

NEFFS BANCORP, INC.

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2009

***DIRECTORS of the CORPORATION
and BANK***

Robert B. Heintzelman

John J. Remaley

Duane A. Schleicher

Kevin A. Schmidt

John F. Sharkey, Jr.

John F. Simock

Dean H. Snyder

Mary Ann Wagner

OFFICERS of the CORPORATION

John J. Remaley

President

Kevin A. Schmidt

Vice President

David C. Matulevich

Secretary/Treasurer

Michael J. Bailey

Assistant Secretary

OFFICERS of the BANK

John J. Remaley

Chairman of the Board

Kevin A. Schmidt

*President and
Chief Executive Officer*

Michael J. Bailey

*Executive Vice President,
Cashier and
Chief Operations Officer*

Carol L. Jones

*Assistant Cashier and
Operations Officer*

Dear Valued Shareholder:

Having now moved into the new year, many of our patrons are expressing relief that last year is now over. Few of us had previously experienced the events that 2009 presented. We saw market losses; there were market gains. And because of these extremes, patrons were required to make adjustments in their lifestyles and your corporation's management was required to re-evaluate the corporate goals. "Life as usual" was no longer applicable; "Life for tomorrow" became the new road map for success.

Our corporate shareholders and the subsidiary's patrons depend on the boards of directors to make the decisions which will provide the best results, especially during difficult and tumultuous times. The uncertainties of outside pressures make that responsibility more challenging, and subject to constant changes.

But not all during the year was bleak! The corporation's total assets increased to over \$258 million, representing continued sound growth. Our total income before taxes exceeded \$4 million, but was negatively impacted by a government-mandated, increased premium to the Federal Deposit Insurance Corporation, and a write-down of an impaired investment.

Your corporation did not participate in the federal government's "TARP" program and did not accept any funds. As a locally-owned, independently-operated community bank, there was no reason to believe that the boards of directors and the management team couldn't operate within its own environment, and believed that government intervention was totally unnecessary. And, that belief has now been proven to be correct, and the outlook for growth and profitability continues at an encouraging pace.

Your continued confidence is sincerely appreciated. Ask your family, friends and neighbors to "bank at your bank!"

Cordially,

John J. Remaley
President & CEO

NEFFS BANCORP, INC. AND SUBSIDIARY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Neffs Bancorp, Inc. and Subsidiary
Neffs, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of Neffs Bancorp, Inc. and subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neffs Bancorp, Inc. and subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ParenteBeard LLC

ParenteBeard LLC
Allentown, Pennsylvania
March 22, 2010

NEFFS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2009	2008
	(In Thousands, Except Share Data)	
ASSETS		
Cash and cash equivalents	\$ 2,187	\$ 2,489
Interest bearing deposits with banks	101	109
Federal funds sold	2,933	1,379
Securities available for sale	34,991	37,950
Securities held to maturity, fair value 2009 \$97,538; 2008 \$89,111	100,976	91,557
Loans receivable, net of allowance for loan losses 2009 \$829; 2008 \$761	111,159	100,192
Premises and equipment, net	2,446	2,326
Restricted investments in bank stock	848	803
Other assets	2,536	1,977
Total Assets	\$258,177	\$238,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 18,177	\$ 16,740
Interest bearing	193,214	176,198
Total Deposits	211,391	192,938
Other liabilities	1,158	1,315
Total Liabilities	212,549	194,253
Stockholders' equity:		
Common stock, \$1 par value; authorized 2,500,000 shares; issued 200,000 shares; outstanding shares 2009 183,608; 2008 189,250	200	200
Paid-in capital	753	753
Retained earnings	48,255	45,836
Accumulated other comprehensive income	556	442
Treasury stock, at cost 2009 16,392 shares; 2008 10,750 shares	(4,136)	(2,702)
Total Stockholders' Equity	45,628	44,529
Total Liabilities and Stockholders' Equity	\$258,177	\$238,782

See notes to consolidated financial statements.

NEFFS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2009	2008	2007
	(Dollars in Thousands, Except per Share Data)		
INTEREST INCOME			
Interest and fees on loans	\$ 6,777	\$ 6,456	\$ 5,988
Interest and dividends on investments:			
Taxable	5,304	4,876	4,086
Exempt from federal income taxes	1,386	1,528	1,783
Interest on federal funds sold and other	4	12	78
Total Interest Income	13,471	12,872	11,935
INTEREST EXPENSE			
Deposits	5,472	6,099	6,085
Federal funds purchased	2	23	4
Total Interest Expense	5,474	6,122	6,089
Net Interest Income	7,997	6,750	5,846
PROVISION FOR LOAN LOSSES	84	145	-
Net Interest Income after Provision for Loan Losses	7,913	6,605	5,846
OTHER INCOME (LOSS)			
Impairment charge on securities	(948)	-	-
Portion of losses recognized in other comprehensive income (before tax)	289	-	-
Net impairment losses	(659)	-	-
Service charges on deposit accounts	120	130	136
Other service charges and fees	95	98	91
Security gain on called security	10	-	-
Other income	44	49	44
Total Other Income	(390)	277	271
OTHER EXPENSES			
Salaries and employee benefits	1,446	1,427	1,367
Occupancy	214	190	175
Furniture and equipment	259	233	256
Pennsylvania shares tax	445	423	403
FDIC expense	338	52	21
Other expenses	719	691	657
Total Other Expenses	3,421	3,016	2,879
Income before Income Taxes	4,102	3,866	3,238
INCOME TAX EXPENSE (BENEFIT)			
Current	851	724	560
Deferred	90	105	(23)
Total Income Tax Expense	941	829	537
Net Income	\$ 3,161	\$ 3,037	\$ 2,701
EARNINGS PER SHARE, BASIC	\$ 16.96	\$ 16.00	\$ 13.79
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	186,417	189,861	195,893

See notes to consolidated financial statements.

NEFFS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2009, 2008 and 2007

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
(Dollars in Thousands, Except per Share Data)						
BALANCE - DECEMBER 31, 2006	200	753	41,634	(947)	(418)	41,222
Comprehensive income:						
Net income	-	-	2,701	-	-	2,701
Change in unrealized net gains (losses) on securities available for sale, net of taxes	-	-	-	574	-	574
Total Comprehensive Income						3,275
Cash dividends declared on common stock, \$4.00 per share			(777)			(777)
Purchase of treasury stock (7,186 shares)	-	-	-	-	(1,890)	(1,890)
BALANCE - DECEMBER 31, 2007	200	753	43,558	(373)	(2,308)	41,830
Comprehensive income:						
Net income	-	-	3,037	-	-	3,037
Change in unrealized net gains (losses) on securities available for sale, net of taxes	-	-	-	815	-	815
Total Comprehensive Income						3,852
Cash dividends declared on common stock, \$4.00 per share	-	-	(759)	-	-	(759)
Purchase of treasury stock (1,505 shares)	-	-	-	-	(394)	(394)
BALANCE - DECEMBER 31, 2008	200	753	45,836	442	(2,702)	44,529
Comprehensive income:						
Net income	-	-	3,161	-	-	3,161
Change in unrealized net gains (losses) on securities available for sale, net of taxes	-	-	-	306	-	306
Unrealized losses on OTTI securities held to maturity, net of taxes	-	-	-	(192)	-	(192)
Total Comprehensive Income						3,275
Cash dividends declared on common stock, \$4.00 per share	-	-	(742)	-	-	(742)
Purchase of treasury stock (5,642 shares)	-	-	-	-	(1,434)	(1,434)
BALANCE - DECEMBER 31, 2009	\$200	\$753	\$48,255	\$556	\$(4,136)	\$45,628

See notes to consolidated financial statements.

NEFFS BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31,		
	2009	2008	2007
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 3,161	\$ 3,037	\$ 2,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	232	193	205
Provision for loan loss	84	145	-
Net accretion of securities	(626)	(512)	(92)
Impairment charges on securities	659	-	-
Security gain on called security	(10)	-	-
Deferred income tax expense (benefit)	90	105	(23)
(Increase) decrease in assets:			
Accrued interest receivable	(115)	(86)	7
Prepaid FDIC assessments	(705)	-	-
Other assets	111	(167)	67
Increase (decrease) in liabilities:			
Accrued interest payable	(172)	(23)	139
Other liabilities	15	11	(8)
Net Cash Provided by Operating Activities	2,724	2,703	2,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease in interest bearing deposits with banks	8	9	26
Net increase in federal funds sold	(1,554)	(1,379)	-
Purchases of securities available for sale	(6,376)	(7,961)	(5,183)
Purchases of securities held to maturity	(53,633)	(39,150)	(12,935)
Proceeds from maturities/calls and principal repayments of securities available for sale	9,724	6,851	6,335
Proceeds from maturities/calls of securities held to maturity	43,976	34,991	10,615
Net increase in restricted investment in bank stock	(45)	(89)	(63)
Net increase in loans	(11,051)	(6,347)	(6,572)
Purchases of premises and equipment	(352)	(172)	(47)
Net Cash Used in Investing Activities	(19,303)	(13,247)	(7,824)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	18,453	12,547	7,290
Net increase (decrease) in federal funds purchased	-	(2,249)	1,892
Dividends paid	(742)	(759)	(777)
Purchase of treasury stock	(1,434)	(394)	(1,890)
Net Cash Provided by Financing Activities	16,277	9,145	6,515
Net Increase (Decrease) in Cash and Cash Equivalents	(302)	(1,399)	1,687
CASH AND CASH EQUIVALENTS - BEGINNING	2,489	3,888	2,201
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,187	\$ 2,489	\$ 3,888
SUPPLEMENTARY CASH FLOWS INFORMATION			
Interest paid	\$ 5,646	\$ 6,145	\$ 5,950
Income taxes paid	\$ 650	\$ 901	\$ 614

See notes to consolidated financial statements.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Neffs Bancorp, Inc. (the "Corporation") and its wholly-owned subsidiary, The Neffs National Bank (the "Bank"). All material intercompany transactions have been eliminated.

Nature of Operations

The Bank operates from one location in Lehigh County, Pennsylvania. The Bank provides a full range of financial services to individuals, small businesses and corporate customers. The primary source of revenue is interest and fees earned from providing residential mortgages, consumer loans and commercial loans to customers located within the Lehigh Valley. The Bank's primary deposits are checking accounts, savings accounts and certificates of deposit. As a national bank, the Bank is subject to regulation of the Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation. The Corporation is also subject to regulations of the Federal Reserve Bank.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, and the determination of other than temporary impairment of securities.

Significant Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within the Lehigh Valley of Pennsylvania. Note 3 discusses the types of securities that the Corporation invests in. Note 4 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer. Although, the Corporation has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation has defined cash and cash equivalents as cash on hand and amounts due from banks, all of which mature within ninety days.

Securities

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities.

Securities classified as available for sale are those debt securities that the Corporation intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income (loss), net of the related deferred tax effect.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent to sell or be required to sell such investments until maturity or market price recovery.

Restricted Investment in Bank Stocks

Restricted stocks include primarily Federal Home Loan Bank (“FHLB”) stock, which is carried at cost. Federal law requires a member institution of the Federal Home Loan Bank system to hold stock of its district Federal Home Loan Bank according to a predetermined formula. Restricted stocks include FHLB, Atlantic Central Bankers Bank and Federal Reserve Bank of \$817,000, \$10,000, and \$21,000, respectively at December 31, 2009 and \$772,000, \$10,000 and \$21,000 at December 31, 2008.

