

ESSA Bancorp, Inc.
Form 10-Q
February 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended December 31, 2010

OR

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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Pennsylvania (State or other jurisdiction of incorporation or organization)	20-8023072 (I.R.S. Employer Identification Number)
200 Palmer Street, Stroudsburg, Pennsylvania (Address of Principal Executive Offices)	18360 (Zip Code)
(570) 421-0531 (Registrant's telephone number)	
N/A (Former name or former address, if changed since last report)	

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of February 7, 2011 there were 13,181,590 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2010	September 30, 2010
	(dollars in thousands)	
ASSETS		
Cash and due from banks	\$ 5,365	\$ 7,454
Interest-bearing deposits with other institutions	1,981	3,436
Total cash and cash equivalents	7,346	10,890
Investment securities available for sale	249,457	252,341
Investment securities held to maturity (estimated fair value of \$11,653 and \$13,254)	11,429	12,795
Loans receivable (net of allowance for loan losses of \$7,738 and \$7,448)	747,822	730,842
Federal Home Loan Bank stock	19,690	20,727
Premises and equipment	12,059	12,189
Bank-owned life insurance	15,755	15,618
Foreclosed real estate	2,393	2,034
Other assets	15,090	14,561
TOTAL ASSETS	\$ 1,081,041	\$ 1,071,997
LIABILITIES		
Deposits	\$ 581,270	\$ 540,410
Short-term borrowings	11,856	14,719
Other borrowings	310,657	335,357
Advances by borrowers for taxes and insurance	3,291	1,465
Other liabilities	7,807	8,423
TOTAL LIABILITIES	914,881	900,374
Commitment and contingencies		
STOCKHOLDERS EQUITY		
Preferred Stock (\$.01 par value; 1,000,000 shares authorized, none issued)		
Common stock (\$.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 13,181,590 and 13,482,612 outstanding at December 31, 2010 and September 30, 2010)	170	170
Additional paid in capital	165,087	164,494
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,777)	(11,891)
Retained earnings	64,685	64,272
Treasury stock, at cost; 3,799,310 and 3,498,288 shares at December 31, 2010 and September 30, 2010, respectively	(48,714)	(44,870)
Accumulated other comprehensive loss	(3,291)	(552)
TOTAL STOCKHOLDERS EQUITY	166,160	171,623

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,081,041	\$ 1,071,997
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See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the Three Months Ended December 31, (dollars in thousands, except per share data)	
	2010	2009
INTEREST INCOME		
Loans receivable	\$ 9,844	\$ 10,341
Investment securities:		
Taxable	1,922	2,237
Exempt from federal income tax	78	83
Other investment income		1
Total interest income	11,844	12,662
INTEREST EXPENSE		
Deposits	1,696	1,406
Short-term borrowings	22	49
Other borrowings	2,996	3,924
Total interest expense	4,714	5,379
NET INTEREST INCOME	7,130	7,283
Provision for loan losses	480	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,650	6,783
NONINTEREST INCOME		
Service fees on deposit accounts	762	827
Services charges and fees on loans	210	101
Trust and investment fees	211	220
Gain on sale of loans, net	3	155
Earnings on Bank-owned life insurance	137	140
Other	12	13
Total noninterest income	1,335	1,456
NONINTEREST EXPENSE		
Compensation and employee benefits	3,880	3,736
Occupancy and equipment	777	559
Professional fees	429	377
Data processing	449	450
Advertising	186	98
Federal Deposit Insurance Corporation (FDIC) premiums	184	358
Loss on foreclosed real estate	106	1,200

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Other	627	453
Total noninterest expense	6,638	7,231
Income before income taxes	1,347	1,008
Income taxes	335	214
NET INCOME	\$ 1,012	\$ 794
Earnings per share		
Basic	\$ 0.09	\$ 0.06
Diluted	\$ 0.09	\$ 0.06
Dividends per share	\$ 0.05	\$ 0.05

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock				Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Stockholders Equity
	Number of Shares	Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP				
Balance, September 30, 2010	13,482,612	\$ 170	\$ 164,494	\$ (11,891)	\$ 64,272	\$ (44,870)	\$ (552)	\$ 171,623
Net income					1,012			1,012
Other comprehensive (loss):								
Unrealized loss on securities available for sale, net of income tax benefit of \$1,446							(2,807)	(2,807)
Change in unrecognized pension cost, net of income taxes of \$35							68	68
Cash dividends declared (\$.05 per share)					(599)			(599)
Stock based compensation			560					560
Allocation of ESOP stock			33	114				147
Treasury shares purchased	(301,022)					(3,844)		(3,844)
Balance, December 31, 2010	13,181,590	\$ 170	\$ 165,087	\$ (11,777)	\$ 64,685	\$ (48,714)	\$ (3,291)	\$ 166,160

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31, 2010 2009 (dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 1,012	\$ 794
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	480	500
Provision for depreciation and amortization.	292	288
Accretion of discounts and premiums, net	379	113
Gain on sale of loans, net	(3)	(155)
Origination of mortgage loans sold	(97)	(5,706)
Proceeds from sale of mortgage loans originated for sale	100	5,861
Compensation expense on ESOP	147	141
Stock based compensation	560	538
Decrease in accrued interest receivable	328	175
Increase in accrued interest payable	135	2
Earnings on bank-owned life insurance	(137)	(140)
Deferred federal income taxes	(126)	61
Prepaid FDIC premiums	166	(1,712)
Loss on foreclosed real estate	73	1,200
Other, net	21	(634)
Net cash provided by operating activities	3,330	1,326
INVESTING ACTIVITIES		
Proceeds from repayments of certificates of deposit		1,685
Investment securities available for sale:		
Proceeds from principal repayments and maturities	34,940	13,769
Purchases	(36,687)	(12,129)
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	1,353	1,027
(Increase) decrease in loans receivable, net	(17,860)	2,920
Redemption of FHLB stock	1,037	
Capital improvements to foreclosed real estate	(20)	(22)
Purchase of premises, equipment, and software	(142)	(900)
Net cash provided by (used for) investing activities	(17,379)	6,350
FINANCING ACTIVITIES		
Increase (decrease) in deposits, net	40,860	(8,687)
Net (decrease) increase in short-term borrowings	(2,863)	12,922
Proceeds from other borrowings	8,300	13,200
Repayment of other borrowings	(33,000)	(23,000)
Increase in advances by borrowers for taxes and insurance	1,826	1,627
Purchase of treasury stock.	(4,019)	(3,592)
Dividends on common stock	(599)	(667)

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Net cash provided by (used for) financing activities	10,505	(8,197)
Decrease in cash and cash equivalents	(3,544)	(521)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,890	18,593
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7,346	\$ 18,072

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid:

Interest	\$ 4,579	\$ 5,377
Income taxes	375	23

Noncash items:

Transfers from loans to foreclosed real estate	412	344
Treasury stock payable	(175)	

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The unaudited, consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank's wholly owned subsidiaries, ESSACOR Inc. and Pocono Investment Company. The primary purpose of the Company is to act as a holding company for the Bank. The Company is subject to regulation and supervision by the Office of Thrift Supervision (the OTS). The Bank is a Pennsylvania chartered savings association located in Stroudsburg, Pennsylvania. The Bank's primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and the OTS. The investment in subsidiary on the parent company's financial statements is carried at the parent company's equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that is currently inactive. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. All intercompany transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three month period ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three months ended December 31, 2010 and 2009.

