

# FIRST FEDERAL BANCSHARES

FOR  
IMMEDIATE  
RELEASE

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Harrison, AR 72601

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## FIRST FEDERAL BANCSHARES OF ARKANSAS, INC. ANNOUNCES EARNINGS

**Harrison, Arkansas – July 26, 2001** - (NASDAQ NMS:FFBH) First Federal Bancshares of Arkansas, Inc. (the "Corporation"), a unitary savings and loan holding company for First Federal Bank of Arkansas, FA (the "Bank") announced today that the Corporation earned \$1,062,000 or \$0.34 basic and diluted earnings per share during the second quarter of 2001 compared to net income of \$1,572,000 or \$0.44 basic and diluted earnings per share during the second quarter of 2000. Earnings for the six months ended June 30, 2001 amounted to \$2,206,000 or \$0.69 basic and diluted earnings per share compared to earnings of \$3,002,000 or \$0.82 basic and diluted earnings per share for the same period ended June 30, 2000. Book value, or stockholders' equity per share, at June 30, 2001, was \$22.32.

Larry J. Brandt, President of the Corporation said, "Profits for the second quarter were significantly impacted by the recording of a \$352,000 pre-tax death benefit payable to the estate of our deceased chairman. However, despite the one time, nonrecurring charge for the death benefit, we are pleased to see both our net interest margin and non-interest income improve during the quarter compared to the quarter ended March 31, 2001. In addition, we are still in a repurchase program for our stock and consider it an exceptional investment as it is trading below book value."

Total assets at June 30, 2001 amounted to \$686.2 million, total liabilities were \$612.4 million and stockholders' equity totaled \$73.8 million or 10.8% of total assets. This compares with total assets of \$713.9 million, total liabilities of \$637.3 million and stockholders' equity of \$76.6 million or 10.7% of total assets at December 31, 2000. At June 30, 2001 compared to December 31, 2000, cash and cash equivalents increased \$13.7 million or 118.0%, investment securities-held to maturity decreased \$38.4 million or 20.8%, net loans receivable decreased \$11.4 million or 2.3%, and prepaid expenses and other assets increased \$10.1 million. The decrease in net loans receivable was primarily due to customer refinancings in the lower rate environment and the sale by the bank of such loans in the secondary mortgage market. Prepaid expenses and other assets increased primarily due to the Bank's investment in bank owned life insurance. At June 30, 2001, liabilities were \$612.4 million compared to \$637.3 million at December 31, 2000. The \$24.8 million or 3.9% decrease was primarily due to a decrease of \$33.5 million or 35.9% in Federal Home Loan Bank of Dallas ("FHLB of Dallas") advances which was partially offset by an increase of \$8.0 million or 1.5% in deposits. The funds available from the sale of loans and the maturity of certain securities were used primarily to pay down FHLB of Dallas advances with the excess temporarily invested in cash and cash equivalents. Stockholders' equity decreased during the six month period ended June 30, 2001 primarily due to the purchase of 248,114 shares of treasury stock totaling \$5.0 million in connection with the Corporation's stock repurchase program and to a lesser extent due to the payment of quarterly cash

dividends aggregating \$740,000. Such decrease was partially offset by net income, for the six month period ended June 30, 2001, in the amount of \$2.2 million resulting from continued profitable operations.

Non-performing assets, consisting of non-accruing loans and repossessed assets, amounted to \$2.7 million or .39% of total assets at June 30, 2001, compared to \$1.9 million or .27% of total assets at December 31, 2000. Such increase was primarily due to an increase in non-accruing loans secured by one-to four family mortgage loans. The allowance for loan losses amounted to \$622,000 at June 30, 2001.

Net interest income, the primary component of net income, decreased from \$4.9 million and \$9.8 million for the three and six months ended June 30, 2000, respectively, to \$4.5 million and \$9.0 million for the comparable periods in 2001. Net interest margin for the three months and six months ended June 30, 2001 was 2.70% and 2.66%, respectively, compared to 2.92% and 2.94%, respectively, for the same periods in 2000.

Noninterest income increased \$405,000 or 89.8% to \$856,000 for the three month period ended June 30, 2001 compared to \$451,000 for the three months ended June 30, 2000 and increased \$695,000 or 83.1% to \$1.5 million for the six month period ended June 30, 2001 compared to \$836,000 for the six months ended June 30, 2000. The increase in noninterest income for the three months and six months ended June 30, 2001 compared to the three months and six months ended June 30, 2000 was primarily due to increases in deposit fee income, loan related insurance commissions, profit on sale of mortgage loans in the secondary mortgage market and additional fees related to such loans and a decline in the loss recognized from the operations of foreclosed property.