In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management’s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB. Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2009 and 2008.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances. Interest income is accrued on the unpaid principal balance.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses and, subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the net realizable value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential and consumer loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. The Corporation includes such property in other assets. A loan is classified as in-substance foreclosure when the Corporation has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. The Corporation had no foreclosed assets as of December 31, 2009 and December 31, 2008.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transfers of Financial Assets

Transfers of financial assets, including sales of loan participations, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the premises and equipment. Charges for maintenance and repairs are expensed as incurred.

Advertising Costs

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2009, 2008 and 2007 was \$43,000, \$42,000 and \$28,000, respectively.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Corporation files a consolidated federal income tax return.

The Corporation adopted Financial Accounting Standards Board guidance on accounting for uncertainty in income taxes effective January 1, 2009. A tax position is recognized as a benefit at the largest amount that is more-likely-than not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained. Under the threshold guidelines, the Corporation believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of January 1, 2009 and December 31, 2009.

Earnings per Share

Earnings per share is based on the weighted average shares of common stock outstanding during each year. The Corporation currently maintains a simple capital structure, thus there are no dilutive effects on earnings per share.

Employee Benefit Plan

The Bank has a non-contributory defined contribution pension plan covering all employees having at least one year of service. Contribution amounts are determined annually by the Corporation and are charged to current operating expense. The expense amounted to \$58,000, \$60,000 and \$58,000, for 2009, 2008 and 2007, respectively.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

Treasury Stock

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissue, the treasury stock is reduced by the cost of such stock on the first-in first-out basis with any excess proceeds being credited to paid-in-capital.

Segment Reporting

The Corporation acts as an independent community financial services provider and offers traditional banking and related financial services to individual, business and government customers. The Corporation offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans and the providing of other financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial and retail operations of the Corporation. As such, discrete information is not available and segment reporting would not be meaningful.

New Accounting Standards

On April 1, 2009, the Financial Accounting Standards Board (“FASB”) issued new authoritative accounting guidance under Accounting Standards Codification (“ASC”) Topic 805, Business Combinations, which became effective for periods beginning after December 15, 2008. ASC Topic 805 applies to all transactions and other events in which one entity obtains control over one or more other businesses. ASC Topic 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC Topic 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC Topic 450, Contingencies. Under ASC Topic 805, the requirements of ASC Topic 420, Exit or Disposal Cost Obligations, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC Topic 450, Contingencies. This new pronouncement did not have an impact on our consolidated financial position or results of operations because the Corporation did not acquire control of any business during the year ended December 31, 2009.

In June 2009, the FASB issued an accounting standard related to the accounting for transfers of financial assets, which is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. This standard enhances reporting about transfers of financial assets, including securitizations,

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and where companies have continuing exposure to the risks related to transferred financial assets. This standard eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. This standard also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. This accounting standard was subsequently codified into ASC Topic 860. The adoption of this standard is not expected to have a material effect on the Corporation’s results of operations or financial position.

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). Under the roadmap, the Corporation may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC is expected to make a determination in 2011 regarding the mandatory adoption of IFRS. The Corporation is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

In June 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-01, Topic 105 - Generally Accepted Accounting Principles - FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Corporation adopted this standard for the interim reporting period ending September 30, 2009. The adoption of this standard did not have a material impact on the Corporation’s results of operations or financial position.

In August 2009, the FASB issued ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or December 15, 2009. The adoption of this standard did not have a material impact on the Corporation’s results of operations or financial position.

In May 2009, the FASB issued ASC 855, Subsequent Events, which requires companies to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. ASC 855 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. ASC 855 also requires entities to disclose the date through which subsequent events have been evaluated. ASC 855 was effective for interim and annual reporting periods ending after June 15, 2009. The Corporation has evaluated subsequent events through the date the financial statements were issued.

NEFFS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or a non-interest bearing balance held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The reserve requirement at December 31, 2009 and 2008 was \$460,000 and \$344,000, respectively.

NOTE 3 - SECURITIES

The amortized cost and fair values of securities are as follows:

	December 31, 2009			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
(In Thousands)				
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury note	\$ 100	\$ 4	\$ -	\$ 104
Mortgage-backed securities	33,758	1,144	(15)	34,887
	<u>\$33,858</u>	<u>\$ 1,148</u>	<u>\$ (15)</u>	<u>\$34,991</u>
SECURITIES HELD TO MATURITY:				
Obligations of U.S. Government agencies	\$59,576	\$ 231	\$(2,832)	\$56,975
Obligations of states and political subdivisions	36,257	1,340	(139)	37,458
Corporate securities	4,305	44	(2,127)	2,222
Mortgage-backed securities	838	45	-	883
	<u>\$100,976</u>	<u>\$1,660</u>	<u>\$(5,098)</u>	<u>\$97,538</u>
December 31, 2008				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
(In Thousands)				
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury note	\$ 100	\$ 7	\$ -	\$ 107
Mortgage-backed securities	37,181	702	(40)	37,843
	<u>\$37,281</u>	<u>\$ 709</u>	<u>\$ (40)</u>	<u>\$37,950</u>
SECURITIES HELD TO MATURITY:				
Obligations of U.S. Government agencies	\$52,871	\$ 568	\$ (1,393)	\$52,046
Obligations of states and political subdivisions	32,300	833	(66)	33,067
Corporate securities	5,341	-	(2,413)	2,928
Mortgage-backed securities	1,045	25	-	1,070
	<u>\$91,557</u>	<u>\$1,426</u>	<u>\$ (3,872)</u>	<u>\$89,111</u>

NEFFS BANCORP, INC. AND SUBSIDIARY

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The amortized cost and fair values of securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	\$ -	\$ -	\$ 185	\$ 188
Due after one year through five years	100	104	7,630	7,940
Due after five years through ten years	-	-	16,865	17,562
Due after ten years	-	-	75,458	70,965
	<u>100</u>	<u>104</u>	<u>100,138</u>	<u>96,655</u>
Mortgage-backed securities	33,758	34,887	838	883
	<u>\$33,858</u>	<u>\$34,991</u>	<u>\$100,976</u>	<u>\$97,538</u>

There were no sales of securities during 2009, 2008, and 2007.

The changes in net unrealized holding gains (losses) on securities available for sale and unrealized loss on other-than-temporarily impaired security held to maturity that have been included in other comprehensive income (loss) for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In Thousands)		
Gross change in unrealized gains on securities available for sale	\$463	\$1,235	\$870
Non-credit related impairment loss on other-than-temporarily impaired held to maturity security	(289)	-	-
Net Unrealized Gains	174	1,235	870
Tax effect	(60)	(420)	(296)
Net of Tax Amount	\$114	\$815	\$574

Securities with an amortized cost and fair value of approximately \$12,000,000 and \$12,385,000 at December 31, 2009 and \$7,698,000 and \$7,721,000 at December 31, 2008 were pledged to secure public deposits and for other purposes required or permitted by law.

The following tables show the Corporation's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009 and 2008:

NEFFS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
(In Thousands)						
DECEMBER 31, 2009:						
Securities Available for Sale:						
Mortgage-backed securities	\$ 981	\$ 15	\$ -	\$ -	\$981	\$ 15
Securities Held to Maturity:						
Obligations of U.S. Government agencies	39,065	2,379	9,672	453	48,737	2,832
Obligations of states and political subdivisions	5,422	137	297	2	5,719	139
Corporate securities	-	-	1,027	2,127	1,027	2,127
Total Temporarily Impaired Securities	\$45,468	\$2,531	\$10,996	\$2,582	\$56,464	\$5,113

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
(In Thousands)						
DECEMBER 31, 2008:						
Securities Available for Sale:						
Mortgage-backed securities	\$ 38	\$ 1	\$ 5,866	\$ 39	\$ 5,904	\$ 40
Securities Held to Maturity:						
Obligations of U.S. Government agencies	26,576	1,206	2,572	187	29,148	1,393
Obligations of states and political subdivisions	3,818	44	627	22	4,445	66
Corporate securities	1,613	448	1,165	1,965	2,778	2,413
Total Temporarily Impaired Securities	\$32,045	\$1,699	\$10,230	\$2,213	\$42,275	\$ 3,912

The Corporation had 107 and 88 securities in an unrealized loss position at December 31, 2009 and 2008, respectively. The decline in fair value is due to interest rate and market fluctuations. One security was deemed to be other-than-temporarily impaired as discussed in note 15. As the Corporation does not intend to sell nor is it expected to be required to sell such investments until maturity or market price recovery no other securities were deemed to be other-than-temporarily impaired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS

The composition of the Corporation's loan portfolio at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Commercial	\$ 4,810	\$ 3,627
Commercial real estate	29,177	26,142
Residential real estate	52,433	43,799
Real estate construction	270	873
Home equity	18,260	19,688
Other consumer	<u>7,038</u>	<u>6,824</u>
	111,988	100,953
Allowance for loan losses	<u>(829)</u>	<u>(761)</u>
	<u><u>\$111,159</u></u>	<u><u>\$100,192</u></u>

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

Transactions in the allowance for loan losses are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In Thousands)		
Balance, beginning	\$761	\$620	\$653
Provision for loan losses	84	145	-
Recoveries on loans previously charged off	-	1	5
Loans charged off	<u>(16)</u>	<u>(5)</u>	<u>(38)</u>
Balance, ending	<u><u>\$829</u></u>	<u><u>\$761</u></u>	<u><u>\$620</u></u>

Loans on which the accrual of interest has been discontinued amounted to \$-0- at December 31, 2009 and 2008. Loan balances past due 90 days or more and still accruing interest, but which management expects will eventually be paid in full, amounted to \$202,000 and \$483,000 at December 31, 2009 and 2008, respectively.

There were no impaired loans as of December 31, 2009 and 2008. The average recorded investment in impaired loans during 2009, 2008 and 2007 was \$-0-, \$-0- and \$-0-, respectively. There were three loans totaling \$405,000 placed on non-accrual status in March 2010. These loans are well collateralized therefore management does not expect any losses from these loans.

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NOTE 6 - PREMISES AND EQUIPMENT

The following summarizes premises and equipment at December 31, 2009 and 2008:

	<u>Estimated Useful Lives</u>	<u>2009</u>	<u>2008</u>
		(In Thousands)	
Premises	5-39 years	\$2,857	\$2,845
Furniture, fixtures and equipment	5-10 years	2,476	2,136
		5,333	4,981
Accumulated depreciation		(3,125)	(2,893)
		2,208	2,088
Land		238	238
		\$2,446	\$2,326

NOTE 7 - INTEREST BEARING DEPOSITS

Interest bearing deposits include certificates of deposit issued in denominations of \$100,000 or greater which amounted to \$45,149,000 and \$44,312,000 at December 31, 2009 and 2008, respectively.

Interest bearing deposits at December 31, 2009 and 2008 are further detailed as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Savings accounts	\$ 60,780	\$ 48,338
NOW accounts	7,144	6,038
Certificates and other time deposits	125,290	121,822
	\$193,214	\$176,198

Time deposits at December 31, 2009 had the following scheduled maturities (in thousands):

2010	\$ 55,449
2011	29,806
2012	13,342
2013	17,124
2014	9,569
	\$125,290

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - BORROWING CAPACITY

The Bank has a line of credit commitment available from Atlantic Central Bankers Bank for borrowings up to \$4,000,000 in federal funds. Borrowings on this line are repaid on a daily basis. There were no borrowings under this line as of December 31, 2009 and December 31, 2008.

