

Peoples Federal Savings Bank

Audit Committee of the Board of Directors – Charter

June 19, 2007

Changes made to this policy *since* the previous approval are in ***bold*** and *italic*

I. PURPOSE

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

1. The financial information, which will be provided to shareholders, governmental or regulatory bodies, the public, and others.
2. The Corporation's auditing, accounting, and financial reporting process.
3. The systems of internal controls related to finance, accounting, legal compliance, regulatory compliance and ethics that management and the Board of Directors have established.
4. The audit process.

Consistent with this function, the Audit Committee should encourage continuous improvement of, and foster adherence to, the corporation's policies, procedures, and practices at all levels.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

The Audit Committee's primary responsibilities and authority are to:

1. Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system.
2. Pre-approve all audit and permissible non-audit services.
3. Appoint, determine funding for, and oversee the external audit.
4. Establish procedures for the receipt and handling of complaints about accounting and auditing matters.
5. Engage and determine funding for independent counsel and other advisors.

6. Review and appraise the audit efforts of the Corporation's independent accountants and the internal auditors.
7. Provide an open avenue of communication among the independent accountants, financial and senior management, internal auditors, and the Board of Directors.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

II. COMPOSITION

The Audit Committee will be comprised of three or more directors as determined by the Board. Each member will be independent of the management of the Corporation and free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a Committee member.

All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant. The members of the Committee and a Chairman shall be elected by the Board annually.

The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board of Directors.

III. MEETINGS

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee should meet at least annually with management, the internal auditors, and the independent accountants in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed separately. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.

In addition, the Committee or at least the Chair of the Committee should meet with the independent accountants and management, either in person or by phone, quarterly to review the Corporation's financial statements. This review should be done prior to the Corporation's 10Q or 10K filing and its public release of earnings. This discussion should include a discussion of significant adjustments, management judgments and accounting estimates, significant new accounting policies, and disagreements with management.

IV. RESPONSIBILITIES AND DUTIES

The Audit Committee shall have the sole authority to appoint, determine funding for, and oversee the outside (subject to shareholder ratification). The Audit Committee shall be responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

In meeting its responsibilities, the audit committee is expected to:

1. Provide an open avenue of communication between the internal auditors, the independent accountant, and the Board of Directors.
2. Confirm and assure the objectivity of the internal auditor.
3. Confirm and assure the independence of the independent accountant, including a review of management consulting services provided by the independent accountant and related fees.
4. Review and update the Committee's charter annually.
5. Review and concur in the appointment, replacement, reassignment, or dismissal of the internal auditor.
6. Review the qualifications of the Internal Auditor to specific areas within the audit plan.
7. Review with the independent auditor and internal auditor the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
8. Inquire of management, the internal auditor, and the independent accountant about significant risks or exposures and assess the steps management has taken to minimize such risk to the Company.
9. Consider, in consultation with the independent accountant and the internal auditor, the audit scope and plan of the internal auditors and the independent accountant. Determine if the internal auditor and independent accountants are utilizing a risk-based approach.
10. Consider and review with the independent accountant and the director of internal auditing:
 - (a) the adequacy of the company's internal controls including computerized information system controls and security.
 - (b) any related significant findings and recommendations of the independent accountant and internal auditing together with management responses thereto; and
 - (c) The status of previous audit recommendations and management's follow up on those recommendations.

11. Review with management and the independent accountant at the completion of the annual audit:

- (a) the company's annual financial statements and related footnotes;
- (b) the independent accountant's audit of the financial statements and his or her report thereon;
- (c) any significant changes required in the independent accountant's audit plan;
- (d) Any serious difficulties or disputes with management encountered during the course of the audit;
- (e) other matters related to the conduct of the audit which are to be communicated to the committee under generally accepted auditing standards.

12. Review with management and the internal auditor:

- (a) Regular internal audit reports to management prepared by the internal auditor, including significant findings and management's responses to those findings. A summary of findings from completed internal audits should be reviewed prior to the meeting.
- (b) Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.
- (c) Any changes required in the planned scope of their audit plan.
- (d) The internal audit department budget and staffing.
- (e) The Internal Audit Policy

13. Review filings with the SEC and other published documents containing the Company's financial statements and consider whether the information contained in these documents is consistent with the information contained in the financial statements.

14. Review with management and the independent accountant the interim financial report before it is filed with the SEC and other regulators.

15. Review with management, and if necessary, with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.

16. Review legal and regulatory matters that may have a material impact on the financial statements, related company compliance policies, and programs and reports received from regulators.

17. Meet with the internal auditor, the independent accountant, and management in separate executive sessions to discuss any matters that the committee or these groups believe should be discussed privately with the Audit Committee.
18. Report Committee actions to the Board of Directors with such recommendations as the committee may deem appropriate.
19. Prepare a letter for inclusion in the annual report that describes the Committee's composition and responsibilities, and how they were discharged.
20. Conduct or authorize, if necessary, investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants, or others to assist in the conduct of any investigation.
21. Perform such other functions as assigned by law, the Company's charter or bylaws, or the Board of Directors.
22. Advise financial management and the independent auditor that they are expected to provide a timely analysis of significant current financial reporting issues and practices.
23. Provide that financial management and the independent auditor discuss with the audit committee their qualitative judgments about the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the Corporation and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates.
24. Determine as regards to new transactions or events, the auditor's reasoning for the appropriateness of the accounting principles and disclosure practices adopted by the Corporation.

Adopted by the Board of Directors

(Date)

Secretary to the Board