

CHARTER OF THE AUDIT COMMITTEE OF THE BOARDS OF DIRECTORS OF FIRST FEDERAL BANK AND FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

The Audit Committee ("Committee") is appointed by the Board of Directors of First Federal Bank, ("the Bank") and the Board of Directors of First Federal Bancshares of Arkansas, Inc. ("the Company") to assist the Boards in monitoring 1) the integrity of the financial statements of the Bank consolidated with the Company, 2) the external audit firm's qualifications and independence, 3) the performance of the internal audit function and external auditors and 4) the compliance by the Bank and the Company with legal and regulatory requirements. The Committee will operate and conduct its affairs based upon the following guidelines:

COMPOSITION:

The Committee shall consist of a minimum of three independent directors as such independence is defined for Committee members by the NASDAQ's listing standards and the Securities Exchange Act of 1934, as amended and the rules thereunder. All members of the Committee shall have sufficient financial experience and ability to enable them to discharge their responsibilities including the ability to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication.

The Committee will elect one of its members to serve as Chairperson of the Committee until such time as any change is made in the members on the Committee or until specific action on the part of the Committee changes such designation. Any time there is a change in the membership of the Committee, the existing Chairperson will be reappointed by the Committee or a new Chairperson will be elected. This Director will preside over the meetings of the Committee and serve as the primary contact person for the Director of Internal Audit and the external audit firm.

GOVERNANCE RESPONSIBILITIES:

The primary function of the Committee is to assist the Boards of Directors in fulfilling their oversight responsibilities by:

- 1) Reviewing and assessing the adequacy of this charter on at least an annual basis and making recommendation to the full Boards for approval of any proposed changes.
- 2) Managing both the external and internal audit process:

2.1 External -

The Committee will be responsible for ensuring the external auditor's independence from the Bank and the Company. This will be accomplished by 1) reviewing and confirming the external audit firm's letter of independence in conformity with PCAOB Rule #3526 and 2) separately reviewing and approving all services to be provided by the external auditors and the fees related to the rendering of those services prior to those services being rendered. After pre-approval the external audit firm will report on all such engagements performed on behalf of the Bank and the Company directly to the Audit Committee.

In addition, the Committee will review and evaluate the external audit firm's lead partner as well as the firm's internal quality control procedures. At least annually, the Committee will also obtain and review the audit firm's most recent internal or peer review report of its adherence to industry standard quality practices and procedures as well as its most recent PCAOB Inspection Report.

2.2 Internal –

This will include overseeing and administering the internal audit function of the Bank and the Company. In order to maintain the independence of the internal audit function, the Committee will have sole discretion over the employment of the Director of Internal Audit and will manage the Internal Audit Plan of the Bank and Company. The Committee will meet with the Director of Internal Audit on a regular basis and will make a report to the full Boards of Directors of any significant findings of the Committee.

- 3) Establishing procedures for the receipt, retention and confidential treatment of complaints received by the Bank or the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. These procedures will be communicated to all employees on at least an annual basis.

- 4) Pre-approving all related party transactions. A related party is any person or entity who can exercise control or significant influence over another party, to the extent that one of the parties may be prevented from pursuing its own separate interests. Proposed transactions will be permitted only if the audit committee approves of the transaction, or ratifies after the fact, the transaction.
- 5) Discussing with the external auditors the matters required to be discussed by Statement of Auditing Standards No. 114 relating to the conduct of the annual financial statement audit.
- 6) Recommending to the Boards policies for the hiring of employees or former employees of the Company's external audit firm who participated in any capacity in the audit of the Company's financial statements.
- 7) Advising the Boards with respect to the Bank's policies and procedures regarding compliance with applicable laws and regulations and with the Bank's and Company's Codes of Conduct.
- 8) Overseeing and administering the Credit Risk Review function of the Bank. In order to maintain the independence of the credit risk review function, the Committee will have sole discretion over the employment of the Credit Risk Review Officer and will approve and manage the annual work plan of the Department. The Committee will meet with the Credit Risk Review Officer on a regular basis. The Committee will also be responsible for engaging and monitoring any third party that provides loan review services to the Bank for the purpose of expanding and complementing the scope of work performed by the Credit Risk Review Department.

FINANCIAL REPORTING INTEGRITY:

- 1) It will be the responsibility of this Committee to select and engage a qualified, independent, external auditing firm to examine the accounting and operating records of the Company for the purpose of expressing an opinion on the annual financial statements of the Bank consolidated with the Company. The Committee will confer with appropriate representatives of the external audit firm on at least a quarterly basis and will make a report to the full Boards of Directors of any significant findings of the Committee.
- 2) The Committee may also meet with management, the Chief Financial Officer, the Treasurer, Compliance Officers, External Auditors and the Director of Internal Audit on an as needed basis.

- 3) The Committee will review the Bank's and Company's financial information, including discussing the results of the external auditor's review of the quarterly financial statements and any other information which will be provided to the shareholders and others as well as the financial and reporting process in general. The Committee will review the quarterly Press Release individually as a part of the Company's standard public disclosure process. Annually, the Committee will review and discuss with the external auditors and the appropriate levels of management, as needed, the annual audited financial statements, including disclosures made in Management's Discussion and Analysis, and recommend to the Boards whether the audited financial statements should be included in the Company's Form 10-K.
- 4) The Committee will monitor the ongoing review of the Bank's and Company's systems of internal controls to ensure an adequate internal control structure is in place and functioning properly within the various operating systems of the Bank and the Company.
- 5) The Committee will discuss with management and the external auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's consolidated financial statements, including any significant change in the selection or application of accounting principles, any major issues as to the adequacy of internal controls and any special steps adopted in light of any identified material control deficiencies.
- 6) The Committee will review and discuss with the external auditors any written communications between the audit firm and the Bank or Company, such as any Management Letter or schedule of unadjusted differences. The aggregate of all unposted audit adjustments will be reviewed by the Committee and discussed with the external auditors.
- 7) The Committee will have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Bank or the Company will provide appropriate funding, as determined by the Committee, for payment or compensation to the external audit firm for the purpose of rendering or issuing an audit report or to any advisor employed by the Committee.

LIMITATION OF THE AUDIT COMMITTEE'S ROLE

While the Audit Committee has the responsibilities and powers as set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete, accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the external audit firm.