Noninterest expenses increased \$726,000 or 24.1% between the 2001 and 2000 three month periods ended June 30 and increased \$990,000 or 16.1% between the 2001 and 2000 six month periods ended June 30. Such increase was primarily due to an increase in salaries and employee benefits and to a nonrecurring expense for \$352,000 discussed below.

In the second quarter, a nonrecurring noninterest expense was incurred in the amount of \$352,000 pre-tax with a \$235,000 after-tax affect. The nonrecurring expense was due to a death benefit payable pursuant to the employment contract of the Bank's Chief Executive Officer and Chairman of the Board, as a result of his death.

During the second quarter of 2001, the Bank successfully completed its conversion to check imaging, the Better Checking System. The Bank also had an overwhelming response to its new portal located at [www.ffbh.com](http://www.ffbh.com). The Bank promoted IRA's, Consumer Loans and OnLine Banking. OnLine Banking allows customers to do their banking 24 hours a day, seven days a week from any computer connected to the web. For information on all the products and services we offer, visit us at [www.ffbh.com](http://www.ffbh.com). The Bank, in its 67<sup>th</sup> year, conducts business from 16 offices in Northcentral and Northwest Arkansas.

### **Financial Tables Attached**

**FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(In thousands of dollars)

ASSETS	June 30, 2001 <u>(Unaudited)</u>	December 31, 2000 <u></u>
Cash and cash equivalents	\$ 25,214	\$ 11,564
Investment securities - held to maturity	145,899	184,310
Federal Home Loan Bank stock	4,837	5,098
Loans receivable, net of allowances	486,912	498,305
Accrued interest receivable	5,692	6,910
Real estate acquired in settlement of loans, net	255	261
Office properties and equipment, net	7,040	7,170
Prepaid expenses and other assets	<u>10,383</u>	<u>284</u>
<b>TOTAL ASSETS</b>	<b><u>\$686,232</u></b>	<b><u>\$713,902</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits	\$548,370	\$540,327
Federal Home Loan Bank advances	59,852	93,359
Advance payments by borrowers for taxes and insurance	740	1,006
Other liabilities	<u>3,475</u>	<u>2,588</u>
Total liabilities	612,437	637,280
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>73,795</u></b>	<b><u>76,622</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$686,232</u></b>	<b><u>\$713,902</u></b>

**FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**AND RELATED SELECTED OPERATING DATA**  
(In thousands of dollars, except earnings per share)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	\$12,826	\$12,909	\$25,959	\$ 25,443
Interest expense	<u>8,304</u>	<u>8,007</u>	<u>16,991</u>	<u>15,652</u>
Net interest income	4,522	4,902	8,968	9,791
Provision for loan losses	<u>52</u>	<u>--</u>	<u>61</u>	<u>--</u>
Net interest income after provision for loan losses	4,470	4,902	8,907	9,791
Noninterest income	856	451	1,531	836
Noninterest expenses	<u>3,735</u>	<u>3,009</u>	<u>7,131</u>	<u>6,141</u>
Income before income taxes	<u>1,591</u>	<u>2,344</u>	<u>3,307</u>	<u>4,486</u>
Income tax provision	<u>529</u>	<u>772</u>	<u>1,101</u>	<u>1,484</u>
Net income and comprehensive income	<u>\$1,062</u>	<u>\$1,572</u>	<u>\$2,206</u>	<u>\$3,002</u>

Earnings Per Share:

Basic	<u>\$0.34</u>	<u>\$0.44</u>	<u>\$0.69</u>	<u>\$0.82</u>
Diluted	<u>\$0.34</u>	<u>\$0.44</u>	<u>\$0.69</u>	<u>\$0.82</u>

Selected Operating Data (Annualized):

Interest rate spread	2.22%	2.46%	2.17%	2.48%
Net interest margin	2.70%	2.92%	2.66%	2.94%
Return on average assets	0.61%	0.90%	0.63%	0.87%
Noninterest expenses to average assets	2.61%	1.73%	2.05%	1.78%
Return on average equity	5.69%	8.07%	5.86%	7.66%