The Bank has maximum borrowing capacity with the Federal Home Loan Bank of \$56,583,000. There were no borrowings outstanding at December 31, 2009 and 2008. Advances from the Federal Home Loan Bank are secured by qualifying assets of the Bank.

NOTE 9 - INCOME TAXES

The components of the net deferred tax asset at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
AMT credit carryforward	\$22	\$276
Losses on impaired security	321	-
Allowance for loan losses	231	208
Accrued benefits	<u>27</u>	<u>23</u>
Total Deferred Tax Assets	<u>601</u>	<u>507</u>
Securities accretion	49	37
Unrealized gains on securities	385	228
Depreciation	<u>94</u>	<u>20</u>
Total Deferred Tax Liabilities	<u>528</u>	<u>285</u>
Net Deferred Tax Asset	<u><u>\$73</u></u>	<u><u>\$222</u></u>

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The income tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. The differences for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009		2008		2007	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
			(Dollars in Thousands)			
Tax at statutory rate	\$1,395	34 %	\$1,315	34 %	\$1,101	34 %
Increase (decrease) resulting from:						
Tax-exempt interest income	(507)	(12)	(550)	(14)	(643)	(20)
TEFRA interest expense disallowance	53	1	64	2	79	3
	<u>\$ 941</u>	<u>23 %</u>	<u>\$ 829</u>	<u>22 %</u>	<u>\$ 537</u>	<u>17 %</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

Some of the Corporation's or the Bank's directors, principal officers, principal shareholders and their related interests had transactions with the Bank in the ordinary course of business. All loans and loan commitments were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than normal risk of collectibility or present other unfavorable features. It is anticipated that further extensions of such credit will be made in the future.

The following is an analysis of loans to these related parties during 2009 (in thousands):

Balances, January 1, 2009	\$5,381
Advances	1,375
Repayments	<u>(1,785)</u>
Balances, December 31, 2009	<u>\$4,971</u>

NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contract or notional amount of those instruments. The Corporation uses the same credit policies in making commitments and

NEFFS BANCORP, INC. AND SUBSIDIARY

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conditional obligations as it does for on-balance sheet instruments. The following table identifies the contract or notional amount of those instruments at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Commitments to grant loans	\$ 956	\$806
Unfunded commitments under lines of credit	5,128	4,771
Letters of credit	<u>798</u>	<u>594</u>
	<u><u>\$6,882</u></u>	<u><u>\$6,171</u></u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

Outstanding letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Corporation requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2009 and 2008 was \$798,000 and \$594,000, respectively. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2009 and 2008 for guarantees under standby letters of credit issued is not material.

NOTE 12 - DIVIDEND RESTRICTIONS

The amount of funds available to a parent from its subsidiary bank is limited for all national banks by restrictions imposed by the Comptroller of the Currency. A national bank is required to obtain the approval of the Comptroller of the Currency if the total of all dividends declared in any calendar year exceeds the Bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. Under this formula, the Bank can declare dividends in 2010 of approximately \$2,944,000 plus an additional amount equal to the Bank's net profits for 2010, up to the date of any such dividend declaration.

NOTE 13 - CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

classification are also subject to qualitative judgments by the regulators about components, risk-weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 Capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital ratios as of December 31, 2009 and 2008, and the maximum ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are presented in the following table. The Corporation's ratios are not significantly different.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2009:						
Total capital (to risk-weighted assets):	\$45,606	32.7	≥11,174	≥8.0	≥\$13,968	≥10.0 %
Tier 1 capital (to risk-weighted assets):	44,777	32.1	≥ 5,587	≥4.0	≥ 8,381	≥ 6.0
Tier 1 capital (to average assets):	44,777	17.5	≥10,263	≥4.0	≥12,829	≥ 5.0
As of December 31, 2008:						
Total capital (to risk-weighted assets):	\$44,587	38.5	≥9,267	≥8.0	≥\$11,584	≥10.0 %
Tier 1 capital (to risk-weighted assets):	43,826	37.8	≥4,633	≥4.0	≥ 6,950	≥ 6.0
Tier 1 capital (to average assets):	43,826	18.6	≥9,413	≥4.0	≥11,767	≥ 5.0

The Federal Reserve Board approved a final rule in February 2006 that expands the definition of a small bank holding company ("BHC") under the Board's Small Bank Holding Company Policy Statement and the Board's risk-based and leverage capital guidelines for bank holding companies. In its revisions to the Policy Statement, the Federal Reserve Board has raised the small BHC asset size threshold from \$150 million to \$500 million and amended the related qualitative criteria for determining eligibility as a small BHC for the purposes of the policy statement and the capital guidelines. The policy statement facilitates the transfer of ownership of small community banks by permitting debt levels at small BHCs that are higher than what would typically be permitted for larger BHCs. Because small BHCs may, consistent with the policy statement, operate at a level of leverage that generally is inconsistent with the capital guidelines, the capital guidelines provide an exemption for small BHCs. Based on the ruling, Neffs Bancorp, Inc. meets the eligibility criteria of a small BHC and is exempt from regulatory capital requirements administered by the federal banking agencies.

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NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

In April 2009, the FASB issued new guidance impacting ASC Topic 820, Fair Value Measurements and Disclosures. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The implementation of this standard did not have a material effect on the Corporation's results of operations or consolidated financial statements.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, Financial Instruments, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Corporation's financial position or results of operations.

Below are various estimated fair values at December 31, 2009 and December 31, 2008, as required by ASC Topic 820. Such information, which pertains to the Corporation's financial instruments, is based on the requirements set forth in ASC Topic 820 and does not purport to represent the aggregate net fair value of the Corporation. It is the Corporation's general practice and intent to hold its financial instruments to maturity, except for certain securities designated as securities available for sale, and not to engage in trading activities. Many of the financial instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Therefore, the Corporation had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Further, the fair value estimates are based on various assumptions, methodologies and subjective considerations, which vary widely among different financial institutions and which are subject to change.

The estimated fair value amounts have been measured as of their respective year ends, and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at year end.

The following methods and assumptions were used by the Corporation in estimating financial instrument fair values:

Securities

In September 2006, the FASB issued an accounting standard related to fair value measurements, which was effective for the Corporation on January 1, 2008. This standard defined fair value, established a framework for measuring fair value, and expanded disclosure requirements about fair value measurements. On January 1, 2008, the Corporation adopted this accounting standard related to fair value measurements for the Corporation's financial assets and financial liabilities. The Corporation deferred adoption of this accounting standard related to fair value measurements for the Corporation's nonfinancial assets and nonfinancial liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of this accounting standard related to fair value measurements for the Corporation's nonfinancial assets and nonfinancial liabilities had no impact on retained earnings and is not expected to have a material impact on the Corporation's consolidated financial position or results of operations. This accounting standard was subsequently codified into ASC Topic 820, Fair Value Measurements and Disclosures.

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ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets (In Thousands)	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2009				
U. S. Treasury note available for sale	\$ 104	\$ 104	-	-
Mortgage-backed securities available for sale	\$ 34,887	-	\$ 34,887	-
December 31, 2008				
U. S. Treasury note available for sale	\$ 107	\$ 107	-	-
Mortgage-backed securities available for sale	\$ 37,843	-	\$ 37,843	-

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets (In Thousands)	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2009				
Impaired trust preferred security held to maturity	\$ 65	-	-	\$ 65
December 31, 2008				
Impaired trust preferred security held to maturity	\$ -	-	-	\$ -

For the impaired held to maturity trust preferred security the change in book value is as follows:

	Impaired trust preferred security held to maturity (In Thousands)
Book value of impaired held to maturity security at December 31, 2008	\$ 997
Payment in kind (interest added to principal)	16
Credit related impairment	(659)
Non-credit related impairment	(289)
Book/fair value of impaired security at December 31, 2009	<u>\$ 65</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's adoption of ASC Topic 820 applies only to its financial instruments required to be reported at fair value. The Corporation does not have non-financial assets and non-financial liabilities for which adoption would apply in accordance with ASC Topic 820.

On October 10, 2008, the FASB issued an accounting standard update related to fair value measurements, which clarifies the application of ASC Topic 820 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The update states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management's judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable. The update also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. In weighing a broker quote as an input to a fair value measurement, an entity should place less reliance on quotes that do not reflect the result of market transactions. Further, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighing the available evidence. The update was effective immediately and applied to prior periods for which financial statements had not been issued, including interim or annual periods ending on or before September 30, 2008. Accordingly, the Corporation adopted this guidance prospectively, beginning July 1, 2008 and considered this guidance in determining fair value measurements at December 31, 2009.

We own four (4) collateralized debt obligation securities totaling \$2,955,000 book value and \$832,000 fair value that are backed by trust preferred securities issued by banks, thrifts, and insurance companies (TRUP CDOs). These securities are included in corporate held to maturity securities. The market for these securities at December 31, 2009 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which TRUP CDOs trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive as no new TRUP CDOs have been issued since 2007. There are currently very few market participants who are willing and or able to transact for these securities. The Corporation analyzed the cash flow characteristics of these securities and determined that one security is other-than-temporarily impaired as described in Note 15.

Cash and Due from Banks, Interest Bearing Deposits with Banks and Federal Funds Sold and Purchased

The statement of financial condition carrying amounts for cash and due from banks, interest bearing deposits with banks and federal funds sold and purchased approximate the estimated fair values of such assets.

Loans Receivable

Fair values of variable rate loans subject to frequent repricing and which entail no significant credit risk are based on the carrying amounts. The estimated fair values of other loans are estimated by discounting the future cash flows using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable

The carrying amount of accrued interest is considered a reasonable estimate of fair value.

Deposit Liabilities

For deposits which are payable on demand, the carrying amount is a reasonable estimate of fair value. Fair values of fixed rate time deposits are estimated by discounting the future cash flows using interest rates currently being offered and a schedule of aggregate expected maturities.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Interest Payable

The carrying amount of accrued interest approximates its fair value.

Off-Balance Sheet Instruments

The fair value of commitments to extend credit and for outstanding letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

The estimated fair values of the Corporation's financial instruments at December 31, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	\$ 2,288	\$ 2,288	\$ 2,598	\$ 2,598
Federal funds sold	2,933	2,933	1,379	1,379
Securities available for sale	34,991	34,991	37,950	37,950
Securities held to maturity	100,976	97,538	91,557	89,111
Loans, net	111,159	114,291	100,192	104,130
Accrued interest receivable	1,611	1,611	1,496	1,496
Financial liabilities:				
Deposits	211,391	214,651	192,938	194,495
Accrued interest payable	1,047	1,047	1,219	1,219
Off-balance sheet financial instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

NOTE 15 – OTHER-THAN-TEMPORARY IMPAIRMENT

In April 2009, the FASB issued new guidance impacting ASC 320-10, Investments — Debt and Equity Securities, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FASB Staff Position Financial Accounting Standard ("FAS") 115-2 and FAS 124.2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Corporation conducts other-than-temporary impairment analysis on a quarterly basis. The initial indication of other-than-temporary impairment for both debt and equity securities is a decline in the market value below the amount recorded for an investment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the consolidated statement of income.

In determining whether an impairment is other than temporary, the Corporation considers a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, and the Corporation's intent to sell or the likelihood it will be required to sell the security before a sufficient period of time to allow for a recovery in market value or maturity. Among the factors that are considered in determining the Corporation's intent and ability is a review of its capital adequacy, interest rate risk position and liquidity.

