

# 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 – January 28, 2003** - (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 \$1,964,000 or \$0.77 basic earnings per share and \$0.74 diluted earnings per share during the fourth quarter of 2002 compared to net income of \$1,638,000 or \$0.56 basic earnings per share and \$0.55 diluted earnings per share during the fourth quarter of 2001. Earnings for the twelve months ended December 31, 2002 amounted to \$7,778,000 or \$2.87 basic earnings per share and \$2.77 diluted earnings per share compared to earnings of \$5,460,000 or \$1.76 basic earnings per share and \$1.75 diluted earnings per share for the same period ended December 31, 2001. Book value or stockholders' equity per share, at December 31, 2002, was \$25.77.

Larry J. Brandt, President/CEO for the Corporation said, "We are very pleased to report record earnings for 2002 with net income of \$7.8 million, a 42% improvement over 2001 net income of \$5.5 million, and diluted earnings per share for 2002 of \$2.77, a 58% increase over 2001 diluted earnings per share of \$1.75. The improvement in the net interest margin from 2.76% for 2001 to 3.50% for 2002 and a 43% increase in noninterest income were the most significant factors in the increase in net income for the year 2002. These factors and the Corporation's stock repurchase program during 2002 contributed significantly to the improvement in earnings per share. The construction of the new Northtown office in Harrison continues to progress as scheduled and we look forward to moving into the new facility in late spring."

Total assets at December 31, 2002 amounted to \$679.9 million, total liabilities were \$610.6 million and stockholders' equity totaled \$69.3 million or 10.2% 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 December 31, 2002 compared to December 31, 2001, cash and cash equivalents decreased \$27.8 million or 38.5%, investment securities held-to-maturity increased \$13.6 million or 13.5% and net loans receivable increased \$9.0 million or 1.9%. At December 31, 2002, liabilities were \$610.6 million compared to 609.2 million at December 31, 2001. The \$1.4 million or 0.2% increase was primarily due to an increase of \$12.8 million or 2.3% in deposits, which was partially offset by a decrease of \$9.2 million or 19.3% in Federal Home Loan Bank of Dallas ("FHLB of Dallas") advances.

Cash and cash equivalents and the funds available from the increase in deposits were used to pay down FHLB of Dallas advances, to invest in investment securities held-to-maturity, to fund loan growth, and to purchase treasury stock. Stockholders' equity decreased during the twelve month period ended December 31, 2002 primarily due to the purchase of 385,500 shares of treasury stock totaling \$9.5 million in connection with the Corporation's stock repurchase program and, to a lesser extent, to the payment of quarterly cash dividends in the amount of \$1.5 million. Such decrease was partially offset by net income in the amount of \$7.8 million for the twelve month period resulting from continued profitable operations.

Nonaccrual and restructured loans amounted to \$7.3 million at December 31, 2002, compared to \$3.1 million at December 31, 2001. The increase between December 31, 2001 and December 31, 2002 was due to the restructuring of a \$4.2 million commercial loan relationship. The allowance for loan losses amounted to \$1.5 million at December 31, 2002 or 0.30% of total loans. The allowance for loan losses amounted to \$923,000 at December 31, 2001 or 0.19% of total loans. The allowance for loan losses includes \$625,000 and \$184,000 in allowances allocated to specific loans as of December 31, 2002 and December 31, 2001, respectively.

Net interest income, the primary component of net income, increased from \$4.7 million and \$18.3 million for the three and twelve months ended December 31, 2001, respectively, to \$5.9 million and \$22.5 million for the comparable periods in 2002. Net interest margin for the three months and twelve months ended December 31, 2002 was 3.73% and 3.50%, respectively, compared to 2.87% and 2.76%, respectively, for the same periods in 2001. In addition, interest rate spread for the three and twelve months ended December 31, 2002 was 3.56% and 3.30%, respectively, compared to 2.57% and 2.35%, respectively, for the same periods in 2001.

The provision for loan losses increased \$228,000 to \$517,000 for the three month period ended December 31, 2002 compared to \$289,000 for the three month period ended December 31, 2001 and increased \$1,048,000 to \$1,500,000 for the twelve month period ended December 31, 2002 compared to \$452,000 for the twelve month period ended December 31, 2001. Factors contributing to the increase in the provision for loan losses include an increase in net charge-offs, an increase in commercial and consumer loans, which typically involve a higher degree of risk and greater loss experience when compared to one-to-four family mortgage loans, and general economic conditions. In addition, there was an increase of approximately \$440,000 in loss allowances on loans individually reviewed for impairment.