	Three months ended	
	December 31, 2010	December 31, 2009
Weighted-average common shares outstanding	16,980,900	16,980,900
Average treasury stock shares	(3,658,950)	(2,274,573)
Average unearned ESOP shares	(1,171,255)	(1,216,531)
Average unearned non-vested shares	(293,358)	(412,902)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	11,857,337	13,076,894
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share		
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	2,873	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	11,860,210	13,076,894

At December 31, 2010 and 2009 there were options to purchase 317,910 and 1,458,379 shares, respectively, of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At December 31, 2010 and 2009 there were 283,264 and 402,758 shares, respectively, of nonvested stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

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The components of other comprehensive income (loss) are as follows (in thousands):

	December 31,	
	2010	2009
Net income	\$ 1,012	\$ 794
Unrealized loss on securities available for sale	(4,253)	(819)
Change in unrecognized pension cost	103	77
Other comprehensive loss before tax benefit	(4,150)	(742)
Income tax benefit related to comprehensive loss	(1,411)	(253)
Other comprehensive loss	(2,739)	(489)
Comprehensive income (loss)	\$ (1,727)	\$ 305

5. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-05, *Compensation - Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation*. ASU 2010-05 updates existing guidance to address the SEC staff's views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 is effective January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company has presented the necessary disclosures in Note 8, herein.

In September, 2010, the FASB issued ASU 2010-25, *Plan Accounting - Defined Contribution Pension Plans*. The amendments in this ASU require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The amendments in this update are effective for fiscal years ending after December 15, 2010 and are not expected to have a significant impact on the Company's financial statements.

In October, 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This ASU addresses the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2011 and are not expected to have a significant impact on the Company's financial statements.

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In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

6. Investment Securities

The amortized cost and fair value of investment securities available for sale and held to maturity are summarized as follows (in thousands):

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale				
Fannie Mae	\$ 108,674	\$ 1,274	\$ (1,587)	\$ 108,361
Freddie Mac	53,116	1,499	(306)	54,309
Governmental National Mortgage Association securities	32,641	782	(65)	33,358
Total mortgage-backed securities	194,431	3,555	(1,958)	196,028
Obligations of states and political subdivisions	16,559	99	(119)	16,539
U.S. government agency securities	34,750	163	(224)	34,689
Corporate obligations	2,142	16		2,158
Total debt securities	247,882	3,833	(2,301)	249,414
Equity securities	12	31		43
Total	\$ 247,894	\$ 3,864	\$ (2,301)	\$ 249,457
Held to Maturity				
Fannie Mae	\$ 2,180	\$ 116	\$	\$ 2,296
Freddie Mac	9,249	108		9,357
Total	\$ 11,429	\$ 224	\$	\$ 11,653

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	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	\$ 99,142	\$ 2,412	\$ (9)	\$ 101,545
Freddie Mac	47,693	1,895		49,588
Governmental National Mortgage Association securities	35,211	1,040	(96)	36,155
Total mortgage-backed securities	182,046	5,347	(105)	187,288
Obligations of states and political subdivisions	10,637	279	(12)	10,904
U.S. government agency securities	52,177	279	(22)	52,434
Corporate obligations	1,654	23		1,677
Total debt securities	246,514	5,928	(139)	252,303
Equity securities	12	26		38
Total	\$ 246,526	\$ 5,954	\$ (139)	\$ 252,341
Held to Maturity				
Fannie Mae	\$ 2,600	\$ 140	\$	\$ 2,740
Freddie Mac	10,195	319		10,514
Total	\$ 12,795	\$ 459	\$	\$ 13,254

The amortized cost and fair value of debt securities at December 31, 2010, 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 (in thousands):

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 3	\$ 3	\$ 6	\$ 6
Due after one year through five years	30,429	30,469	945	1,002
Due after five years through ten years	45,738	46,251	1,140	1,207
Due after ten years	171,712	172,691	9,338	9,438
Total	\$ 247,882	\$ 249,414	\$ 11,429	\$ 11,653

The Bank had no sales of investment securities for the three months ended December 31, 2010 or 2009.

7. Unrealized Losses on Securities

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (in thousands):

	Number of Securities	December 31, 2010				Total Fair Value	Total Gross Unrealized
		Less than Twelve Months Fair Value	Gross Unrealized	Twelve Months or Greater Fair Value	Gross Unrealized		

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			Losses		Losses		Losses
Fannie Mae	20	\$ 50,675	\$ (1,587)	\$	\$	\$ 50,675	\$ (1,587)
Freddie Mac	4	9,765	(306)			9,765	(306)
Governmental National Mortgage Association securities	5	10,842	(65)			10,842	(65)
Obligations of states and political subdivisions	4	3,965	(119)			3,965	(119)
U.S. government agency securities	11	21,297	(224)			21,297	(224)
Total	44	\$ 96,544	\$ (2,301)	\$	\$	\$ 96,544	\$ (2,301)

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	Number of Securities	Less than Twelve Months		September 30, 2010		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	1	\$ 2,060	\$ (9)	\$	\$	\$ 2,060	\$ (9)
Governmental National Mortgage Association securities	2	5,605	(96)			5,605	(96)
Obligations of states and political subdivisions	1	610	(12)			610	(12)
U.S. government agency securities	4	6,484	(22)			6,484	(22)
Total	8	\$ 14,759	\$ (139)	\$	\$	\$ 14,759	\$ (139)

The Company's investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, and debt obligations of a U.S. State or political subdivision.

The Company reviews its position quarterly and has asserted that at December 31, 2010, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

8. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	December 31, 2010	September 30, 2010
Real Estate Loans:		
Residential	\$ 598,852	\$ 596,170
Construction	1,755	1,302
Commercial	94,387	78,056
Commercial	15,496	16,569
Home equity loans and lines of credit	42,610	43,538
Other	2,231	2,486
	755,331	738,121
Plus deferred loan costs	229	169
	755,560	738,290
Less allowance for loan losses	7,738	7,448
Net loans	\$ 747,822	\$ 730,842

Real Estate Loans			Commercial Loans (dollars in thousands)	Home Equity and Lines of Credit	Other Loans	Total
Residential	Construction	Commercial				

December 31, 2010

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Total Loans	\$ 598,852	\$ 1,755	\$ 94,387	\$ 15,496	\$ 42,610	\$ 2,231	\$ 755,331
Individually evaluated for impairment	5,261		3,464	25	116		8,866
Collectively evaluated for impairment	593,591	1,755	90,923	15,471	42,494	2,231	746,465

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We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2010					
With no specific allowance recorded:					
Real Estate Loans					
Residential	\$ 3,328	\$ 3,321	\$	\$ 3,081	\$ 60
Construction					
Commercial	2,254	2,254		2,398	23
Commercial	22	22		42	
Home equity loans and lines of credit	14	14		14	
Other					
Total	5,618	5,611		5,535	83
With an allowance recorded:					
Real Estate Loans					
Residential	1,940	1,940	239	1,996	
Construction					
Commercial	1,211	1,210	200	657	
Commercial	3	3	3	3	
Home equity loans and lines of credit	102	102	58	74	
Other					
Total	3,256	3,255	500	2,730	
Total:					
Real Estate Loans					
Residential	5,268	5,261	239	5,077	60
Construction					
Commercial	3,465	3,464	200	3,055	23

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Commercial	25	25	3	45	
Home equity loans and lines of credit	116	116	58	88	
Other					
Total Impaired Loans	\$ 8,874	\$ 8,866	\$ 500	\$ 8,265	\$ 83

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Management uses an eight point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Bank's Commercial Loan Officers perform an annual review of all commercial relationships \$250,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank engages an external consultant to conduct loan reviews on at least a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than \$500,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of December 31, 2010 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2010					
Real estate loans					
Residential	\$ 573,322	\$ 8,158	\$ 17,372	\$	\$ 598,852
Construction	1,755				1,755
Commercial	77,670	2,618	14,099		94,387
Commercial	15,107	271	118		15,496
Home equity loans and lines of credit	41,081	625	904		42,610
Other	2,136	5	90		2,231
Total	\$ 711,071	\$ 11,677	\$ 32,583	\$	\$ 755,331