The Corporation also considers the issuer's financial condition, capital strength and near-term prospects. In addition, for debt securities and perpetual preferred securities that are treated as debt securities for the purpose of other-than-temporary analysis, the Corporation considers the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), current ability to make future payments in a timely manner and the issuer's ability to service debt.

The assessment of a security's ability to recover any decline in market value, the ability of the issuer to meet contractual obligations and the Corporation's intent to sell or the likelihood it will be required to sell the security before recovery in value require considerable judgment.

Certain of the corporate debt securities are accounted for under ASC 325, Recognition of Interest Income and Impairment on Purchased Beneficial Interests that Continue to Be Held by a Transferor in Securitized Financial Assets. For investments within the scope of ASC 325 at acquisition, the Corporation evaluates current available information in estimating the future cash flows of these securities and determines whether there have been favorable or adverse changes in estimated cash flows from the cash flows previously projected. The Corporation considers the structure and term of the pool and the financial condition of the underlying issuers. Specifically, the evaluation incorporates factors such as interest rates and appropriate risk premiums, the timing and amount of interest and principal payments and the allocation of payments to the various note classes. Current estimates of cash flows are based on the most recent trustee reports, announcements of deferrals or defaults, expected future default rates and other relevant market information related to the underlying securities and issuers.

During 2009 the Corporation recognized in earnings impairment charges of \$659,000 on one investment in a pooled trust preferred security resulting from several factors, including a downgrade on their credit ratings, failure to pass their principal coverage tests, indications of a break in yield, and the decline in the net present value of their projected cash flows. There were no impairment charges in 2008. Management of the Corporation has deemed the impairment on this trust preferred security to be other-than-temporary based upon these factors and the duration and extent to which the market value has been less than cost, the inability to forecast a recovery in market value, and other factors concerning the issuers in the pooled security.

	Other-Than-Temporary Impairment Credit Losses Recorded in Earnings (In Thousands)
Beginning Balance January 1, 2009	\$ -
Additions for OTTI not previously recognized	659
Total other-than-temporary losses recognized during the period, ending balance December 31, 2009	\$ 659

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Based on cash flow forecasts for the remaining securities, management expects to recover the remaining amortized cost of these securities. Based on this analysis and because the Corporation does not intend to sell and it is more likely than not that the Corporation will not be required to sell before its recovery of amortized cost basis, which may be at maturity, and, for investments within the scope of ASC 325, the Corporation determined that there was no adverse change in the cash flows as viewed by a market participant. Therefore, the Corporation does not consider the investments in the remaining three trust preferred assets to be other-than-temporarily impaired at December 31, 2009. However, there is a risk that this review could result in recognition of additional other-than-temporary impairment charges in the future.

The market values for these securities (and any securities other than those issued or guaranteed by the US Treasury) are very depressed relative to historical levels. The yield spreads for the broad market of investment grade and high yield corporate bonds recently reached all time wide levels and remain near those levels today. Thus in today's market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general versus being an indicator of credit problems with a particular issuer.

Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- the few observable transactions and market quotations that are available are not reliable for purposes of determining fair value at December 31, 2009,
- an income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates and
- our TRUP CDOs are classified within Level 3 of the fair value hierarchy because we determined that significant adjustments are required to determine fair value at the measurement date.

Our TRUP CDO valuations were prepared by an independent third party. Their approach to determining fair value involved these steps:

1. There were a number of assumptions used and the results of the modeling were highly dependent upon the assumptions.
2. Credit and prepayment assumptions were used for each quarter.
3. Forward interest rates were used to project future principal and interest payments. This allowed the analysts to model the impact of over- or under-collateralization for each transaction. (Higher interest rates generally increase the credit stress on under-collateralized transactions by reducing excess interest, which is the difference between the interest received from the underlying collateral and the interest paid on the rated bonds.)
4. Original face purchased, current book value (as of December 31, 2009), purchase date, and purchase price were used to produce the calculations.
5. The basic methodology of ASC 325 was to compare the present value of the cash flows from quarter to quarter. A decline in the present value versus that for the previous quarter was considered to be an "adverse change."
6. ASC 325 prescribes using a discount rate "equal to the current yield used to accrete the beneficial interest." Original discount margin calculated as of the purchase date passed on purchase price was used to calculate the discount rate. The original discount margin is then added to the appropriate forward 3-month LIBOR rate to determine the discount rate. For fixed/floating securities, the original coupon is used as the discount rate for the remaining fixed-rate portion of the security's estimated life.
7. The discount rate was then used to calculate the present value for the current quarter's projected cash flows.
8. The result calculated for the current quarter was then compared to the previous quarter's book value to determine if the change is "adverse."
9. The credit component of any impairment should be the difference between book value and the projected present value for the current quarter.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We recalculated the overall effective discount rates for these valuations. The overall discount rates range from 7.30% to 42.20% and are highly dependent and reflected upon the credit quality of the collateral, the relative position of the tranche in the capital structure of the CDO and the prepayment assumptions.

The Corporation owns four (4) Federal National Mortgage Association (“FNMA”) securities and one (1) Federal Home Loan Mortgage Corp (“FHLMC”) security that have an unrealized loss greater than 20% of their book value. The unrealized loss on the FNMA and FHLMC securities is due to increases in overall rates. There is no increase in credit risk for these securities. Based on the analysis of the factors described above, management does not believe any unrealized loss in these securities represents an other-than-temporary impairment.

As of December 31, 2009, management does not believe any unrealized loss in its other debt securities represents an other-than-temporary impairment except as noted. The unrealized losses at December 31, 2009 were primarily interest rate-related.

NEFFS BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - CONDENSED FINANCIAL INFORMATION OF NEFFS BANCORP, INC. (PARENT ONLY)

BALANCE SHEETS

	December 31,	
	2009	2008
	(In Thousands)	
ASSETS		
Cash	\$ 40	\$ 8
Investment in subsidiary	45,333	44,268
Premises and equipment	229	241
Other assets	46	33
Total Assets	\$45,648	\$44,550
LIABILITY AND STOCKHOLDERS' EQUITY		
Liability, accounts payable	\$ 20	\$ 21
Stockholders' equity	45,628	44,529
Total Liability and Stockholders' Equity	\$45,648	\$44,550

STATEMENTS OF INCOME

	Years Ended December 31,		
	2009	2008	2007
	(In Thousands)		
Dividends from subsidiary	\$ 2,300	\$ 1,107	\$ 2,667
Rental income	17	11	13
Expenses	(152)	(107)	(127)
Income before Income Taxes and Equity in Undistributed Earnings of Subsidiary	2,165	1,011	2,553
Income tax benefit	45	33	39
Equity in undistributed earnings of subsidiary	2,210	1,044	2,592
Net Income	\$3,161	\$3,037	\$2,701

NEFFS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$3,161	\$3,037	\$2,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	12	11	9
Equity in undistributed earnings of subsidiary	(951)	(1,993)	(109)
(Increase) decrease in other assets	(13)	61	(32)
Decrease in accounts payable	(1)	-	-
Net Cash Provided by Operating Activities	2,208	1,116	2,569
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of premises and equipment	-	(8)	(4)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	(742)	(759)	(777)
Purchase of treasury stock	(1,434)	(394)	(1,890)
Net Cash Used in Financing Activities	(2,176)	(1,153)	(2,667)
Net Increase (Decrease) in Cash	32	(45)	(102)
CASH - BEGINNING	8	53	155
CASH - ENDING	\$ 40	\$ 8	\$ 53

NEFFS BANCORP, INC. AND SUBSIDIARY

SELECTED FINANCIAL DATA

The following financial information on pages 30 through 31 is not covered by the auditor's report and must be read in conjunction with the consolidated financial statements and related notes along with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	At or For the Year Ended December 31,				
	2009	2008	2007	2006	2005
Interest Income		(Dollars in Thousands, Except Per Share Data)			
Interest and fees on loans	\$6,777	\$6,456	\$5,988	\$5,419	\$5,001
Interest and dividends on securities	6,690	6,404	5,869	5,521	5,371
Interest on federal funds sold	4	12	78	51	82
Total interest income	13,471	12,872	11,935	10,991	10,454
Interest Expense					
Deposits	5,472	6,099	6,085	5,115	4,469
Short-term borrowings	2	23	4	14	-
Total interest expense	5,474	6,122	6,089	5,129	4,469
Net interest income	7,997	6,750	5,846	5,862	5,985
Provision for loan losses	84	145	-	-	-
Net interest income after provision					
for loan losses	7,913	6,605	5,846	5,862	5,985
Other operating income	(390)	277	271	258	276
Other operating expense	3,421	3,016	2,879	2,809	2,612
Income before taxes	4,102	3,866	3,238	3,311	3,649
Applicable income taxes	941	829	537	488	577
Net income	\$3,161	\$3,037	\$2,701	\$2,823	\$3,072
Per Share Data					
Basic earnings	\$16.96	\$16.00	\$13.79	\$14.26	\$15.58
Book value	\$248.51	\$235.29	\$219.29	\$208.25	\$198.51
Dividends declared	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
Average shares outstanding	186,417	189,861	195,893	197,941	197,117
Actual shares outstanding	183,608	189,250	190,755	197,941	197,941
At End of Period					
Total assets	\$258,177	\$238,782	\$225,797	\$215,876	\$213,547
Securities	135,967	129,507	122,491	120,362	120,375
Total loans, gross	111,988	100,953	94,610	88,071	83,042
Allowance for loan losses	829	761	620	653	657
Deposits	211,391	192,938	180,391	173,101	173,276
Stockholders' equity	45,628	44,529	41,830	41,222	39,294
Key Ratios					
Return on average assets	1.24%	1.30%	1.21%	1.32%	1.46%
Return on average equity	7.02%	7.09%	6.56%	7.11%	8.08%
Net loans to deposit ratio	52.58%	51.93%	52.10%	50.50%	47.55%
Dividend payout ratio (dividends declared divided by net income)	23.59%	25.01%	29.01%	28.05%	25.66%
Equity to asset ratio (average equity divided by average total assets)	17.71%	18.32%	18.41%	18.61%	17.95%

NEFFS BANCORP, INC. AND SUBSIDIARY

QUARTERLY SUMMARY OF FINANCIAL DATA (unaudited)

	2009			
	Three Months Ended			
	March 31	June 30	September 30	December 31
	(Dollars in Thousands, Except Per Share Data)			
Interest income	\$3,275	\$3,383	\$3,395	\$3,418
Interest expense	1,404	1,397	1,375	1,298
Net interest income	1,871	1,986	2,020	2,120
Provision for loan losses	-	1	60	23
Other expenses, net of other income	759	843	1,295	914
Income before income taxes	1,112	1,142	665	1,183
Income tax expense	265	272	111	293
Net income	\$847	\$870	\$554	\$890
Earnings per share-Basic	\$4.49	\$4.64	\$2.98	\$4.85

	2008			
	Three Months Ended			
	March 31	June 30	September 30	December 31
	(Dollars in Thousands, Except Per Share Data)			
Interest income	\$3,144	\$3,201	\$3,251	\$3,276
Interest expense	1,597	1,537	1,503	1,485
Net interest income	1,547	1,664	1,748	1,791
Provision for loan losses	15	15	38	77
Other expenses, net of other income	653	706	708	672
Income before income taxes	879	943	1,002	1,042
Income tax expense	174	196	232	227
Net income	\$705	\$747	\$770	\$815
Earnings per share-Basic	\$3.70	\$3.93	\$4.06	\$4.31

NEFFS BANCORP, INC. AND SUBSIDIARY

COMMON STOCK INFORMATION

The Corporation's common stock is currently quoted on the National Quotations Bureau's Electronic Quotation Service ("Pink Sheets") under the trading symbol NEFB. The Corporation's common stock is traded over-the-counter from time to time, primarily in the Corporation's geographic service area, through several local market makers.

