

# FIRST FEDERAL BANCSHARES

FOR  
IMMEDIATE  
RELEASE

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

**Harrison, Arkansas – October 29, 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 \$2,224,000 or \$0.84 basic earnings per share and \$0.81 diluted earnings per share during the third quarter of 2002 compared to net income of \$1,617,000 or \$0.53 basic earnings per share and \$0.52 diluted earnings per share during the third quarter of 2001. Earnings for the nine months ended September 30, 2002 amounted to \$5,814,000 or \$2.11 basic earnings per share and \$2.03 diluted earnings per share compared to earnings of \$3,823,000 or \$1.21 basic earnings per share and \$1.20 diluted earnings per share for the same period ended September 30, 2001. Book value or stockholders' equity per share, at September 30, 2002, was \$25.09.

Larry J. Brandt, President/CEO for the Corporation said, "We are pleased to report another consecutive quarter of record earnings with net income of \$2.2 million, a 38% improvement over the same quarter last year and diluted earnings per share for the quarter of \$.81, a 56% increase over the third quarter of 2001 diluted earnings per share of \$.52. Our quarterly Return on Average Assets (ROAA) of 1.32% and our quarterly Return on Average Equity (ROAE) of 12.78% are both records for us as a publicly traded company. We announced another stock repurchase program during the third quarter and we continue to believe our stock is an exceptional value at or near book value. We further enhanced our shareholder value during the quarter by increasing our quarterly dividend by 16.7% to \$.14 per share."

Total assets at September 30, 2002 amounted to \$676.1 million, total liabilities were \$607.7 million and stockholders' equity totaled \$68.4 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 September 30, 2002 compared to December 31, 2001, cash and cash equivalents decreased \$25.0 million or 34.6%, investment securities held-to-maturity increased \$7.4 million or 7.4% and net loans receivable increased \$10.9 million or 2.3%. At September 30, 2002, liabilities were \$607.7 million compared to \$609.2 million at December 31, 2001. The \$1.5 million or .2% decrease was primarily due to a decrease of \$16.0 million or 33.5% in Federal Home Loan Bank of Dallas ("FHLB of Dallas") advances, which was partially offset by an increase of \$13.3 million or 2.4% in deposits. 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 nine month period ended September 30, 2002 primarily due to the purchase of 340,500 shares of treasury stock totaling \$8.4 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 \$1.1 million. Such decrease was partially offset by net income in the amount of \$5.8 million for the nine month period resulting from continued profitable operations.

Non-performing assets, consisting of non-accruing loans and repossessed assets, amounted to \$3.2 million or .47% of total assets at September 30, 2002, compared to \$3.6 million or .53% of total assets at December 31, 2001. The allowance for loan losses amounted to \$1.1 million at September 30, 2002 or 38.8% of nonperforming loans and .21% 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 \$132,000 and \$184,000 in allowances allocated to specific loans as of September 30, 2002 and December 31, 2001, respectively.

Net interest income, the primary component of net income, increased from \$4.7 million and \$13.6 million for the three and nine months ended September 30, 2001, respectively, to \$5.9 million and \$16.5 million for the comparable periods in 2002. Net interest margin for the three months and nine months ended September 30, 2002 was 3.73% and 3.43%, respectively, compared to 2.86% and 2.72%, respectively, for the same periods in 2001. In addition, interest rate spread for the three and nine months ended September 30, 2002 was 3.54% and 3.21%, respectively, compared to 2.48% and 2.27%, respectively, for the same periods in 2001.

