

# FIRST FEDERAL BANCSHARES

FOR  
IMMEDIATE  
RELEASE

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

**Harrison, Arkansas – July 30, 2002 -** (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's net income amounted to \$1,834,000 or \$0.66 basic earnings per share and \$0.64 diluted earnings per share during the second quarter of 2002 compared to net income of \$1,062,000 or \$0.34 basic and diluted earnings per share during the second quarter of 2001. Earnings for the six months ended June 30, 2002 amounted to \$3,590,000 or \$1.27 basic earnings per share and \$1.23 diluted earnings per share compared to earnings of \$2,206,000 or \$0.69 basic and diluted earnings per share for the same period ended June 30, 2001. Book value or stockholders' equity per share, at June 30, 2002, was \$24.38.

Larry J. Brandt, President/CEO for the Corporation said, "We are very pleased to report our most profitable quarter in our 68 year history with net income of \$1.83 million, a 73% improvement over the same quarter last year. Diluted earnings per share for this quarter was \$.64, an 88% increase over the second quarter of 2001 earnings per share of \$.34. The increase in net income in the second quarter compared to the same quarter in 2001 was primarily the result of an improvement of 65 basis points in our net interest margin and an increase of 47% in noninterest income. In addition, we announced another stock repurchase program during the second quarter and we continue to believe our stock is an excellent value at or near book value. We are also pleased to report the progress on our new Northtown office is on schedule for a completion date in May next year."

Total assets at June 30, 2002 amounted to \$689.2 million, total liabilities were \$619.9 million and stockholders' equity totaled \$69.4 million or 10.1% of total assets. This compares with total assets of \$680.3 million, total liabilities of \$609.2 million and stockholders' equity of \$71.1 million or 10.4% of total assets at December 31, 2001. At June 30, 2002 compared to December 31, 2001, cash and cash equivalents decreased \$7.4 million or 10.2%, investment securities held-to-maturity increased \$7.1 million or 7.0% and net loans receivable increased \$7.6 million or 1.6%. At June 30, 2002, liabilities were \$619.9 million compared to \$609.2 million at December 31, 2001. The \$10.7 million or 1.8% increase was primarily due to an increase of \$19.4 million or 3.5% in deposits, which was partially offset by a decrease of \$12.0 million or 25.2% in Federal Home Loan Bank of Dallas ("FHLB of Dallas") advances. The funds

available from the increase in deposits and the decrease in cash and cash equivalents were used to pay down FHLB of Dallas advances, invest in investment securities held-to-maturity and to fund loan growth. Stockholders' equity decreased during the six month period ended June 30, 2002 primarily due to the purchase of 213,600 shares of treasury stock totaling \$5.2 million in connection with the Corporation's stock repurchase program and to a lesser extent due to the payment of quarterly cash dividends in the amount of \$713,000. Such decrease was partially offset by net income in the amount of \$3.6 million for the six month period resulting from continued profitable operations.

Non-performing assets, consisting of non-accruing loans and repossessed assets, amounted to \$4.0 million or .58% of total assets at June 30, 2002, compared to \$3.6 million or .53% of total assets at December 31, 2001. The allowance for loan losses amounted to \$1.5 million at June 30, 2002 or 40.5% of nonperforming loans and .29% of total loans. The allowance for loan losses amounted to \$923,000 at December 31, 2001 or 29.7% of nonperforming loans and .19% of total loans. The allowance for loan losses includes \$653,000 and \$184,000 in allowances allocated to specific loans as of June 30, 2002 and December 31, 2001, respectively.

Net interest income, the primary component of net income, increased from \$4.5 million and \$9.0 million for the three and six months ended June 30, 2001, respectively, to \$5.4 million and \$10.6 million for the comparable periods in 2002. Net interest margin for the three months and six months ended June 30, 2002 was 3.35% and 3.28%, respectively, compared to 2.70% and 2.66%, respectively, for the same periods in 2001.

The provision for loan losses increased \$321,000 to \$373,000 for the three month period ended June 30, 2002 compared to \$52,000 for the three month period ended June 30, 2001 and increased \$675,000 to \$736,000 for the six month period ended June 30, 2002 compared to \$61,000 for the six month period ended June 30, 2001. Factors increasing the 2002 provision included economic conditions, an increase in commercial and consumer loans which are typically considered to involve a higher degree of risk than one-to four- family loans, and the recognition of a loss on a single commercial real estate loan.