The following table sets forth the high and low market transactions for the Corporation's common stock as reported for each quarterly period of the 2009 and 2008 fiscal years. There may have been other bids or transactions not known to the Corporation. The quotations reflect inter-dealer prices, do not include retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions.

Common Stock Information

	<u>2009</u>	<u>HIGH</u>	<u>LOW</u>	Cash Dividends <u>Per Share</u>
First Quarter		\$265.00	\$190.00	-
Second Quarter		\$265.00	\$228.00	\$2.00
Third Quarter		\$324.00	\$255.00	-
Fourth Quarter		\$265.00	\$249.00	\$2.00
	<u>2008</u>	<u>HIGH</u>	<u>LOW</u>	Cash Dividends <u>Per Share</u>
First Quarter		\$270.00	\$270.00	-
Second Quarter		\$270.00	\$250.00	\$2.00
Third Quarter		\$260.00	\$260.00	-
Fourth Quarter		\$260.00	\$235.00	\$2.00

As of December 31, 2009, Neffs Bancorp, Inc. had 183,608 outstanding shares and approximately 634 stockholders, including beneficial owners whose stock is held in nominee name.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Years Ending December 31, 2009, 2008, and 2007

The following is management's discussion and analysis of the significant changes in the financial condition and results of operations of Neffs Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary The Neffs National Bank (the "Bank"). The consolidated financial condition and results of operations consist almost entirely of the Bank's financial condition and results of operations. This discussion should be read in conjunction with the financial tables, consolidated financial statements and notes to consolidated financial statements appearing elsewhere in this report. Current performance does not guarantee, assure or may not be indicative of similar performance in the future.

We have made forward-looking statements in this document and in documents that we incorporated by reference that are subject to risk and uncertainties. Forward-looking statements include the information concerning possible or assumed future results of operations of the Corporation and the Bank. When we use words such as "believes," "expects," "anticipates" or other similar expressions, we are making forward-looking statements.

Stockholders should note that many factors, some of which are discussed elsewhere in this document and in the documents that we incorporate by reference, could affect the future financial results of the Bank and could cause those results to differ materially from those expressed in our forward-looking statements contained or incorporated by reference in this document. These factors include the following:

- operating, legal and regulatory risks,
- economic, political and competitive forces affecting our Banking business, and
- the risk that our analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

The Corporation undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review the risk factors described in other documents that the Corporation files periodically with the Securities and Exchange Commission.

Critical Accounting Policies

Disclosure of the Corporation's significant accounting policies is included in Note 1 of the consolidated financial statements. Certain of these policies are particularly sensitive, requiring significant judgments, estimates and assumptions to be made by management. The allowance for loan losses and other-than-temporary-impairment are the critical accounting policies that require significant management judgment.

Management, in determining the allowance for loan losses, makes significant estimates. Consideration is given to a variety of factors in establishing this estimate. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the adequacy of the underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since the sufficiency of the allowance for loan losses is dependent to a great extent on conditions that may be beyond our control, it is possible that management's estimates of the allowance for loan losses and actual results could differ in the near term. In addition, regulatory authorities, as an integral part of their examination, periodically review the allowance for loan losses. They may require additions to the allowance based upon their judgments about information available to them at the time of examination. Future increases to our allowance for loan losses,

NEFFS BANCORP, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

whether due to unexpected changes in economic conditions or otherwise, would adversely affect our future results of operations.

The Corporation conducts other-than-temporary impairment analysis on a quarterly basis. The initial indication of other-than-temporary impairment for both debt and equity securities is a decline in the market value below the amount recorded for an investment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the consolidated statement of income.

OVERVIEW

The Corporation and its wholly owned subsidiary, The Neffs National Bank, continue to strive to provide quality products and services to the community with a personal touch. During 2009, the Corporation realized improvement in net interest income due to increasing yields on interest earning assets, decreasing cost of funds, and increased loan and deposit volume.

The Corporation's assets increased by 8.1% to \$258,177,000 at December 31, 2009 from \$238,782,000 at December 31, 2008. During the same period, net loans receivable increased \$10,967,000 or 10.9% to \$111,159,000 from \$100,192,000, and deposits increased \$18,453,000 or 9.6% to \$211,391,000 from \$192,938,000. Securities increased \$6,460,000 or 5.0% to \$135,967,000 from \$129,507,000. In 2009, the Corporation recorded net income of \$3,161,000, an increase of 4.1%, as compared with \$3,037,000 in 2008.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

The single largest component of the Corporation's primary operating income is net interest income. It is the amount by which interest earned on interest earning assets exceeds the interest paid on interest bearing liabilities. The change in interest income from year to year may be due to changes in interest rates, changes in volumes on interest earning assets and liabilities as well as changes in the mix of such assets and liabilities. The Corporation's primary interest earning assets are loans to businesses and individuals and investment securities. Interest bearing liabilities consist primarily of time deposits, NOW deposits and savings deposits. Generally, changes in net interest income are measured by net interest rate spread and net interest margin. Net interest rate spread is equal to the difference between the average rate earned on interest earning assets and the average rate incurred on interest bearing liabilities. Net interest margin represents the difference between interest income (including net loan fees earned) and interest expense calculated as a percentage of average earning assets.

2009 Compared to 2008

Total interest income increased by \$599,000 or 4.7% to \$13,471,000 for the year ended December 31, 2009 from \$12,872,000 at December 31, 2008. This increase is mainly the result of the average balance of the loan portfolio and investment portfolio increasing by \$8.6 million and \$9.7 million, respectively, in 2009 over 2008, which generated additional interest and fees throughout 2009. The yield on interest earning assets decreased from 5.71% in 2008 to 5.47% in 2009.

Total interest expense decreased by \$648,000 or 10.6% to \$5,474,000 in 2009 from \$6,122,000 in 2008. This decrease is the result of a decrease in cost of funds on interest bearing liabilities from 3.53% in 2008 to 2.90% in 2009 offset by an increase in the average balance of interest bearing liabilities of \$15.3 million or 8.8% in 2009 over 2008.

Net interest income increased by \$1,247,000 or 18.5% to \$7,997,000 in 2009 from \$6,750,000 in 2008. The Corporation's net interest rate spread for 2009 was 2.57% as compared to 2.18% for 2008. The net interest margin for 2009 was 3.25% as compared to 3.00% for 2008.

NEFFS BANCORP, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 Compared to 2007

Total interest income increased by \$937,000 or 7.9% to \$12,872,000 for the year ended December 31, 2008 from \$11,935,000 at December 31, 2007. This increase is mainly the result of the average balance of the loan portfolio increasing by \$5.8 million in 2008 over 2007, which generated additional interest and fees on loans throughout 2008. The yield on interest earning assets also increased from 5.55% in 2007 to 5.71% in 2008.

Total interest expense increased by \$33,000 or 0.5% to \$6,122,000 in 2008 from \$6,089,000 in 2007. This increase is mainly the result of the average balance of interest bearing deposits increasing by \$9.7 million in 2008 over 2007 offset by a decreased cost of funds on interest bearing liabilities from 3.72% in 2007 to 3.53% in 2008.

Net interest income increased by \$904,000 or 15.5% to \$6,750,000 in 2008 from \$5,846,000 in 2007. The Corporation's net interest rate spread for 2008 was 2.18% as compared to 1.83% for 2007. The net interest margin for 2008 was 3.00% as compared to 2.72% for 2007.

Following is a summary of the Bank's average balances, yields, interest income, and interest expense, the interest rate spread and the net interest margin for the years ended December 31, 2009, 2008, and 2007.

	2009			Year Ended December 31, 2008			2007		
	Average Balance ¹	Interest	Yield/ Rate	Average Balance ¹	Interest	Yield/ Rate	Average Balance ¹	Interest	Yield/ Rate
Interest earning assets:									
Loans receivable ²	\$106,346	\$ 6,777	6.37%	\$ 97,774	\$ 6,456	6.60%	\$ 92,006	\$ 5,988	6.51%
Investment securities:									
Taxable	102,981	5,304	5.15%	92,674	4,876	5.26%	81,916	4,086	4.99%
Non-taxable ³	33,280	1,386	4.16%	33,871	1,528	4.51%	39,387	1,783	4.53%
Other interest earning assets ⁴	3,627	4	0.11%	990	12	1.21%	1,747	78	4.46%
Total interest earning assets	246,234	13,471	5.47%	225,309	12,872	5.71%	215,056	11,935	5.55%
Noninterest earning assets	7,268			8,588			8,554		
Total assets	\$253,502			\$233,897			\$223,610		
Interest bearing liabilities:									
NOW	\$ 7,046	28	0.40%	\$ 5,932	49	0.83%	\$ 6,517	105	1.61%
Savings	55,691	723	1.30%	47,649	830	1.74%	48,147	926	1.92%
Certificates of deposit	125,748	4,721	3.75%	118,746	5,220	4.40%	108,275	5,054	4.67%
Federal funds purchased ⁵	-	2	1.25%	861	23	2.67%	562	4	0.71%
Total interest bearing liabilities	188,485	5,474	2.90%	173,188	6,122	3.53%	163,501	6,089	3.72%
Noninterest bearing liabilities:									
Demand deposits	18,147			16,393			17,455		
Other liabilities	1,831			1,466			1,494		
Stockholders' equity	45,039			42,850			41,160		
Total liabilities and stockholders' equity	\$253,502			\$233,897			\$223,610		
Net interest income/spread ⁶		\$ 7,997	2.57%		\$ 6,750	2.18%		\$ 5,846	1.83%
Net interest margin ⁷			3.25%			3.00%			2.72%

¹ Averages are not computed on daily average. Average balances are computed based on an average of quarter-end balances.

² Average balances include non-accrual loans.

³ There have been no tax equivalent adjustments made to yields.

⁴ This reflects average balance for Federal Funds Sold and Purchased and is calculated by utilizing quarterly ending balance. The actual daily balance may differ greatly from this average balance due to the nature of these funds.

⁵ There were no Federal funds purchased balances at any quarter ends in 2009 therefore the average balance is \$0.

⁶ Interest rate spread represents the difference between the average yield on interest earning assets and the average cost of interest bearing liabilities.

⁷ Net interest margin represents net interest income as a percentage of average interest earning assets.

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The following table attributes increases and decreases in components of net interest income either to changes in average volume or to changes in average rates for interest earning assets and interest bearing liabilities. Numerous and simultaneous balance and rate changes occur during the year. The amount of change that is not due solely to volume or rate is allocated proportionally to each. There are no specific reserves at this time.