Noninterest income increased \$190,000 or 14.8% to \$1.5 million for the three month period ended December 31, 2002 compared to \$1.3 million for the three months ended December 31, 2001 and increased \$1.6 million or 42.8% to \$5.3 million for the twelve month period ended December 31, 2002 compared to \$3.7 million for the twelve months ended December 31, 2001. The increase in noninterest income for the three months ended December 31, 2002 compared to the three months ended December 31, 2001 was primarily due to an increase in deposit fee income. The increase in noninterest income for the twelve 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 \$602,000 or 18.1% between the 2002 and 2001 three month periods ended December 31 and increased \$928,000 or 6.8% between the 2002 and 2001 twelve month periods

ended December 31. Such increase in the three month comparable periods was primarily due to increases in salaries and employee benefits, advertising and public relations expense, and occupancy expense. The increase in the twelve month comparable periods was primarily due to increases in salaries and employee benefits, data processing expense, occupancy expense, advertising and public relations expense and contributions.

During the fourth quarter of 2002, the Bank promoted our First Money Visa Check Card. The First Money Visa Check Card is an ATM card that can be used like a check. The Bank also promoted Bounce Protection. Bounce Protection provides our customers the confidence to meet financial obligations without fear of bouncing a check. 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 69<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	December 31, 2002 <u>(Unaudited)</u>	December 31, 2001 <u></u>
Cash and cash equivalents	\$ 44,493	\$ 72,326
Investment securities held-to-maturity	114,471	100,878
Federal Home Loan Bank stock	5,064	4,918
Loans receivable, net of allowances	483,468	474,494
Accrued interest receivable	4,380	4,420
Real estate acquired in settlement of loans, net	320	455
Office properties and equipment, net	10,690	7,006
Prepaid expenses and other assets	<u>17,010</u>	<u>15,758</u>
<b>TOTAL ASSETS</b>	<b><u>\$679,896</u></b>	<b><u>\$680,255</u></b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits	\$568,762	\$555,933
Federal Home Loan Bank advances	38,610	47,844
Advance payments by borrowers for taxes and insurance	760	929
Other liabilities	<u>2,498</u>	<u>4,484</u>
Total liabilities	610,630	609,190
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>69,266</u></b>	<b><u>71,065</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$679,896</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 Dec. 31,</u>		<u>Twelve Months Ended Dec. 31,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)	(Unaudited)	(Unaudited)	
Interest income	\$10,678	\$11,781	\$44,094	\$50,152
Interest expense	<u>4,758</u>	<u>7,124</u>	<u>21,633</u>	<u>31,862</u>
Net interest income	5,920	4,657	22,461	18,290
Provision for loan losses	<u>517</u>	<u>289</u>	<u>1,500</u>	<u>452</u>
Net interest income after provision for loan losses	5,403	4,368	20,961	17,838
Noninterest income	1,477	1,287	5,346	3,745
Noninterest expenses	<u>3,921</u>	<u>3,319</u>	<u>14,524</u>	<u>13,596</u>
Income before income taxes	2,959	2,336	11,783	7,987
Income tax provision	<u>995</u>	<u>698</u>	<u>4,005</u>	<u>2,527</u>
Net income	<u>\$ 1,964</u>	<u>\$ 1,638</u>	<u>\$ 7,778</u>	<u>\$ 5,460</u>

Earnings Per Share:

Basic	<u>\$0.77</u>	<u>\$0.56</u>	<u>\$2.87</u>	<u>\$1.76</u>
Diluted	<u>\$0.74</u>	<u>\$0.55</u>	<u>\$2.77</u>	<u>\$1.75</u>

Selected Operating Data (Quarter Annualized):

Interest rate spread	3.56%	2.57%	3.30%	2.35%
Net interest margin	3.73%	2.87%	3.50%	2.76%
Return on average assets	1.16%	0.96%	1.14%	0.79%
Noninterest expenses to average assets	2.32%	1.94%	2.14%	1.97%
Return on average equity	11.33%	9.09%	11.01%	7.36%