The provision for loan losses increased \$145,000 to \$247,000 for the three month period ended September 30, 2002 compared to \$102,000 for the three month period ended September 30, 2001 and increased \$820,000 to \$983,000 for the nine month period ended September 30, 2002 compared to \$163,000 for the nine month period ended September 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 \$396,000 or 42.7% to \$1.3 million for the three month period ended September 30, 2002 compared to \$927,000 for the three months ended September 30, 2001 and increased \$1.4 million or 57.5% to \$3.9 million for the nine month period ended September 30, 2002 compared to \$2.5 million for the nine months ended September 30, 2001. The increase in noninterest income for the three months ended September 30, 2002 compared to the three months ended September 30, 2001 was primarily due to increases in deposit fee income and earnings in bank owned life insurance. The increase in noninterest income for the nine 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 increased \$471,000 or 15.0% between the 2002 and 2001 three month periods ended September 30 and increased \$327,000 or 3.2% between the 2002 and 2001 nine month periods ended September 30. Such increase in the three month comparable period was primarily due to increases

in salaries and employee benefits, data processing expense, and occupancy expense. The increase in the nine month comparable period was primarily due to increases in data processing expense, occupancy expense, and contributions, which was partially offset by a decrease in salary and employee benefits resulting from a nonrecurring expense in the second quarter of 2001 in the amount of \$352,000. 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 third quarter of 2002, the Bank promoted our OnLine Banking product and OnLine Bill Payment. The OnLine Banking product gives our customers the convenience of accessing their accounts from any computer with Internet service. OnLine Banking allows customers to view their checking, savings, and loan accounts. They can transfer funds between accounts and pay bills directly from their checking accounts without writing a check. OnLine Banking users may also view and print custom reports. OnLine Bill Payment is easy and safe. The convenience of making multiple payments quickly makes the bill payment feature of OnLine Banking worth every penny. For information on all 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	September 30, 2002 <u>(Unaudited)</u>	December 31, 2001 <u></u>
Cash and cash equivalents	\$ 47,340	\$ 72,326
Investment securities held-to-maturity	108,320	100,878
Federal Home Loan Bank stock	5,029	4,918
Loans receivable, net of allowances	485,409	474,494
Accrued interest receivable	4,572	4,420
Real estate acquired in settlement of loans, net	364	455
Office properties and equipment, net	8,546	7,006
Prepaid expenses and other assets	<u>16,517</u>	<u>15,758</u>
<b>TOTAL ASSETS</b>	<b><u>\$676,097</u></b>	<b><u>\$680,255</u></b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits	\$569,238	\$555,933
Federal Home Loan Bank advances	31,824	47,844
Advance payments by borrowers for taxes and insurance	663	929
Other liabilities	<u>5,998</u>	<u>4,484</u>
Total liabilities	607,723	609,190
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>68,374</u></b>	<b><u>71,065</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$676,097</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 Sept. 30,</u>		<u>Nine Months Ended Sept. 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	\$ 11,070	\$ 12,412	\$ 33,415	\$ 38,371
Interest expense	<u>5,122</u>	<u>7,747</u>	<u>16,875</u>	<u>24,738</u>
Net interest income	5,948	4,665	16,540	13,633
Provision for loan losses	<u>247</u>	<u>102</u>	<u>983</u>	<u>163</u>
Net interest income after provision for loan losses	5,701	4,563	15,557	13,470
Noninterest income	1,323	927	3,870	2,457
Noninterest expenses	<u>3,617</u>	<u>3,146</u>	<u>10,603</u>	<u>10,276</u>
Income before income taxes	<u>3,407</u>	<u>2,344</u>	<u>8,824</u>	<u>5,651</u>
Income tax provision	<u>1,183</u>	<u>727</u>	<u>3,010</u>	<u>1,828</u>
Net income	<u>\$ 2,224</u>	<u>\$ 1,617</u>	<u>\$ 5,814</u>	<u>\$ 3,823</u>

Earnings Per Share:

Basic	<u>\$0.84</u>	<u>\$0.53</u>	<u>\$2.11</u>	<u>\$1.21</u>
Diluted	<u>\$0.81</u>	<u>\$0.52</u>	<u>\$2.03</u>	<u>\$1.20</u>

Selected Operating Data (Annualized):

Interest rate spread	3.54%	2.48%	3.21%	2.27%
Net interest margin	3.73%	2.86%	3.43%	2.72%
Return on average assets	1.32%	0.95%	1.14%	0.74%
Noninterest expenses to average assets	2.14%	1.84%	2.08%	1.98%
Return on average equity	12.78%	8.74%	10.91%	6.81%