	For Year Ended December 31,					
	2009/2008 Increase/(Decrease)			2008/2007 Increase/(Decrease)		
	Due to Change in			Due to Change in		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income:	(In Thousands)					
Loans receivable	\$ 546	\$ (225)	\$ 321	\$ 381	\$ 87	\$ 468
Securities	477	(191)	286	265	270	535
Other interest earning assets	3	(11)	(8)	(9)	(57)	(66)
Total interest earning assets	1,026	(427)	599	637	300	937
Interest Expense:						
NOW	4	(25)	(21)	(5)	(51)	(56)
Savings	104	(211)	(107)	(9)	(87)	(96)
Certificates of Deposit	263	(762)	(499)	460	(293)	167
Federal funds purchased	(24)	3	(21)	8	11	19
Total interest bearing liabilities	347	(995)	(648)	454	(420)	34
Net change in net interest income	\$ 679	\$ 568	\$ 1,247	\$ 183	\$ 720	\$ 903

Provision for Loan Losses

Although the Corporation maintains sound credit practices, loan deterioration may occur resulting in the eventual charge off of the loans as losses. The provision for loan losses and the allowance for loan losses are based upon management's ongoing assessment of the Bank's credit exposure and consideration of other relevant factors. The allowance for loan losses is a valuation that is available to absorb potential yet undetermined future charge offs. The provision for loan losses is the amount charged against the Bank's earnings. Its appropriateness and adequacy are determined based upon several factors including:

- a continuing review of delinquent, classified and non-accrual loans, large loans and overall portfolio quality,
- analytical review of loan charge-off experience, delinquency rates and other relevant historical and peer statistical ratios,
- management's judgment with respect to the nature of the portfolio, concentrations of credit and current and projected economic and business conditions and their impact on the existing portfolio, and
- regular examinations and review of the portfolio by regulatory authorities.

The allowance is allocated to specific loan categories based upon management's classification of loans under the Corporation's internal loan grading system and to pools of other loans that are not individually analyzed. Management makes allocations to specific loans based on the present value of expected future cash flows or the fair value of the underlying collateral for impaired loans and to other classified loans based on various credit risk factors. These factors include collateral values, the financial condition of the borrower and industry and current economic trends.

Allocations to commercial loan pools are developed by internal risk ratings and are based on management's judgment concerning historical loss trends and other relevant factors. Installment and residential mortgage loan allocations are made at a portfolio level based on historical loss experience adjusted for portfolio activity and current conditions. Estimated credit losses are based on the average annual rate of net charge-offs experienced

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over the previous two or three years on similar loans, adjusted for current condition and trends. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

The provision for loan losses made during 2009 was \$84,000 due mainly to the increase in the loan portfolio and general deteriorating economic conditions compared to \$145,000 for 2008. There was no provision made for 2007. Management concluded that the Allowance for Loan Losses had an adequate balance to justify no provision being made during 2007, due to minimal net charge offs and declining non-performing loans.

The allowance for loan losses represented 0.74% of total loans receivable at December 31, 2009 as compared with 0.75% and 0.66% at December 31, 2008 and 2007, respectively. Management regularly assesses the appropriateness and adequacy of the allowance for loan losses in relation to credit exposure associated with individual borrowers, overall trends in the loan portfolio and other relevant factors, and believes the allowance is reasonable and adequate for each of the periods presented. The Corporation has no credit exposure to foreign countries or foreign borrowers. The Corporation also has no exposure to subprime mortgage loans.

The Bank's loan loss experience for each of the five years ended December 31 is presented below.

	Year Ended December 31				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Dollars in Thousands)				
Average loans outstanding	<u>\$106,346</u>	<u>\$97,774</u>	<u>\$92,006</u>	<u>\$85,565</u>	<u>\$79,294</u>
Total gross loans at year end	<u>\$111,988</u>	<u>\$100,953</u>	<u>\$94,610</u>	<u>\$88,071</u>	<u>\$83,042</u>
Allowance for loan losses at January 1	\$761	\$620	\$653	\$657	\$663
Losses charged to allowance					
Commercial	-	-	20	-	-
Real estate	-	-	3	-	-
Consumer	<u>16</u>	<u>5</u>	<u>15</u>	<u>6</u>	<u>13</u>
Total losses charged to allowance	<u>16</u>	<u>5</u>	<u>38</u>	<u>6</u>	<u>13</u>
Recoveries credited to allowance					
Commercial	-	-	-	-	-
Real estate	-	-	3	-	-
Consumer	-	1	2	2	7
Total recoveries credited to allowance	<u>-</u>	<u>1</u>	<u>5</u>	<u>2</u>	<u>7</u>
Net charge-offs	<u>16</u>	<u>4</u>	<u>33</u>	<u>4</u>	<u>6</u>
Provision for loan losses	<u>84</u>	<u>145</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allowance for loan losses at December 31	<u>\$829</u>	<u>\$761</u>	<u>\$620</u>	<u>\$653</u>	<u>\$657</u>
Ratio of net charge offs to average loans outstanding	0.02%	0.00%	0.04%	0.00%	0.01%
Allowance as a percentage of total gross loans	0.74%	0.75%	0.66%	0.74%	0.79%

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The amount charged to operations and the related balance in the allowance for loan losses is based upon periodic evaluations of the loan portfolio by management. These evaluations consider several factors including, but not limited to, general economic conditions, loan portfolio composition, prior loan loss experience and management's estimates of potential losses.

Management maintains an allowance for loan losses that it considers adequate based on the evaluation process that is performed on a quarterly basis. Credit quality trends, loan volume, current economic trends and other uncertainties are also considered as part of the process. The table below that indicates the distribution of the allowance as of the end of each of the last five years.

	<u>2009</u>		<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>		
	<u>Amount</u>	% of <u>Loan</u>	<u>Amount</u>	% of <u>Loan</u>	<u>Amount</u>	% of <u>Loan</u>	<u>Amount</u>	% of <u>Loan</u>	<u>Amount</u>	% of <u>Loan</u>	
	(Dollars in Thousands)										
Commercial	\$303	30.3%	\$231	29.5%	\$179	29.0%	\$161	26.7%	\$122	25.6%	
Real estate	432	47.1%	404	44.2%	287	42.4%	281	43.3%	271	45.1%	
Consumer	94	22.6%	91	26.3%	131	28.6%	121	30.0%	125	29.3%	
Unallocated	-		35		23		90		139		
Total	\$829	100%	\$761	100%	\$620	100%	\$653	100%	\$657	100%	

Non-Interest Income

2009 Compared to 2008

Non-interest income consists primarily of service charges and impairment charges on securities. Non-interest income for 2009 had decreased from \$277,000 in 2008 to \$(390,000). This is due mainly to net impairment charges on securities of \$659,000 in 2009 from \$0 in 2008.

2008 Compared to 2007

Non-interest income consists primarily of service charges. Non-interest income for 2008 had an increase of \$6,000 or 2.2% over 2007. This was mainly due to an increase in fees derived from the sale of loan related insurance offset by a decrease in service charges on deposit accounts.

Non-Interest Expense

Salary expense and employee benefits represent the largest component, or 42.3%, of non-interest expenses. Non-interest expenses also include an array of other expenses such as:

- occupancy and equipment expenses,
- stationery, printing and Bank supplies,
- advertising,
- outside service providers, relating to data processing and ATM services,
- professional fees for legal, accounting, and consulting services,
- costs associated with the due diligence process of extending and maintaining loans and the collection process,
- Pennsylvania shares tax and FDIC assessment, and
- other types of expenses incurred as part of the normal course of operation of the Bank.

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2009 Compared to 2008

Non-interest expenses for 2009 were \$3,421,000, an increase of \$405,000 or 13.4% as compared to non-interest expense of \$3,016,000 for 2008.

Salary and employee benefits represent the largest portion of non-interest expense. For 2009, salary and employee benefits increased by \$19,000, or 1.3%. At December 31, 2009 and 2008 the Bank employed 29 full-time equivalent employees.

Occupancy expense increased by \$24,000 or 12.6% to \$214,000 as compared to \$190,000 at December 31, 2008. This increase was mainly due to an increase in rental property expenses.

Furniture and equipment expense increased by \$26,000 or 11.2% to \$259,000 as compared to \$233,000 at December 31, 2008. This increase was mainly due to increased depreciation from the purchase of a new core system.

Pennsylvania Shares Tax increased by \$22,000 or 5.2% to \$445,000 for 2009. This increase was due mainly to the increase in total equity on which the tax is calculated.

FDIC expense increased from \$52,000 in 2008 to \$338,000 in 2009. The increase is due to a special assessment and increased regular assessments in 2009 over 2008.

Other expenses increased \$28,000 or 4.1% to \$719,000 for 2009 compared to \$691,000 for 2008. This increase was due mainly to increases in legal/audit/examination and stationary/supplies expenses.

2008 Compared to 2007

Non-interest expenses for 2008 were \$3,016,000, an increase of \$137,000 or 4.8% as compared to non-interest expense of \$2,879,000 for 2007.

Salary and employee benefits represent the largest portion of non-interest expense. For 2008, salary and employee benefits increased by \$60,000, or 4.4%. At December 31, 2008 and 2007 the Bank employed 29 full-time equivalent employees.

Occupancy and equipment expenses decreased by \$8,000 or 1.9% to \$423,000 as compared to \$431,000 at December 31, 2007. This decrease was mainly due to full depreciation of assets with minimal purchase of new assets offset by an increase in building repairs and maintenance.

Pennsylvania Shares Tax increased by \$20,000 or 5.0% to \$423,000 for 2008. This increase was due mainly to the increase in total equity on which the tax is calculated.

Other expenses increased \$65,000 or 9.6%. This increase was due mainly to an FDIC credit used in 2007 but not available for 2008, along with increases in bank account maintenance expense, advertising expense, and bookkeeping and data processing expense.

Income Taxes

Income tax expense was \$941,000 for 2009 as compared to \$829,000 for 2008 and \$537,000 for 2007. The 13.5% increase experienced during 2009 resulted from an increase in net income before income taxes and the decrease in interest income on tax-exempt securities. The Corporation's effective income tax rate for 2009, 2008, and 2007 was 22.9%, 21.4% and 16.6%, respectively.

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Net Income

2009 Compared to 2008

Net income for 2009 was \$3,161,000, which is an increase of \$124,000 or 4.1% as compared to 2008. The Bank's net interest income increased in 2009 due to an increase in the Bank's net interest spread and margin as the yield on interest-bearing assets increased more than the cost of interest-bearing deposits along with the growth of loans, investments, and deposits.

Basic earnings per share for 2009 increased to \$16.94 from \$16.00 in 2008, due to the increase in the net income for 2009 and the purchase of treasury stock in 2009 and 2008.

2008 Compared to 2007

Net income for 2008 was \$3,037,000, which is an increase of \$336,000 or 12.4% as compared to 2007. The Bank's net interest income increased in 2008 due to an increase in the Bank's net interest spread and margin as the yield on interest-bearing assets increased more than the cost of interest-bearing deposits.

Basic earnings per share for 2008 increased to \$16.00 from \$13.79 in 2007, due to the increase in the net income for 2008 and the purchase of treasury stock in 2008 and 2007.

FINANCIAL CONDITION

Securities

The Corporation's securities portfolio is composed of investments that not only provide interest income, including tax-exempt income, but also provide a source of liquidity. The portfolio allows management to better respond to the Bank's interest sensitivity position, to diversify the earning asset portfolio and provide collateral for public fund deposits. Established policies that address various aspects in managing the portfolio, including but not limited to, concentrations, liquidity, credit quality, interest rate sensitivity and regulatory guidelines are in place.

Although the Bank generally intends to hold its securities portfolio until maturity, a portion of the portfolio is classified as available-for-sale. Securities in the held to maturity category are accounted for at amortized cost. Available for sale securities are accounted for at fair value with unrealized gains or losses, net of income taxes, reported as a separate component of stockholder's equity. The Bank invests in securities for the yield they produce and not to profit from trading. The Bank holds no trading securities in its portfolio.