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2010 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non- Accrual	Total Loans
December 31, 2010							
Real estate loans							
Residential	\$ 584,270	\$ 4,453	\$ 749	\$	\$ 9,380	\$ 14,582	\$ 598,852
Construction	1,755						1,755
Commercial	92,276				2,111	2,111	94,387
Commercial	15,429	5			62	67	15,496
Home equity loans and lines of credit	42,149	204	77		180	461	42,610
Other	2,023	7	5		196	208	2,231

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Total	\$ 737,902	\$ 4,669	\$ 831	\$	\$ 11,929	\$ 17,429	\$ 755,331
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Nonperforming assets were \$14.7 million at December 31, 2010. Nonperforming assets were \$12.9 million at September 30, 2010. The increase was due to increases of \$1.0 million in nonperforming residential loans, \$564,000 in commercial loans and \$359,000 in other real estate loans offset, in part, by a decrease of \$170,000 in consumer loans. Commercial nonperforming loans increased primarily as a result of the addition of two commercial real estate relationships. Non-performing residential loans increased due to increases in outstanding balances of new non-performing residential loans. The number of non-performing residential loans remained unchanged from September 30, 2010 at 50 loans. Foreclosed real estate was \$2.4 million at December 31, 2010 and \$2.0 million at September 30, 2010.

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. Our allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of December 31, 2010 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the Office of Thrift Supervision and the Pennsylvania Department of Banking, as an integral part of its examination process, periodically review our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on its analysis and review of information available to it at the time of its examination.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2010 (in thousands):

	Real Estate Loans						Unallocated	Total
	Residential	Construction	Commercial	Commercial Loans	Home Equity Loans and Lines of Credit	Other Loans		
ALL balance at December 31, 2010	4,840	15	2,081	148	603	23	28	7,738
Individually evaluated for impairment	239		200	3	58			500
Collectively evaluated for impairment	4,601	15	1,881	145	545	23	28	7,238

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

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The activity in the allowance for loan losses is summarized as follows (in thousands):

	Three Months Ended	
	December 31,	
	2010	2009
Balance, beginning of period	\$ 7,448	\$ 5,815
Add		
Provision charged to operations	480	500
Loan recoveries	48	25
	7,976	6,340
Less loans charged off	(238)	(136)
Balance, end of period	\$ 7,738	\$ 6,204

9. Deposits

Deposits consist of the following major classifications (in thousands):

	December 31,	September 30,
	2010	2010
Non-interest bearing demand accounts	\$ 28,886	\$ 30,448
NOW accounts	58,834	61,878
Money market accounts	119,132	119,238
Savings and club accounts	68,376	67,763
Certificates of deposit	306,042	261,083
Total	\$ 581,270	\$ 540,410

10. Net Periodic Benefit Cost-Defined Benefit Plan

For a detailed disclosure on the Bank's pension and employee benefits plans, please refer to Note 14 of the Company's Consolidated Financial Statements for the year ended September 30, 2010 included in the Company's Form 10-K.

The following table comprises the components of net periodic benefit cost for the periods ended (in thousands):

	Three Months	
	Ended	
	December 31,	
	2010	2009
Service Cost	\$ 133	\$ 105
Interest Cost	174	143
Expected return on plan assets	(192)	(145)
Amortization of prior service cost	2	2
Amortization of unrecognized loss	101	76

Net periodic benefit cost	\$ 218	\$ 181
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The Bank expects to contribute \$500,000 to its pension plan in 2011.

11. Equity Incentive Plan

The Company maintains the ESSA Bancorp, Inc. 2007 Equity Incentive Plan (the Plan). The Plan provides for a total of 2,377,326 shares of common stock for issuance upon the grant or exercise of awards. Of the shares available under the Plan, 1,698,090 may be issued in connection with the exercise of stock options and 679,236 may be issued as restricted stock. The Plan allows for the granting of non-qualified stock options (NSOs), incentive stock options (ISOs), and restricted stock. Options are granted at no less than the fair value of the Company s common stock on the date of the grant.

Certain officers, employees and outside directors were granted in aggregate 1,140,469 NSOs; 317,910 ISOs; and 590,320 shares of restricted stock. In accordance with generally accepted accounting principles for *Share-*

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Based Payments, the Company expenses the fair value of all share-based compensation grants over the requisite service periods.

The Company classifies share-based compensation for employees and outside directors within Compensation and employee benefits in the consolidated statement of income to correspond with the same line item as compensation paid. Additionally, generally accepted accounting principles require the Company to report: (1) the expense associated with the grants as an adjustment to operating cash flows and (2) any benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense as a financing cash flow.

Stock options vest over a five-year service period and expire ten years after grant date. The Company recognizes compensation expense for the fair values of these awards, which vest on a straight-line basis over the requisite service period of the awards.

Restricted shares vest over a five-year service period. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted shares under the Company's restricted stock plan. The Company recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period for the entire award.

For the three months ended December 31, 2010 and 2009, the Company recorded \$560,000 of share-based compensation expense, comprised of stock option expense of \$190,000 and restricted stock expense of \$370,000. Expected future expense relating to the 863,027 non-vested options outstanding as of December 31, 2010, is \$1.7 million over the remaining vesting period of 2.42 years. Expected future compensation expense relating to the 351,638 restricted shares at December 31, 2010, is \$3.5 million over the remaining vesting period of 2.42 years.

The following is a summary of the Company's stock option activity and related information for its option grants for the three month period ended December 31, 2010.

	Number of Stock Options	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2010	1,458,379	\$ 12.35	7.67	\$
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2011	1,458,379	\$ 12.35	7.42	\$ 1,269
Exercisable at December 31, 2011	595,352	\$ 12.35	7.42	\$ 518

The weighted-average grant date fair value of the Company's non-vested options as of December 31, 2010 and 2009, was \$2.38.

The following is a summary of the status of the Company's restricted stock as of December 31, 2010, and changes therein during the three month period then ended:

	Number of Restricted Stock	Weighted- average Grant Date Fair Value
Nonvested at September 30, 2010	352,448	\$ 12.35
Granted		
Vested	810	12.35
Forfeited		
Nonvested at December 31, 2010	351,638	\$ 12.35

12. Fair Value Measurement

In accordance with U.S. generally accepted accounting principles, the following disclosures show the hierarchal disclosure framework associated within the level of pricing observations utilized in measuring assets and liabilities at fair value. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell

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the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities.

The following table presents information about the Company's securities, other real estate owned and impaired loans measured at fair value as of December 31, 2010 and September 30, 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

Fair Value Measurement at December 31, 2010

Fair Value Measurements Utilized for the Company's Financial Assets (in thousands):	Quoted Prices in	Significant Other	Significant	Balances as of December 31, 2010
	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	\$	\$ 196,028	\$	\$ 196,028
Obligations of states and political subdivisions		16,539		16,539
U.S. government agencies		34,689		34,689
Corporate obligations		2,158		2,158
Equity securities	43			43
Total debt and equity securities	\$ 43	\$ 249,414	\$	\$ 249,457
Foreclosed real estate owned measured on a non-recurring basis				
Impaired loans measured on a non-recurring basis	\$	\$ 8,366	\$	\$ 8,366
Mortgage servicing rights measured on a non-recurring basis	\$	\$	\$ 290	\$ 290

Fair Value Measurement at September 30, 2010

Fair Value Measurements Utilized for the Company's Financial Assets (in thousands):	Quoted Prices in	Significant Other	Significant	Balances as of December 31, 2010
	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	\$	\$ 187,288	\$	\$ 187,288
Obligations of states and political subdivisions		10,904		10,904
U.S. government agencies		52,434		52,434
Corporate obligations		1,677		1,677
Equity securities	38			38
Total debt and equity securities	\$ 38	\$ 252,303	\$	\$ 252,341
Foreclosed real estate owned measured on a non-recurring basis				
Impaired loans measured on a non-recurring basis	\$	\$ 7,646	\$	\$ 7,646
Mortgage servicing rights measured on a non-recurring basis	\$	\$	\$ 318	\$ 318

As required by generally accepted accounting principles, each financial asset and liability must be identified as having been valued according to specified level of input, 1, 2 or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific

to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information

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generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on a security's relationship to other benchmark quoted securities. Most of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Securities reported at fair value utilizing Level 1 inputs are limited to actively traded equity securities whose market price is readily available from the New York Stock Exchange or the NASDAQ exchange. Other real estate owned (OREO) is measured at fair value, less cost to sell at the date of foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO. Impaired loans are reported at fair value utilizing level two inputs. For these loans, a review of the collateral is conducted and an appropriate allowance for loan losses is allocated to the loan. At December 31, 2010, 56 impaired loans with a carrying value of \$8.9 million were reduced by specific valuation allowance totaling \$500,000 resulting in a net fair value of \$8.4 million based on Level 2 inputs.