Noninterest income increased \$403,000 or 47.1% to \$1.3 million for the three month period ended June 30, 2002 compared to \$856,000 for the three months ended June 30, 2001 and increased \$1.0 million or 66.3% to \$2.5 million for the six month period ended June 30, 2002 compared to \$1.5 million for the six months ended June 30, 2001. The increase in noninterest income for the three months ended June 30, 2002 compared to the three months ended June 30, 2001 was primarily due to increases in deposit fee income and earnings in bank owned life insurance which was partially offset by a decrease in profit on sale of mortgage loans in the secondary market and additional fees related to such loans. The increase in noninterest income for the six month comparable periods was primarily due to increases in deposit fee income, earnings in bank owned life insurance, and profit on sale of mortgage loans in the secondary market and additional fees related to such loans.

Noninterest expenses decreased \$165,000 or 4.4% between the 2002 and 2001 three month periods ended June 30 and decreased \$145,000 or 2.0% between the 2002 and 2001 six month periods ended June 30. Such decreases were primarily due to a decrease in salaries and employee benefits resulting from a nonrecurring expense in 2001 for \$352,000, which was partially offset by an increase in data processing

expenses. In the second quarter of 2001, 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 2002, the Bank held a groundbreaking ceremony for our new Northtown office in Harrison. Governor Mike Huckabee was the featured speaker. The new 40,000 square feet Northtown office will be a full service facility and also serve as the Bank's corporate headquarters. For information on the products and services we offer, visit us at [www.ffbh.com](http://www.ffbh.com) or call our Account Information Center at (870) 365-8329 or (866) AIC-FFBH toll free or by email at [aic@ffbh.com](mailto:aic@ffbh.com). The Bank, in its 68<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, 2002 <u>(Unaudited)</u>	December 31, 2001 <u></u>
Cash and cash equivalents	\$ 64,932	\$ 72,326
Investment securities held-to-maturity	107,971	100,878
Federal Home Loan Bank stock	4,991	4,918
Loans receivable, net of allowances	482,105	474,494
Accrued interest receivable	4,678	4,420
Real estate acquired in settlement of loans, net	364	455
Office properties and equipment, net	7,927	7,006
Prepaid expenses and other assets	<u>16,278</u>	<u>15,758</u>
<b>TOTAL ASSETS</b>	<b><u>\$689,246</u></b>	<b><u>\$680,255</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits	\$575,297	\$555,933
Federal Home Loan Bank advances	35,807	47,844
Advance payments by borrowers for taxes and insurance	531	929
Other liabilities	<u>8,218</u>	<u>4,484</u>
Total liabilities	619,853	609,190
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>69,393</u></b>	<b><u>71,065</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$689,246</u></b>	<b><u>\$680,255</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>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	\$11,142	\$12,826	\$22,346	\$25,959
Interest expense	<u>5,708</u>	<u>8,304</u>	<u>11,754</u>	<u>16,991</u>
Net interest income	5,434	4,522	10,592	8,968
Provision for loan losses	<u>373</u>	<u>52</u>	<u>736</u>	<u>61</u>
Net interest income after provision for loan losses	5,061	4,470	9,856	8,907
Noninterest income	1,259	856	2,546	1,531
Noninterest expenses	<u>3,570</u>	<u>3,735</u>	<u>6,986</u>	<u>7,131</u>
Income before income taxes	<u>2,750</u>	<u>1,591</u>	<u>5,416</u>	<u>3,307</u>
Income tax provision	<u>916</u>	<u>529</u>	<u>1,826</u>	<u>1,101</u>
Net income	<u>\$1,834</u>	<u>\$1,062</u>	<u>\$3,590</u>	<u>\$2,206</u>

Earnings Per Share:

Basic	<u>\$0.66</u>	<u>\$0.34</u>	<u>\$1.27</u>	<u>\$0.69</u>
Diluted	<u>\$0.64</u>	<u>\$0.34</u>	<u>\$1.23</u>	<u>\$0.69</u>

Selected Operating Data (Annualized):

Interest rate spread	3.13%	2.22%	3.04%	2.17%
Net interest margin	3.35%	2.70%	3.28%	2.66%
Return on average assets	1.07%	0.61%	1.05%	0.63%
Noninterest expenses to average assets	2.08%	2.61%	2.04%	2.05%
Return on average equity	10.26%	5.69%	10.00%	5.86%