately $5,618,000 at December 31, 1998.

During the years ended December 31, 1998, 1997, and 1996, ESOP expense was approximately $884,000, $745,000, and $402,000, 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 next 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. For the years ended December 31, 1997 and 1996, there was a net pension cost of approximately $56,000, and $100,000, respectively. There was no net pension cost for the year ended December 31, 1998.

14. EARNINGS PER SHARE

<TABLE>
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	YEAR ENDED DECEMBER 31, 1998		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
<S>	<C>	<C>	<C>
Basic EPS - Income available to common stockholders	$ 6,029,505	4,459,685	$ 1.35
Effect of dilutive securities - Stock options	--	89,506	
Diluted EPS - Income available to common stockholders and assumed conversions	$ 6,029,505	4,549,191	$ 1.33

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1998		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
<S>	<C>	<C>	<C>
Basic EPS - Income available to common stockholders	$ 5,501,617	4,527,043	$ 1.22
Effect of dilutive securities - Stock options	--	22,365	
Diluted EPS - Income available to common stockholders and assumed conversions	$ 5,501,617	4,549,408	$ 1.21

</TABLE>

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31, 1998

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Basic and Diluted EPS -			
Income available to common stockholders	$ 3,400,036	4,730,010	$ 0.72

During the year ended December 31, 1996, there were no potential dilutive securities.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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 Bank had the following outstanding commitments at December 31, 1998 (in thousands):

Undisbursed construction loans	$ 6,770
Commitments to originate mortgage loans	3,581
Letters of credit	53
Unused lines of credit	3,967
Total	$ 14,371

The funding period for construction loans is generally less than nine months and commitments to originate mortgage loans are generally outstanding for 60 days or less. At December 31, 1998, interest rates on commitments ranged from 5.75% to 10.00%.

16. 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):

<TABLE>

<CAPTION>

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Cash and cash equivalents	$ 26,163	$ 26,163	$ 6,627	$ 6,627
Investment securities - Held to maturity	127,175	127,013	95,533	95,614
Federal Home Loan Bank stock	3,912	3,912	3,603	3,603
Loans receivable, net	442,486	448,755	433,942	438,775
Accrued interest receivable	4,755	4,755	4,134	4,134
LIABILITIES:				
Deposits:				
Demand, NOW, money market and regular savings	102,328	102,328	90,731	90,731
Certificates of deposit	378,765	385,084	360,143	363,640
Federal Home Loan Bank advances	48,985	49,872	11,997	12,147
Accrued interest payable	665	665	526	526
Advance payments by borrowers for taxes and insurance	1,006	1,006	900	900
Commitments	--	--	--	--

</TABLE>

For cash and cash equivalents, Federal Home Loan Bank stock 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 are based on repricing dates. Fixed rate commercial loans and installment 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 and advances of similar remaining maturities at the reporting date. For advance payments by borrowers for taxes and insurance and accrued interest payable the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments. Commitments are generally made at prevailing interest rates at the time of funding and, therefore, there is no difference between the contract amount and fair value.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 1998 and 1997. 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.

17. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements (see Note 15). In addition, 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.

18. 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.

19. 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 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).

At December 31, 1998 and 1997, 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:

<TABLE>
<CAPTION>

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE CATEGORIZED AS WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998:						
Tangible Capital to Tangible Assets	$71,654	11.67 %	$ 9,211	1.50 %	N/A	N/A
Core Capital to Adjusted Tangible Assets	71,654	11.67 %	18,423	3.00 %	$30,705	5.00 %
Total Capital to Risk-Weighted Assets	72,334	22.44 %	25,786	8.00 %	32,233	10.00 %
Tier I Capital to Risk-Weighted Assets	71,654	22.23 %	N/A	N/A	19,340	6.00 %
As of December 31, 1997:						
Tangible Capital to Tangible Assets	$65,852	11.98 %	$ 8,244	1.50 %	N/A	N/A

Core Capital to Adjusted Tangible Assets	65,852	11.98 %	16,488	3.00 %	$27,480	5.00 %
Total Capital to Risk-Weighted Assets	66,619	22.52 %	23,661	8.00 %	29,576	10.00 %
Tier I Capital to Risk-Weighted Assets	65,852	22.27 %	N/A	N/A	17,746	6.00 %

</TABLE>

20. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed statements of financial condition, as of December 31, 1998 and 1997, and condensed statements of income and of cash flows for the years ended December 31, 1998 and 1997, 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 (IN THOUSANDS)
DECEMBER 31, 1998 AND 1997

<TABLE>
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ASSETS	1998	1997
Cash and cash equivalents (deposits in Bank)	$ 85	$ 72
Loan to Bank subsidiary	8,573	17,793
Accrued interest receivable	35	82
Investment in Bank	71,654	65,852
Other assets	893	866
TOTAL ASSETS	$81,240	$84,665
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	$ 217	$ 1,781
Stockholders' equity	81,023	82,884
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$81,240	$84,665