Disclosures about Fair Value of Financial Instruments

The fair values presented represent the Company's best estimate of fair value using the methodologies discussed below.

	December 31, 2010		September 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 7,346	\$ 7,346	\$ 10,890	\$ 10,890
Investment and mortgage-backed securities:				
Available for sale	249,457	249,457	252,341	252,341
Held to maturity	11,429	11,653	12,795	13,254
Loans receivable, net	747,822	768,829	730,842	755,871
Accrued interest receivable	4,064	4,064	4,392	4,392
FHLB stock	19,690	19,690	20,727	20,727
Mortgage servicing rights	290	290	318	318
Bank owned life insurance	15,755	15,755	15,618	15,618
Financial liabilities:				
Deposits	\$ 581,270	\$ 580,254	\$ 540,410	\$ 548,352
Short-term borrowings	11,856	11,856	14,719	14,719
Other borrowings	310,657	325,016	335,357	353,358
Advances by borrowers for taxes and insurance	3,291	3,291	1,465	1,465
Accrued interest payable	1,781	1,781	1,646	1,646

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling.

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As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Bank, are not considered financial instruments but have value, this fair value of financial instruments would not represent the full market value of the Company.

The Company employed simulation modeling in determining the fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Accrued Interest Receivable, Short-Term Borrowings, Advances by Borrowers for Taxes and Insurance, and Accrued Interest Payable

The fair value approximates the current book value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the Bank-owned life insurance.

Investment and Mortgage-Backed Securities Available for Sale and Held to Maturity and FHLB Stock

The fair value of investment and mortgage-backed securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the fair market value approximates the carrying amount.

Loans Receivable, Deposits, Other Borrowings, and Mortgage Servicing Rights

The fair values for loans and mortgage servicing rights are estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon market rates generally charged for such loans with similar characteristics. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end. Fair values for time deposits and other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits and borrowings of similar remaining maturities.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

statements of our goals, intentions and expectations;

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statements regarding our business plans and prospects and growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among

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others, those discussed under "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K and Part II, Item 1A of this Report on Form 10-Q, as well as the following factors:

significantly increased competition among depository and other financial institutions;

inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

general economic conditions, either nationally or in our market areas, that are worse than expected;

adverse changes in the securities markets;

legislative or regulatory changes that adversely affect our business;

our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or *de novo* branches, if any;

changes in consumer spending, borrowing and savings habits;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

changes in our organization, compensation and benefit plans.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Comparison of Financial Condition at December 31, 2010 and September 30, 2010

Total Assets. Total assets increased by \$9.0 million, or 0.8%, to \$1,081.0 million at December 31, 2010 from \$1,072.0 million at September 30, 2010. This increase was primarily due to an increase in net loans receivable.

Investment Securities Available for Sale. Investment securities available for sale decreased \$2.9 million, or 1.1%, to \$249.5 million at December 31, 2010 from \$252.3 million at September 30, 2010. The decrease was due primarily to a decrease of \$17.7 million in the Company's portfolio of United States government sponsored agency securities and was offset in part by a \$8.7 million increase in the Company's portfolio of mortgage-backed securities issued by United States government sponsored agencies and a \$5.6 million increase in obligations of state and political subdivisions.

Investment securities held to maturity. Investment securities held to maturity decreased \$1.4 million, or 10.7%, to \$11.4 million at December 31, 2010 from \$12.8 million at September 30, 2010. The decrease was due to normal repayments received on the mortgage-backed portfolio.

Net Loans. Net loans increased \$17.0 million, or 2.3%, to \$747.8 million at December 31, 2010 from \$730.8 million at September 30, 2010. The increase in net loans receivable was primarily attributed to an increase in commercial real estate loans. During this period, commercial real estate loans outstanding increased by \$16.3 million to \$94.4 million. Residential real estate loans and construction loans also increased from

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September 30, 2010 to December 31, 2010 by \$2.7 million and \$453,000, respectively. These increases were partially offset by decreases in commercial loans outstanding of \$1.1 million to \$15.5 million, home equity loans and lines of credit outstanding of \$928,000 to \$42.6 million and other loans outstanding of \$255,000 to \$2.2 million.

Deposits. Deposits increased \$40.9 million, or 7.6%, to \$581.3 million at December 31, 2010 from \$540.4 million at September 30, 2010. At December 31, 2010 compared to September 30, 2010, certificate of deposit accounts increased \$45.0 million to \$306.0 million, and savings and club accounts increased \$613,000 to \$68.4 million. These increases were offset in part during the same period by decreases in non-interest bearing demand accounts of \$1.6 million to \$28.9 million, NOW accounts of \$3.0 million to \$58.8 million and savings and money market accounts of \$106,000 to \$119.1 million. Included in the certificates of deposit at December 31, 2010 was an increase of \$31.2 million in brokered certificates of deposit to \$101.9 million. The increase in brokered certificates was the result of the Company's decision to replace maturing FHLBank Pittsburgh borrowings with lower priced brokered certificates of deposit.

Borrowed Funds. Borrowed funds decreased by \$27.6 million, or 7.9%, to \$322.5 million at December 31, 2010, from \$350.1 million at September 30, 2010. The decrease in borrowed funds was primarily due to maturities of FHLBank Pittsburgh borrowings.

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Stockholders' Equity. Stockholders' equity decreased by \$5.5 million, or 3.2%, to \$166.2 million at December 31, 2010 from \$171.6 million at September 30, 2010. This decrease was primarily the result of a stock repurchase program the company began in June 2008 and an increase in the Company's accumulated other comprehensive loss. The accumulated other comprehensive loss increased by \$2.7 million at December 31, 2010 compared to September 30, 2010 primarily due to a decrease in the unrealized gain, net of taxes, on the Company's investment securities available for sale. The unrealized gain decreased due to changes in interest rates. In June, 2009, the Company announced that it had completed its first stock repurchase program having purchased 2,547,135 shares at a weighted average cost of \$13.14. It was also announced that the Company's Board of Directors authorized a second stock repurchase program to purchase up to an additional 10% of its outstanding shares. On October 6, 2010, the Company announced that it had completed its second stock repurchase program having purchased 1,499,100 shares at a weighted average cost of \$12.36 including 23,700 shares repurchased during the quarter ended December 31, 2010. It was also announced that the Company's Board of Directors authorized a third repurchase program to purchase up to an additional 5% of its outstanding shares. As of December 31, 2010, the Company had purchased an additional 277,100 shares at a weighted average cost of \$12.83 per share under the third stock repurchase program. In total, the Company purchased 300,800 shares at a weighted average cost of \$12.77 per share for the three months ended December 31, 2010.

Average Balance Sheets for the Three Months Ended December 31, 2010 and 2009

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances, the yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income.