The securities portfolio at December 31, 2009 totaled \$135,967,000 as compared to \$129,507,000 at December 31, 2008, an increase of \$6,460,000, or 5.0%. Securities available-for-sale decreased to \$34,991,000 at December 31, 2009 compared to \$37,950,000 at December 31, 2008. Securities held to maturity increased to \$100,976,000 at December 31, 2009 from \$91,557,000 at December 31, 2008. Other than the U.S. Government and its agencies, the Bank holds no other securities of a single issuer whose aggregate carrying value exceeds 10% of stockholders' equity.

The carrying value of the available-for-sale securities portfolio as of December 31, 2009, includes net unrealized gains of \$1,133,000 (reflected as accumulated other comprehensive gain of \$748,000 in stockholders' equity, net of deferred income taxes of \$385,000) compared to net unrealized gains of \$669,000 (reflected as accumulated other comprehensive gain of \$442,000 in stockholders' equity, net of deferred income taxes of \$228,000) as of December 31, 2008. This change is due to the change in interest rates.

The Corporation has gross unrealized gains of \$2,808,000 offset by gross unrealized losses of \$5,113,000 for a net unrealized loss of \$2,305,000 at December 31, 2009. The portfolio of securities in an unrealized loss position has an aggregate fair value of \$56,464,000. The unrealized gains and losses are attributed to the current interest rate environment and illiquidity in the market. The unrealized losses are temporary and management does not intend

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to sell nor does it expect to be required to sell such investments until maturity or market price recovery. All securities are rated investment grade or better according to the Corporation's policy except for four securities. These problem collateralized debt obligations consist of four securities with a combined book value of \$2,955,000, which is 2.2% of the total security portfolio, and market value of \$832,000. The securities rated below investment grade are classified as held to maturity. One of these securities was deemed to be other-than-temporarily impaired as discussed in Note 15. The Corporation has minimal exposure to problem collateralized debt obligations in the mortgage-backed securities portfolio. These securities are classified as held to maturity. As the Corporation does not intend nor does it expect to be required to sell such investments until maturity or market price recovery no other securities were deemed to be other-than-temporarily impaired.

The composition of the securities portfolio for the periods ending December 31, 2009, 2008 and 2007 is presented below.

	December 31		
	2009	2008	2007
Held to maturity securities:	(Dollars in Thousands)		
U.S. Government agencies and corporations	\$59,576	\$52,871	\$43,627
State and political subdivisions	36,257	32,300	37,507
Mortgage-backed securities	838	1,045	1,240
Corporate securities	4,305	5,341	4,437
Available for sale securities:			
Mortgage-backed securities	34,887	37,843	35,579
U.S. Treasury Note	104	107	101
Total securities	<u>\$135,967</u>	<u>\$129,507</u>	<u>\$122,491</u>

The following table presents the maturities and average weighted yields of the debt securities portfolio as of December 31, 2009.

	Within one year		After one but within five years		After five but within ten years		After ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale:	(Dollars in Thousands)							
Mortgage-backed securities	\$ 806	3.39%	\$3,464	4.20%	\$8,589	4.64%	\$22,028	5.18%
U.S. Treasury	-	-	104	3.12%	-	-	-	-
	<u>806</u>		<u>3,568</u>		<u>8,589</u>		<u>22,028</u>	
Held to maturity:								
U.S. Government agencies	-	-	-	-	3,997	4.78%	55,579	5.12%
State and political subdivisions ⁸	185	6.77%	6,780	6.69%	12,368	7.14%	16,924	6.71%
Mortgage-backed securities	-	-	-	-	-	-	838	6.28%
Other securities	-	-	850	6.41%	500	5.10%	2,955	2.41%
	<u>185</u>		<u>7,630</u>		<u>16,865</u>		<u>76,296</u>	
Total	<u>\$991</u>		<u>\$11,198</u>		<u>\$25,454</u>		<u>\$98,324</u>	

⁸ Yields on tax-exempt debt securities have been computed on a fully tax-equivalent basis.

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Loans

The loan portfolio comprises a major component of the Corporation's earning assets. Net loans receivable increased \$10,967,000 or 10.9% to \$111,159,000 as of December 31, 2009 from \$100,192,000 at December 31, 2008. Net loans receivable represent 43.1% of total assets and 52.6% of total deposits as of December 31, 2009 as compared to 42.0% and 51.9%, respectively, at December 31, 2008. All of the Corporation's loans are to domestic borrowers.

Loan concentrations are considered to exist when the total amount of loans to any one or a multiple number of borrowers engaged in similar activities or having similar economic characteristics exceeds 10% of loans outstanding in any one category. At December 31, 2009, real estate loans amounted to \$100,140,000 or 89.4% of total loans, and commercial and industrial loans amounted to \$4,810,000 or 4.3% of total loans. Although such loans were not made to one specific borrower or industry, it is important to note that the quality of these loans is affected by the region's economy and real estate market. Management does not believe such a concentration poses a problem to the Bank at this time.

Other than as described herein, management does not believe there are any trends, events, or uncertainties which are reasonably expected to have a material adverse impact on future results of operations, liquidity, or capital resources.

The composition of the total loan portfolio is shown in the table below for the periods presented.

	2009		2008		December 31, (Dollars in Thousands) 2007		2006		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	Commercial	\$4,810	4.3%	\$3,627	3.6%	\$4,635	4.9%	\$4,664	5.3%	\$4,832
Commercial real estate	29,177	26.1%	26,142	25.9%	22,779	24.1%	18,820	21.4%	16,440	19.8%
Residential real estate	52,433	46.8%	43,799	43.4%	39,221	41.5%	37,088	42.1%	37,057	44.6%
Real estate construction	270	0.2%	873	0.9%	879	0.9%	1,053	1.2%	384	0.5%
Home equity	18,260	16.3%	19,688	19.5%	20,043	21.2%	19,176	21.8%	17,072	20.6%
Other consumer	7,038	6.3%	6,824	6.7%	7,053	7.4%	7,270	8.2%	7,257	8.7%
Total loans outstanding	<u>\$111,988</u>	<u>100.0%</u>	<u>\$100,953</u>	<u>100.0%</u>	<u>\$94,610</u>	<u>100.0%</u>	<u>\$88,071</u>	<u>100.0%</u>	<u>\$83,042</u>	<u>100.0%</u>

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The loan maturities and interest sensitivity for a segment of the loan portfolio are reflected in the table below.

	As of December 31, 2009			Total
	Due Under One Year	Due 1- 5 Years	Due Over Five Years	
Maturity of loans receivable:				
		(In Thousands)		
Commercial and commercial real estate	\$5,554	\$13,736	\$ 14,696	\$33,986
Real estate construction	-	-	270	270
Total	<u>\$5,554</u>	<u>\$13,736</u>	<u>\$14,966</u>	<u>\$34,256</u>
		Due 1-5 Years	Due Over Five Years	
Fixed interest rates		\$ 1,931	\$ 4,890	
Floating or adjustable interest rates		11,805	10,076	
Total		<u>\$13,736</u>	<u>\$14,966</u>	

Credit Risk and Loan Quality

The Corporation continues to strive to minimize credit risk. The Bank's written lending policy requires underwriting, loan documentation and credit analysis standards to be met prior to the approval and funding of any loan. In accordance with that policy, internal loan review monitors the loan portfolio on an ongoing basis. The loan committee then prepares an analysis each quarter of the allowance for loan losses, which is then submitted to the Board of Directors for its assessment as to the adequacy of the allowance.

The lending policy is executed through the tiered assignment of loan limit authorities (secured and unsecured), to individual officers of the Bank, the Loan Committee and the Board of Directors. Although the Corporation maintains sound credit policies, certain loans may deteriorate for a variety of reasons. The Corporation's policy is to place all loans on a non-accrual status upon becoming 90 days delinquent in their payments, unless there is a documented, reasonable expectation of the collection of the delinquent amount. Loans are reviewed monthly as to their delinquency status and on a quarterly basis through review and preparation of a troubled loans report, which is presented to the Board of Directors.

Total nonperforming loans (comprised of non-accruing loans and loans past due for more than 90 days) as of December 31, 2009 were \$202,000 compared to \$483,000 as of December 31, 2008. Total nonperforming loans as a percentage of total loans were 0.18% at December 31, 2009 as compared to 0.17% at December 31, 2008. There were no foreclosed assets as of December 31, 2009 or 2008. There were three loans totaling \$405,000 placed on non-accrual status in March 2010. These loans are well collateralized therefore management does not expect any losses from these loans. Lenders continue to work with customers to minimize losses associated with non-accrual and delinquent accounts. In addition, management is not aware of any material potential loan problems that have not been disclosed herein.

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Detailed information about the Corporation's nonperforming loans and nonperforming assets for the last five years is shown in the table below.

	2009	2008	December 31, 2007	2006	2005
	(Dollars in Thousands)				
Non-accruing loans	\$ -	\$ -	\$ -	\$ -	\$ -
Accruing loans past due 90 days or more	202	173	36	52	67
Total nonperforming loans	202	173	36	52	67
Foreclosed real estate/repossessed assets	-	-	-	71	-
Total nonperforming assets	\$202	\$173	\$36	\$123	\$67
Non-accrual loans:					
Interest income that would have been recorded on non-accrual loans	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income for above loans included in net income for the period	\$ -	\$ -	\$ -	\$ -	\$ -
Ratios:					
Nonperforming loans to total loans	0.18%	0.17%	0.04%	0.06%	0.08%
Allowance for loan losses to nonperforming loans	410.40%	439.88%	1,722.22%	1,255.77%	980.60%
Nonperforming assets to total assets	0.08%	0.07%	0.02%	0.06%	0.03%
Commitments to lend additional funds to Nonperforming loan customers	\$ -	\$ -	\$ -	\$ -	\$ -

Deposits

Deposits are the major source of the Corporation's funds for lending and other investment purposes. Total deposits at December 31, 2009 were \$211,391,000, an increase of \$18,453,000 or 9.6%, over total deposits of \$192,938,000 as of December 31, 2008. The Corporation experienced the following increase percentages for the year 2009 as compared to 2008.

Non-interest bearing demand deposits	8.6%
Interest-bearing demand deposits	18.3%
Savings deposits	25.7%
Time deposits	2.8%

The following table displays the maturities of time deposits issued in denominations of \$100,000 or more at December 31, 2009.

(In Thousands)	Time Certificates
Three months or less	\$ 2,385
Over three months but within six months	4,064
Over six months but within twelve months	6,703
Over twelve months	31,897
Total	<u>\$45,049</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity

Liquidity represents the Corporation's ability to efficiently manage cash flows at reasonable rates to support possible commitments to borrowers or the demands of depositors. Liquidity is essential to compensate for fluctuations in the balance sheet and provide funds for growth and normal operating expenditures. Liquidity needs may be met by converting assets into cash or obtaining sources of additional funding.

Sources of asset liquidity are provided through cash, amounts due from banks, interest-bearing deposits with banks and federal funds sold, which totaled \$5,221,000 at December 31, 2009 as compared to \$3,977,000 at December 31, 2008. Additional liquidity sources include principal payments on securities in the Bank's securities portfolio and cash flow from its amortizing loan portfolio. Selling securities available-for-sale, selling loans or raising additional capital may be used to meet longer-term liquidity needs. At December 31, 2009, available-for-sale securities totaling \$34,991,000 were available for liquidity purposes as compared with \$37,950,000 at December 31, 2008.