</TABLE>

CONDENSED STATEMENTS OF INCOME (IN THOUSANDS)
YEARS ENDED DECEMBER 31, 1998 AND 1997
<TABLE>
<CAPTION>

	1998	1997
INCOME:		
Interest income - investment securities	$ --	$ 418
Interest income - loan to Bank	771	714
Total income	771	1,132
EXPENSES:		
Management fees	66	66
Other operating expenses	143	142
Total expenses	209	208
INCOME BEFORE INCOME TAX PROVISION AND EQUITY IN UNDISTRIBUTED EARNINGS OF BANK SUBSIDIARY	562	924
INCOME TAX PROVISION	215	343
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF BANK SUBSIDARY	347	581
EQUITY OF UNDISTRIBUTED EARNINGS OF BANK SUBSIDIARY	5,683	4,921

NET INCOME	$6,030	$5,502

</TABLE>

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF CASH FLOWS (IN THOUSANDS)
YEARS ENDED DECEMBER 31, 1998 AND 1997
<TABLE>
<CAPTION>

	1998	1997
OPERATING ACTIVITIES:		
Net income	$ 6,030	$ 5,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of Bank	(5,683)	(4,921)
Repayment of ESOP loan	980	830
Stock compensation expense	754	1,193
Changes in operating assets and liabilities:		
Accrued interest receivable	47	128
Other assets	(26)	(688)
Accrued expenses and other liabilities	(181)	133
Net cash provided by operating activities	1,921	2,177
INVESTING ACTIVITIES:		
Loan to Bank, net of repayments	9,220	(8,525)
Proceeds from maturities of investment securities - held to maturity	--	9,987
Net cash provided by investing activities	9,220	1,462
FINANCING ACTIVITIES:		
Purchase of treasury stock	(7,977)	--
Common stock acquired for employee stock benefit plan	(1,817)	(2,539)
Dividends paid	(1,334)	(1,077)
Net cash used in financing activities	(11,128)	(3,616)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13	23
CASH AND CASH EQUIVALENTS:		
Beginning of period	72	49
End of period	$ 85	$ 72

</TABLE>

* * * * * *

<TABLE>
<CAPTION>

DIRECTORS	EXECUTIVE OFFICERS
<S>	<C>
FRANK L. COFFMAN, JR. Chairman of the Board and Chief Executive Officer	FRANK L. COFFMAN, JR. Chairman of the Board and Chief Executive Officer
LARRY J. BRANDT President and Chief Operating Officer	LARRY J. BRANDT President and Chief Operating Officer
JOHN P. HAMMERSCHMIDT U. S. Congressman, Retired	CAROLYN M. THOMASON Executive Vice President and Secretary
JAMES D. HEUER Farming and Investments	TOMMY W. RICHARDSON Senior Vice President and Chief Financial Officer
WILLIAM F. SMITH Retired Pharmacist and Investments	SHERRI R. BILLINGS Senior Vice President and Treasurer

</TABLE>

BANKING LOCATIONS

MAIN OFFICE

200 West Stephenson
Harrison, Arkansas 72601

BRANCH OFFICES

<TABLE>
<CAPTION>

<S>	<C>	<C>
128 West Stephenson Harrison, Arkansas 72601	Ozark Mall - Highway 62-65 North Harrison, Arkansas 72601	301 Highway 62 West Yellville, Arkansas 72687
Corner Central & Willow Harrison, Arkansas 72601	324 Highway 62-65 Bypass Harrison, Arkansas 72601	307 North Walton Blvd. Bentonville, Arkansas 72712
210 South Main Berryville, Arkansas 72616	1303 West Hudson Rogers, Arkansas 72756	3460 North College Fayetteville, Arkansas 72703
668 Highway 62 East Mountain Home, Arkansas 72653	201 East Henri De Tonti Blvd. Tontitown, Arkansas 72762	2025 North Crossover Road Fayetteville, AR 72703
1337 Hwy 62 SW Mountain Home, Arkansas 72653	249 West Main Street Farmington, AR 72730	

</TABLE>

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 eleven full service branch offices. The Company's and the Bank's principal executive office is located at 200 West Stephenson, Harrison, Arkansas 72601.

TRANSFER AGENT/REGISTRAR

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

STOCKHOLDER REQUESTS

Request for 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 15, 1999, the Company had 4,418,697 shares of common stock outstanding and had approximately 1,291 stockholders of record. Such holdings do not reflect the number of beneficial owners of common stock.

The following table sets forth the reported high and low sale prices of a share of the Company's common stock as reported by Nasdaq for the periods indicated.

QUARTER ENDED	YEAR ENDED DECEMBER 31, 1998			YEAR ENDED DECEMBER 31, 1997		
	High	Low	Dividend	High	Low	Dividend
MARCH 31	$30.25	$22.75	$0.07	$20.38	$15.88	$0.05
JUNE 30	30.13	26.31	0.07	20.63	17.38	0.05
SEPTEMBER 30	26.31	18.50	0.07	21.75	20.13	0.06
DECEMBER 31	21.00	16.00	0.07	24.38	20.00	0.06

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