	For the Three Months Ended December 31					
	2010			2009		
	Average Balance	Interest Income/Expense	Yield/ Cost (dollars in thousands)	Average Balance	Interest Income/Expense	Yield/ Cost
Interest-earning assets:						
Loans (1)	\$ 739,735	\$ 9,844	5.28%	\$ 737,346	\$ 10,341	5.56%
Investment securities						
Taxable (2)	50,509	208	1.63%	30,304	185	2.44%
Exempt from federal income tax (2) (3)	6,840	78	6.85%	7,423	83	6.64%
Total investment securities	57,349	286	2.26%	37,727	268	3.26%
Mortgage-backed securities	202,637	1,714	3.36%	189,705	2,052	4.29%
Federal Home Loan Bank stock	20,002		0.00%	20,727		0.00%
Other	1,609		0.00%	3,965	1	0.10%
Total interest-earning assets	1,021,332	11,844	4.62%	989,470	12,662	5.09%
Allowance for loan losses	(7,628)			(5,920)		
Noninterest-earning assets	54,552			47,517		
Total assets	\$ 1,068,256			\$ 1,031,067		
Interest-bearing liabilities:						
NOW accounts	\$ 58,185	6	0.04%	\$ 53,874	10	0.07%
Money market accounts	117,685	166	0.56%	109,511	318	1.15%
Savings and club accounts	66,504	42	0.25%	65,240	58	0.35%
Certificates of deposit	284,905	1,482	2.06%	145,160	1,020	2.79%
Borrowed funds	330,377	3,018	3.62%	435,419	3,973	3.62%
Total interest-bearing liabilities	\$ 857,656	\$ 4,714	2.18%	\$ 809,204	\$ 5,379	2.64%
Non-interest bearing NOW accounts	29,230			26,667		
Noninterest-bearing liabilities	10,162			9,417		

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Total liabilities	897,048	845,288
Equity	171,208	185,779
Total liabilities and equity	\$ 1,068,256	\$ 1,031,067
Net interest income	\$ 7,130	\$ 7,283
Interest rate spread		2.44%
Net interest-earning assets	\$ 163,676	\$ 180,266
Net interest margin (4)		2.77%
Average interest-earning assets to average interest-bearing liabilities	119.08%	122.28%

(footnotes continue on the following page)

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- (1) Non-accruing loans are included in the outstanding loan balances.
- (2) Held to maturity securities are reported at amortized cost. Available for sale securities are reported at fair value.
- (3) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.
- (4) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Comparison of Operating Results for the Three Months Ended December 31, 2010 and December 31, 2009

Net Income. Net income increased \$218,000 million, or 27.5%, to \$1.0 million for the three months ended December 31, 2010 compared to net income of \$794,000 for the comparable period in 2009. The net income of \$794,000 for the three months ending December 31, 2010 included a pre-tax write-down of \$1.2 million in the value of the Company's foreclosed real estate portfolio. The charge related to a single property in the Bank's foreclosed real estate portfolio and was made to reflect a more current appraisal.

Net Interest Income. Net interest income decreased \$153,000 or 2.1%, to \$7.1 million for the three months ended December 31, 2010 from \$7.3 million for the comparable period in 2009. The decrease was primarily attributable to a decrease in the Company's average net earning assets of \$16.6 million, and a decrease in the Company's interest rate spread to 2.44% for the three months ended December 31, 2010, from 2.45% for the comparable period in 2009.

Interest Income. Interest income decreased \$818,000 or 6.5%, to \$11.8 million for the three months ended December 31, 2010 from \$12.7 million for the comparable 2009 period. The decrease resulted primarily from a 47 basis point decrease in average yield on interest earning assets partially offset by a \$31.9 million increase in average interest-earning assets. The average yield on interest earning assets was 4.62% for the three months ended December 31, 2010, as compared to 5.09% for the comparable 2009 period as the Company's interest earning assets continued to re-price downward throughout the period. Loans increased on average \$2.4 million between the two periods along with increases in the average balance of mortgage backed securities of \$12.9 million. In addition, average taxable investment securities increased \$20.2 million. These increases were offset in part by decreases in the average balances of tax exempt investment securities of \$583,000 and average other interest earning assets of \$2.4 million. The primary reason for the increase in mortgage backed and taxable investment securities was the partial reinvestment of borrowing proceeds, deposit proceeds and maturing investment securities into these assets. Average FHLBank Pittsburgh stock declined \$725,000 as a result of a repurchase by the FHLB of stock in the quarter ended December 31, 2010. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLB in an amount not less than 45 basis points of the outstanding FHLB member asset value plus 4.6% of its outstanding FHLB borrowings, as calculated throughout the year. On December 23, 2008, the FHLBank Pittsburgh notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice. The decrease in other interest earning assets was primarily due to a decrease in the average balance of cash held at FHLBank Pittsburgh.

Interest Expense. Interest expense decreased \$665,000 or 12.4%, to \$4.7 million for the three months ended December 31, 2010 from \$5.4 million for the comparable 2009 period. The decrease resulted from a 46 basis point decrease in the overall cost of interest bearing liabilities to 2.18% for the three months ended December 31, 2010 from 2.64% for the comparable 2009 period, partially offset by a \$48.5 million increase in average interest-bearing liabilities. Average interest bearing deposits increased \$153.5 million and average borrowed funds decreased \$105.0 million. Average interest bearing deposits increased primarily as a result of a \$139.7 million increase in average certificates of deposit.

Provision for Loan Losses. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are subject to interpretation and revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision for loan losses of \$480,000 for the three months ended December 31, 2010 as compared to \$500,000 for the three months ended December 31, 2009. The allowance for loan losses was \$7.7 million, or 1.02% of loans outstanding, at December 31, 2010, compared to \$6.2 million, or 0.84% of loans outstanding at December 31, 2009.

Non-interest Income. Non-interest income decreased \$121,000 or 8.3%, to \$1.3 million from \$1.5 million for the comparable period in 2009. The primary reason for the decrease was the decline in gains on the sale of loans of \$152,000 during the 2010 period. The Company sold \$5.7 million of long-term fixed-rate residential loans during the three months ended December 31, 2009, as compared to \$97,000 for the corresponding 2010 period.

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Non-interest Expense. Non-interest expense decreased \$593,000, or 8.2%, to \$6.6 million for the three months ended December 31, 2010 from \$7.2 million for the comparable period in 2009. The primary reason for the decrease was a decline in loss on foreclosed real estate of \$1.1 million. This decrease was offset, in part, by increases in occupancy and equipment expense of \$218,000, compensation and employee benefits of \$144,000, and other expense of \$174,000. Other expense increased due primarily to increases in other professional fees, appraisal and lien search fees, and REO operations, which increased \$33,000, \$90,000, and \$43,000 respectively. Compensation and employee benefits increased primarily as a result of staff increases required for the opening of four branches in 2010. Occupancy and equipment increased primarily because of a one-time accrual adjustment in real estate taxes of approximately \$115,000 which was taken in 2009.

Income Taxes. Income tax expense increased \$121,000 to \$335,000 for the three months ended December 31, 2010 from \$214,000 for the comparable 2009 period. The increase was primarily a result of the increase in income before taxes of \$339,000 million for the three months ended December 31, 2010. The effective tax rate was 24.9% for the three months ended December 31, 2010, compared to 21.2% for the 2009 period.