Liability liquidity sources include attracting deposits at competitive rates. Core deposits at December 31, 2009 totaled \$78,957,000 as compared to \$65,078,000 at December 31, 2008. The Bank has a \$4 million federal funds line of credit with its main correspondent bank, Atlantic Central Bankers Bank. The Bank had no federal funds purchased under this line at December 31, 2009 and 2008. The Bank also has established a line of credit and other credit facilities with the Federal Home Loan Bank, which are reliable sources for short and long-term funds. Maximum borrowing capacity with the Federal Home Loan Bank is approximately \$56,583,000.

Management is not aware of any demands, trends, commitments, or events that would result in the Bank's inability to meet anticipated or unexpected needs.

Off-Balance Sheet Arrangements

The Corporation's financial statements do not reflect off-balance sheet arrangements that are made in the normal course of business. Those off-balance sheet arrangements consist of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. These commitments at December 31, 2009 totaled \$6,882,000. This consisted of \$916,000 in commercial real estate, construction, land development loans, and one (1) to four (4) family purchase/refinance loans, \$5,128,000 in home equity lines of credit, \$798,000 in standby letters of credit and the remainder in other unused commitments. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Corporation.

Management believes that any amounts actually drawn upon can be funded in the normal course of operations. The Corporation has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

Stockholders' Equity and Capital Requirements/Ratios

The net effect of the activity in stockholders' equity resulted in an increase of \$1,099,000 in total stockholders' equity to \$45,628,000 at December 31, 2009 from \$44,529,000 at December 31, 2008. Stockholders' equity increased in 2009 as a result of an increase in retained earnings of \$2,419,000, and an increase in accumulated other comprehensive gain of \$114,000. This was offset by an increase in treasury stock of \$1,434,000. U.S. generally accepted accounting principles requires banks to report securities classified as "available-for-sale" at fair value, with unrealized gains or losses, net of deferred income taxes, reported as a separate component of stockholders' equity. This adjustment is not included in the Corporation's calculations of regulatory capital ratios.

The Corporation places a significant emphasis on maintaining a strong capital base. The goals for capital planning are to build a strong capital base to allow for future growth, to support risks inherent in the banking industry, to retain earnings to meet regulatory requirements and to provide an adequate return to stockholders.

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Current capital guidelines issued by federal regulatory authorities require the Corporation and the Bank to meet minimum risk-based capital ratios in an effort to make regulatory capital more responsive to the risk exposure related to on and off-balance sheet items.

Risk-based capital provides the basis for which all banks are evaluated in terms of capital adequacy. Risk-based capital guidelines redefine the components of capital, categorize assets into risk classes and include certain off-balance sheet items in the calculation of capital requirements. The components of risk-based capital are segregated as Tier I and Tier II capital. Tier I capital is composed of total stockholders' equity reduced by goodwill and other intangible assets. Tier II capital is comprised of the allowance for loan losses and any qualifying debt obligations. Risk-based capital standards require the Corporation and the Bank to have Tier I capital of at least 4% and total capital (including Tier I capital) of at least 8% of risk-weighted assets.

The Corporation and the Bank are also subject to leverage capital requirements. This requirement compares capital (using the definition of Tier I capital) to average balance sheet assets and is intended to supplement the risk-based capital ratio in measuring capital adequacy. The guidelines set a minimum leverage ratio of 3% for institutions that are highly rated in terms of safety and soundness, and which are not experiencing or anticipating any significant growth. Other institutions are expected to maintain capital levels of at least 1% or 2% above the minimum.

A comparison of the Bank's risk-based capital ratios and leverage ratios is shown in the following table. The Corporation's ratios are not significantly different.

	December 31, 2009	December 31, 2008
	(Dollars in Thousands)	
Tier I, common stockholders' equity	\$44,777	\$43,826
Tier II, allowable portion of allowance for loan losses	829	761
Total capital	<u>\$45,606</u>	<u>\$44,587</u>
Tier I risk-based capital ratio	32.06%	37.83%
Tier II risk-based capital ratio	32.65%	38.49%
Tier I leverage ratio	17.45%	18.62%

At December 31, 2009 and 2008, the Bank exceeded the minimum regulatory capital requirements to be considered a "well capitalized" financial institution under applicable federal regulations.

Banking laws and regulations limit the amount of dividends that may be paid by the Bank to the Corporation without prior approval of the Bank's regulatory agency. These restrictions have not had, and are not expected to have, a significant impact on the Corporation's ability to pay dividends.

Effect of Inflation

The majority of assets and liabilities of the Corporation are monetary in nature and, therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. The precise impact of inflation upon the Bank is difficult to measure. Inflation may affect the borrowing needs of consumers, thereby impacting the growth rate of the Corporation's assets. Inflation may also affect the general level of interest rates, which can have a direct bearing on the Corporation.

Management believes the most significant impact on the financial results is the Corporation's ability and timing to react to changes in interest rates. On an ongoing basis, management attempts to maintain an essentially balanced

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position between interest sensitive assets and liabilities, where such balancing is dependent on whether there is a rising or falling interest rate environment.

Interest Rate Sensitivity and Market Risk

In the normal course of conducting business activities, the Corporation is exposed to market risk, principally interest rate risk. Interest rate risk arises from market driven fluctuations in interest rates that may affect cash flows, income, expenses and the values of financial instruments. The Asset/Liability Committee manages interest rate risk.

The operations of the Corporation do not expose it to foreign currency exchange or commodity price risks. Also, the Corporation does not utilize interest rate swaps, caps or other hedging transactions. The Corporation does not own any trading assets.

The principal objective of the asset/liability management activities is to provide consistently higher levels of net interest income while maintaining acceptable levels of interest rate and liquidity risk and facilitating the funding needs of the Corporation. The Corporation utilizes an interest rate sensitivity model as the primary quantitative tool in measuring the amount of interest rate risk that is present. The traditional maturity "gap" analysis, which reflects the volume difference between interest rate sensitive assets and liabilities during a given time period, is reviewed quarterly by management and the Asset/Liability Committee of the Bank. A positive gap occurs when the amount of interest sensitive assets exceeds interest sensitive liabilities. This position would contribute positively to net income in a rising rate environment. Conversely, if the balance sheet is liability sensitive or negatively gapped, this position would contribute positively to net income in a falling rate environment. Management continues to monitor sensitivity in order to avoid overexposure to changing interest rates, while maintaining adequate capital and liquidity levels. Adjustments to the mix of assets and liabilities are made periodically in an effort to give the Bank dependable and steady growth in net interest income regardless of the behavior of interest rates in general.

Another method used by management to review its interest sensitive position is through "simulation." In simulation, the Bank projects the future net interest streams in light of the current gap position. Various interest rate scenarios are used to measure levels of interest income associated with potential changes in our operating environment. Management cannot measure levels of interest income associated with potential changes in the Bank's operating environment. Nor can it predict the direction of interest rates or how the mix of assets and liabilities will change. The use of this information will help formulate strategies to minimize the unfavorable effect on net interest income caused by interest rate changes.

A simple rate "gap" analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates. In the event of a change in interest rates, prepayments and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. Because of uncertainties, the Corporation utilizes more than one measurement tool in assessing interest rate sensitivity and market risk.

As of December 31, 2009 the Corporation was positively gapped compared negatively gapped than at December 31, 2008 in terms of its "One Year" gap position. A negative gap position reflects the volume of interest rate sensitive liabilities to be greater than the volume of interest rate sensitive assets. In consideration of interest rates decreasing, it is preferable to be in a negatively gapped position since there are more interest rate sensitive liabilities that are either maturing or whose interest rates will be repricing downward, quicker than the maturity/repricing of the interest rate sensitive assets. This will enhance the Corporation's bottom line by

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improving the Corporation's net interest rate spread since it is expected that interest expense will decrease faster than interest income.

The Corporation's overall sensitivity to interest rate risk is low due to its non-complex balance sheet. The Corporation has the ability to expedite several strategies to manage interest rate risk, which include but are not limited to selling of residential mortgages, increasing/decreasing deposits via interest rate changes, borrowing from the Federal Home Loan Bank of Pittsburgh and Atlantic Central Bankers Bank, and buying/selling investments.

The following table represents the gap position for the Bank at December 31, 2009. This schedule summarizes how many fixed rate assets and liabilities will pay down over the periods of time defined in the table.

	Maturity/Repricing Intervals					Total
	<u>1-3</u> Months	<u>3-12</u> Months	<u>1-3</u> Years	<u>3-5</u> Years	<u>Over 5</u> Years	
	(In Thousands)					
Federal funds sold	\$ 2,933	\$ -	\$ -	\$ -	\$ -	\$ 2,933
Interest bearing deposits with banks	-	101	-	-	-	101
Other securities	29,788	130	2,072	3,362	64,890	100,242
Mortgage-backed securities	<u>3,877</u>	<u>10,885</u>	<u>3,238</u>	<u>2,709</u>	<u>15,016</u>	<u>35,725</u>
Total securities	33,665	11,015	5,310	6,071	79,906	135,967
Total loans	<u>36,315</u>	<u>33,310</u>	<u>16,145</u>	<u>8,148</u>	<u>18,070</u>	<u>111,988</u>
Total interest earning assets	72,913	44,426	21,455	14,219	97,976	250,989
NOW Accounts	1,572	-	5,572	-	-	7,144
Savings	<u>10,940</u>	<u>-</u>	<u>49,840</u>	<u>-</u>	<u>-</u>	<u>60,780</u>
Total savings deposits	12,512	-	55,412	-	-	67,924
CDs<\$100,000	11,452	33,550	25,579	9,560	-	80,141
CDs>\$100,000	<u>2,386</u>	<u>10,866</u>	<u>14,764</u>	<u>17,133</u>	<u>-</u>	<u>45,149</u>
Total time deposits	13,838	44,416	40,343	26,693	-	125,290
Total interest bearing liabilities	<u>26,350</u>	<u>44,416</u>	<u>95,755</u>	<u>26,693</u>	<u>-</u>	<u>193,214</u>
Rate sensitive gap	\$46,563	\$ 10	\$(74,300)	\$(12,474)	\$97,976	\$57,775
Cumulative gap	\$46,563	\$46,573	\$(27,727)	\$(40,201)	\$57,775	-

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Regulatory Activity

From time to time, various types of federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Corporation. It cannot be predicted whether such legislation will be adopted or, if adopted, how such legislation would affect the business of the Corporation. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal regulation and regulations that may increase the cost of doing business. Management is not aware of any other current specific recommendations or proposals by regulatory authorities that will impact the Corporation's or the Bank's operations, although the general cost of compliance with numerous and multiple federal and state laws and regulations does have, and in the future may have, a negative impact on the Corporation's results of operations.

Further, the business of the Corporation is also affected by the state of the financial services industry in general. As a result of legal and industry changes, management predicts that the industry will continue to experience a certain amount of consolidations and mergers. Management believes that such consolidations and mergers may enhance its competitive position as a community bank.

Form 10-K

The Corporation will provide, without charge to any stockholder, a copy of its 2009 Annual Report on Form 10-K as required to be filed with the Securities and Exchange Commission. Requests should be made in writing to:

Neffs Bancorp, Inc.
P.O. Box 10
Neffs, PA 18065