Non-Performing Assets

The following table provides information with respect to the Bank's non-performing assets at the dates indicated. (Dollars in thousands)

	December 31, 2010	September 30, 2010
Non-performing assets:		
Non-accruing loans	\$ 11,929	\$ 10,516
Troubled debt restructures	358	361
Total non-performing loans	12,287	10,877
Foreclosed real estate	2,393	2,034
Total non-performing assets	\$ 14,680	\$ 12,911
Ratio of non-performing loans to total loans	1.63%	1.47%
Ratio of non-performing loans to total assets	1.14%	1.01%
Ratio of non-performing assets to total assets	1.36%	1.20%
Ratio of allowance for loan losses to total loans	1.02%	1.01%

Loans are reviewed on a regular basis and are placed on non-accrual status when they become more than 90 days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and further income is recognized only to the extent received. Nonperforming assets increased \$1.8 million to \$14.7 million at December 31, 2010 from \$12.9 million at September 30, 2010. Nonperforming loans increased \$1.4 million to \$12.3 million at December 31, 2010 from \$10.9 million at September 30, 2010. The \$11.9 million of non-accruing loans included 50 residential loans with an aggregate outstanding balance of \$9.4 million that were past due 90 or more days at December 31, 2010, 15 commercial loans with aggregate outstanding balances of \$2.2 million and 11 consumer loans with aggregate balances of \$376,000. Foreclosed real estate increased \$359,000 to \$2.4 million at December 31, 2010 from \$2.0 million at September 30, 2010. The \$359,000 increase included the addition of 6 residential properties valued at \$416,000 to the foreclosed real estate portfolio which was partially offset by write-downs of \$72,000.

Liquidity and Capital Resources

We maintain liquid assets at levels we consider adequate to meet both our short-term and long-term liquidity needs. We adjust our liquidity levels to fund deposit outflows, repay our borrowings and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, prepayment and repayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to FHLBank advances and other borrowing sources. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

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A portion of our liquidity consists of cash and cash equivalents and borrowings, which are a product of our operating, investing and financing activities. At December 31, 2010, \$7.3 million of our assets were invested in cash

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and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled \$9,000 at December 31, 2010. As of December 31, 2010, we had \$257.5 million in borrowings outstanding from FHLBank Pittsburgh and \$65.0 million in borrowings through repurchase agreements with other financial institutions. We have access to additional FHLBank advances of up to approximately \$253.8 million.

At December 31, 2010, we had \$52.4 million in loan commitments outstanding, which included, in part, \$3.7 million in undisbursed construction loans, \$22.4 million in unused home equity lines of credit, \$8.3 million in commercial lines of credit and \$14.2 million to originate primarily multi-family and nonresidential mortgage loans. Certificates of deposit due within one year of December 31, 2010 totaled \$113.0 million, or 36.9% of certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2011. We believe, however, based on past experience, that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was \$3.3 million and \$1.3 million for the three months ended December 31, 2010 and 2009, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash provided (used) in investing activities was \$(17.4) million and \$6.4 million for the three months ended December 31, 2010 and 2009, respectively, principally reflecting our loan and investment security activities. Deposit and borrowing cash flows have comprised most of our financing activities which resulted in net cash provided (used) of \$10.5 million and \$(8.2) million for the three months ended December 31, 2010 and 2009, respectively.

Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal and external loan reviews and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision based on changes in economic and real estate market conditions.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral

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adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

Other-than-Temporary Investment Security Impairment. Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term *other-than-temporary* is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results. At December 31, 2010 the Company had a \$2.8 million valuation allowance established against its deferred tax asset. The tax deduction generated by the contribution to the Foundation as part of the Company's stock offering exceeded the allowable federal income tax deduction limitations resulting in the establishment of this valuation allowance for the contribution carry forward.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as such term is defined in applicable Securities and Exchange Commission rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

During the first three months of fiscal 2011, the Company's contractual obligations did not change materially from those discussed in the Company's Financial Statements for the year ended September 30, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits and borrowings. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has approved guidelines for managing the interest rate risk inherent in our assets and liabilities, given our business strategy, operating environment, capital, liquidity and performance objectives. Senior management monitors the level of interest rate risk on a regular basis and the asset/liability committee meets quarterly to review our asset/liability policies and interest rate risk position.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. The net proceeds from the offering increased our capital and provided management with greater flexibility to manage our interest rate risk. In particular, management used the majority of the capital we received to increase our interest-earning assets. There have been no material changes in our interest rate risk since September 30, 2010.

Table of Contents**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no significant changes made in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) or in other factors that could significantly affect the Company's internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information**Item 1. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors disclosed in the Company's Annual Report for the fiscal year ended September 30, 2010 on Form 10-K filed on December 14, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents a summary of the Company's share repurchases during the quarter ended December 31, 2010.

Company Purchases of Common Stock

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1 - October 31, 2010	135,222	\$ 12.59	135,000	561,600
November 1 - November 28, 2010	73,100	12.76	73,100	488,500
December 1 - December 31, 2010	92,700	12.92	92,700	395,800
Total	301,022	\$ 12.73	300,800	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

- 3.1 Certificate of Incorporation of ESSA Bancorp, Inc.*
- 3.2 Bylaws of ESSA Bancorp, Inc.*
- 4 Form of Common Stock Certificate of ESSA Bancorp, Inc.*
- 10.2 Amended and Restated Employment Agreement for Gary S. Olson**
- 10.3 Amended and Restated Employment Agreement for Robert S. Howes**
- 10.4 Amended and Restated Employment Agreement for Allan A. Muto**
- 10.5 Amended and Restated Employment Agreement for Diane K. Reimer**
- 10.6 Amended and Restated Employment Agreement for V. Gail Warner**
- 10.7 Supplemental Executive Retirement Plan**
- 10.8 Endorsement Split Dollar Life Insurance Agreement for Gary S. Olson**
- 10.9 Endorsement Split Dollar Life Insurance Agreement for Robert S. Howes**
- 21 Subsidiaries of Registrant*
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*

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Incorporated by reference to the Registration Statement on Form S-1 of ESSA Bancorp, Inc. (file no. 333-139157), originally filed with the Securities and Exchange Commission on December 7, 2006.

** Incorporated by reference to ESSA Bancorp, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2008.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ESSA BANCORP, INC.

Date: February 9, 2011

/s/ Gary S. Olson
Gary S. Olson
President and Chief Executive Officer

Date: February 9, 2011

/s/ Allan A. Muto
Allan A. Muto
Executive Vice President and Chief Financial Officer

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WIDTH="8%"> 2.the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

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From September, 2007 through December, 2008, the Federal Reserve Board of Governors decreased its target for the federal funds rate from 5.25% to 0.25%. The federal funds rate has remained at 0.25% since December 2008 and is expected to remain at or around that level for an extended period of time. While these short term market interest rates (which we use as a guide to price our deposits) decreased, longer term market interest rates (which we use as a guide to price our longer term loans) have also decreased but not to the same degree. With the decline in shorter term market interest rates the Company's cost of funds declined. This decline in our cost of funds was initially beneficial to our net interest spread. However, as short term market rates have remained low and longer term interest rates have also declined, the Company's net interest margin decreased from 2.78% for the year ended September 30, 2010 to 2.65% for the year ended September 30, 2012. If market rates remain at these historic lows, there could be further negative pressure exerted on our net interest margin.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their loans in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Alternatively, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2012, the fair value of our debt securities available for sale totaled \$329.6 million. Unrealized net gains on these available for sale securities totaled approximately \$9.4 million at September 30, 2012 and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders' equity.

We evaluate interest rate sensitivity by estimating the change in ESSA Bank & Trust's Economic Value of Equity (EVE) over a range of interest rate scenarios. EVE is the net present value of the Company's asset cash flows minus the net present value of the Company's liability cash flows. At September 30, 2012, in the event of an immediate 200 basis point increase in interest rates, the Company's model projects that we would experience an \$11.6 million, or 5.8%, decrease in net portfolio value. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

Concentration of Loans in Our Primary Market Area, Which Has Experienced an Economic Downturn, May Increase the Risk of Increased Nonperforming Assets.

Our success depends primarily on the general economic conditions in the Pennsylvania counties of Monroe and Northampton, as nearly all of our loans are to customers in these markets. Accordingly, the local economic conditions in this market area have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, a continuation of the decline in real estate values in this market area would also lower the value of the collateral securing loans on properties in this market area. In addition, continued weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results.

Continued and Sustained Deterioration in the Housing Sector and Related Markets and Prolonged Elevated Unemployment Levels May Adversely Affect Our Business and Financial Results.

Over the last several years, general economic conditions continued to worsen nationally as well as in our market area. While we did not invest in sub-prime mortgages and related investments, our lending business is tied significantly to the housing market. Declines in home prices, and increases in foreclosures and unemployment levels, have adversely impacted the credit performance of real estate loans, resulting in the write-down of asset values. The continuing housing slump has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on construction, residential and commercial mortgage loans. The ongoing concern about the economy in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in our

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non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely affect our prospects for growth, asset and goodwill valuations and could result in a decrease in our interest income and a material increase in our provision for loan losses.

Negative Developments in the Financial Industry and the Domestic and International Credit Markets May Continue to Adversely Affect our Operations and Results.

Negative developments that began in the latter half of 2007 in the global credit and securitization markets resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn would continue. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, the potential exists for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

Our Continued Emphasis On Commercial Real Estate Lending Increases Our Exposure To Increased Lending Risks.

Our business strategy centers on continuing our emphasis on commercial real estate lending. We have grown our loan portfolio in recent years with respect to this type of loan and intend to continue to emphasize this type of lending. At September 30, 2012, \$160.2 million, or 16.7%, of our total loan portfolio consisted of commercial real estate loans. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the commercial real estate loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property's collateral value, net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit-related losses.

At September 30, 2012, our largest commercial real estate lending relationship was \$5.7 million of loans located in Monroe County, Pennsylvania and secured by real estate. This loan was performing in accordance with its repayment terms. See Item 1. Business Lending Activities Commercial Real Estate Loans.

Strong Competition Within Our Market Areas May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see Item 1. Business Competition.

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Economic Conditions May Adversely Affect Our Liquidity and Financial Condition.

Recent significant declines in the values of mortgage-backed securities and derivative securities issued by financial institutions, government sponsored entities, and major commercial and investment banks have led to decreased confidence in financial markets among borrowers, lenders, and depositors, as well as disruption and extreme volatility in the capital and credit markets and the failure of some entities in the financial sector. As a result, many lenders and institutional investors have reduced or ceased to provide funding to borrowers. Continued turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

We Operate in a Highly Regulated Environment and May Be Adversely Affected by Changes in Laws and Regulations.

We are subject to extensive regulation, supervision, and examination by the Federal Reserve Board, as successor regulator to Office of Thrift Supervision, the FDIC and the Pennsylvania Department of Banking. Such regulators govern the activities in which we may engage, primarily for the protection of depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank, the imposition of higher capital requirements, and the adequacy of a bank's allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on us and our operations. Notably, the federal banking agencies have recently proposed regulations which, if finalized, would significantly increase regulatory capital requirements for insured depository institutions as well as applying such requirements to savings and loan holding companies. We believe that we are in substantial compliance with applicable federal, state and local laws, rules and regulations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. There can be no assurance that proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

The Soundness of Other Financial Services Institutions May Adversely Affect Our Credit Risk.

We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition.

Any Future FDIC Insurance Premium Increases May Adversely Affect our Earnings.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures we may be required to pay even higher FDIC premiums than the recently increased levels. Such increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact our earnings. See [Supervision and Regulation](#) [Deposit Insurance](#) for more information about FDIC insurance premiums.

Our Information Systems May Experience an Interruption or Security Breach.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability.

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A Substantial Decline in the Value of Our FHLB-Pittsburgh Common Stock May Adversely Affect Our Financial Condition.

We own common stock of the FHLB-Pittsburgh in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair value of our FHLB-Pittsburgh common stock was \$21.9 million as of September 30, 2012.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB-Pittsburgh, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB-Pittsburgh common stock, we believe that there is a risk that our investment could be deemed other than temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition.

If the capitalization of the FHLB-Pittsburgh is substantially diminished and if it reduces or suspends its dividend, our liquidity may be adversely impaired if we are not able to obtain an alternative source of funding.

Recent health care legislation could increase our expenses or require us to pass further costs on to our employees, which could adversely affect our operations, financial condition and earnings.

Legislation enacted in 2010 requires companies to provide expanded health care coverage to their employees, such as affordable coverage to part-time employees and coverage to dependent adult children of employees. Companies will also be required to enroll new employees automatically into their health plans. Compliance with these and other new requirements of the health care legislation will increase our employee benefits expense, and may require us to pass these costs on to our employees, which could give us a competitive disadvantage in hiring and retaining qualified employees.

The merger of the Company and First Star and the integration of the companies may be more difficult, costly or time consuming than expected.

It is possible that the integration process could result in the loss of key employees or disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the Company's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the merger. As with any member of banking institutions, there may also be business disruptions that cause the Company to lose customers or cause customers to withdraw their deposits from the Company's banking subsidiaries. The success of the combined company following the merger may depend in large part on the ability to integrate the two business models and cultures. If we are not able to integrate the Company's and First Star's operations successfully and in a timely manner, the expected benefits of the merger may not be realized.

The Company may fail to realize the cost savings estimated for the merger.

The Company estimates that it will achieve cost savings from the merger when the two companies have been fully integrated, while the Company continues to be comfortable with these expectations, it is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume the ability to combine the businesses of the company and First Star in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or the Company is not able to successfully combine the two companies the anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected.

Item 1B. Unresolved Staff Comments

Not applicable.

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The following table provides certain information as of September 30, 2012 with respect to our main office located in Stroudsburg, Pennsylvania, and our twenty-six full service branch offices.

Location	Leased or Owned	Year Acquired or Leased	Square Footage
Main Office:			
200 Palmer Street			
Stroudsburg, PA 18360	Owned	2003	36,000
Full Service Branches:			
249 Route 940			
Blakeslee Corners			
Blakeslee, PA 18610	Owned	2002	2,688
1881 Route 209			
Brodheadsville, PA 18301	Owned	1983	4,100

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5801 Milford Road			
East Stroudsburg, PA 18324	Leased	1997	1,700
695 North Courtland Street			
East Stroudsburg, PA 18301	Leased	1999	420
75 Washington Street			
East Stroudsburg, PA 18301	Owned	1966	3,300
143 Seven Bridge Road			
PO Box 1009			
Marshalls Creek, PA 18335	Leased	1991	2,627
Mount Pocono Plaza			
601 Route 940, Suite 23			
Mt. Pocono, PA 18344	Leased	1999	536
1309 Blue Valley Drive			
Pen Argyl, PA 18072	Leased	2001	444
744 Main Street			
Stroudsburg, PA 18360	Owned	1985	12,000
Route 611			
1070 North Ninth Street			
Stroudsburg, PA 18360	Leased	2000	488
2836 Route 611, Ste 105			
Tannersville, PA 18372	Leased	1993	611
924 Weir Lake Road			
Brodheads ville, PA 18322	Leased	1997	576
Tannersville Plaza			
Route 611			
Tannersville, PA 18372	Owned	2007	2,500
2100 Route 390			
Mountainhome, PA 18326	Owned	2010	2,912
1500 N. Cedar Crest Blvd, Unit 2			
Allentown, PA 18104	Leased	2010	530

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5580 Crawford Drive

Bethlehem, PA 18017

Leased

2010

468

5020 Route 873

Schnecksville, PA 18078

Leased

2010

460

418 West Broad Street

Bethlehem, PA 18018

Owned

2012

4,500

358 South Walnut Street

Bath, PA 18014

Leased

2012

2,000

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2415 Park Avenue			
Easton, PA 18045	Owned	2012	3,460
14 South Main Street			
Nazareth, PA 18064	Leased	2012	450
471-497 Wabash Street			
Mountainville Plaza			
Allentown, PA 18103	Owned	2012	4,411
11 North Main Street			
Alburtis, PA 18011	Owned	2012	2,091
1430 Jacobsburg Road			
Wind Gap, PA 18091	Leased	2012	1,400
Moravian Village Tower			
Room 31			
526 Wood Street			
Bethlehem, PA 18018	Leased	2012	160
6302 Route 309			
New Tripoli, PA 18066	Owned	2012	3,460
Other Properties			
746-752 Main Street			
Stroudsburg, PA 18360	Owned	2005	4,650
Five Highland Avenue			
Bethlehem, PA 18017	Leased	2011	4,354
414 West Broad Street			
Bethlehem, PA 18018	Owned	2012	3,604

The net book value of our premises, land and equipment was \$16.2 million at September 30, 2012.

Item 3. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our shares of common stock are traded on the Nasdaq Global Market under the symbol ESSA. The approximate number of holders of record of ESSA Bancorp, Inc.'s common stock as of September 30, 2012 was 2,400. Certain shares of ESSA Bancorp, Inc. are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following tables present quarterly market information for ESSA Bancorp, Inc.'s common stock for the periods ended September 30, 2011 and September 30, 2012. The following information was provided by the Nasdaq Stock Market.

Fiscal 2012	High	Low	Dividends
Quarter ended September 30, 2012	\$ 11.38	\$ 10.00	\$ 0.05
Quarter ended June 30, 2012	10.80	9.67	0.05
Quarter ended March 31, 2012	10.79	9.45	0.05
Quarter ended December 31, 2011	11.38	10.03	0.05

Fiscal 2011	High	Low	Dividends
Quarter ended September 30, 2011	\$ 12.63	\$ 10.44	\$ 0.05
Quarter ended June 30, 2011	13.28	11.25	0.05
Quarter ended March 31, 2011	13.32	12.04	0.05
Quarter ended December 31, 2010	13.31	12.08	0.05

The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. We began to pay quarterly cash dividends in the third quarter of fiscal 2008. In determining whether and in what amount to pay a cash dividend in the future, the Board will take into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that cash dividends will not be reduced or eliminated in the future.

The sources of funds for the payment of a cash dividend are the retained proceeds from the initial sale of shares of common stock and earnings on those proceeds, interest and principal payments with respect to ESSA Bancorp, Inc.'s loan to the Employee Stock Ownership Plan, and dividends from ESSA Bank & Trust. For a discussion of the limitations applicable to ESSA Bank & Trust's ability to pay dividends, see Item 1. Business Supervision and Regulation.

Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on the common stock between April 4, 2007 and September 30, 2012, (b) the cumulative total return on stock included in the SNL Thrift Index over such period, and (c) the cumulative total return on stocks included in the Russell 2000 Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of \$100.

There can be no assurance that the ESSA Bancorp, Inc.'s stock performance will continue in the future with the same or similar trend depicted in the graph. ESSA Bancorp, Inc. will not make or endorse any predictions as to future stock performance.

Table of Contents**ESSA BANCORP, INC.**

<i>Index</i>	<i>Period Ending</i>						
	<i>04/04/07</i>	<i>09/30/07</i>	<i>09/30/08</i>	<i>09/30/09</i>	<i>09/30/10</i>	<i>09/30/11</i>	<i>09/30/12</i>
ESSA Bancorp, Inc.	100.00	94.65	118.72	114.32	104.14	93.99	94.77
SNL Thrift Index	100.00	91.79	47.28	36.21	36.16	30.66	39.85
Russell 2000	100.00	99.91	85.44	77.29	87.60	84.51	111.48

Source: SNL Financial LC, Charlottesville, NC

On May 27, 2008, the Board of Directors approved a stock repurchase program and authorized the repurchase of up to 15% of the Company's outstanding shares of common stock. In June 2009 the Company announced the completion of its 15% repurchase program, having purchased 2,547,135 shares at a weighted average cost of \$13.14. In June 2009 the Company announced a second repurchase program to purchase up to an additional 10% of its outstanding stock. In October 2010 the Company announced the completion of the second repurchase program, having purchased 1,499,100 shares at a weighted average cost of \$12.36. In October 2010, the Company announced a third repurchase program to purchase up to an additional 5% of its outstanding stock. In April 2011, the Company announced the completion of the third repurchase program, having purchased 679,900 shares at a weighted average cost of \$12.82. In May 2011, the Company announced a fourth repurchase program to purchase up to an additional 5% of its outstanding stock. In September 2011, the Company announced the completion of the fourth repurchase program, having purchased 637,200 shares at a weighted average cost of \$11.57. The Company did not repurchase any stock during the year ended September 30, 2012.

Table of Contents**Item 6. Selected Financial Data**

The following information is derived from the audited consolidated financial statements of ESSA Bancorp, Inc. For additional information, reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of ESSA Bancorp, Inc. and related notes included elsewhere in this Annual Report.

	2012	2011	At September 30, 2010 (In thousands)	2009	2008
Selected Financial Condition Data:					
Total assets	\$ 1,418,786	\$ 1,097,480	\$ 1,071,997	\$ 1,042,119	\$ 993,482
Cash and cash equivalents	15,550	41,694	10,890	18,593	12,614
Investment securities:					
Available for sale	329,585	245,393	252,341	217,566	204,078
Held to maturity			12,795	6,709	11,857
Loans, net	950,355	738,619	730,842	733,580	706,890
Regulatory stock	21,914	16,882	20,727	20,727	19,188
Premises and equipment	16,170	11,494	12,189	10,620	10,662
Bank owned life insurance	27,848	23,256	15,618	15,072	14,516
Deposits	995,634	637,924	540,410	408,855	370,529
Borrowed funds	234,741	288,410	350,076	438,598	412,757
Equity	175,411	161,679	171,623	185,506	200,086

	2012	2011	For the Years Ended September 30, 2010 (In thousands)	2009	2008
Selected Data:					
Interest income	\$ 45,200	\$ 47,176	\$ 49,257	\$ 52,733	\$ 52,065
Interest expense	16,132	18,280	21,306	23,739	25,642
Net interest income	29,068	28,896	27,951	28,994	26,423
Provision for loan losses	2,550	2,055	2,175	1,500	900
Net interest income after provision for loan losses	26,518	26,841	25,776	27,494	25,523
Non-interest income	6,735	6,325	6,708	5,728	4,803
Non-interest expense	33,005	26,045	26,128	24,113	21,181
Income before income tax expense	248	7,121	6,356	9,109	9,145
Income tax expense	33	1,863	1,844	2,553	3,068
Net income	\$ 215	\$ 5,258	\$ 4,512	\$ 6,556	\$ 6,077
Earnings per share ¹					
Basic	\$ 0.02	\$ 0.46	\$ 0.36	\$ 0.47	\$ 0.39
Diluted	\$ 0.02	\$ 0.46	\$ 0.36	\$ 0.47	\$ 0.38

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	At or For the Years Ended September 30,				
	2012	2011	2010	2009	2008
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.02%	0.48%	0.43%	0.64%	0.63%
Return on average equity	0.13%	3.15%	2.49%	3.42%	2.92%
Interest rate spread (1)	2.42%	2.47%	2.34%	2.40%	2.09%
Net interest margin (2)	2.65%	2.78%	2.78%	2.93%	2.88%
Efficiency ratio (3)	91.90%	75.62%	75.39%	69.45%	67.83%
Noninterest expense to average total assets	2.84%	2.39%	2.49%	2.34%	2.21%
Average interest-earning assets to average interest-bearing liabilities	116.55%	117.90%	121.11%	123.00%	128.60%
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	1.92%	1.26%	1.20%	0.74%	0.40%
Non-performing loans as a percent of total loans	2.53%	1.54%	1.47%	0.70%	0.55%
Allowance for loan losses as a percent of non-performing loans	30.12%	71.04%	68.48%	112.82%	124.81%
Allowance for loan losses as a percent of total loans	0.76%	1.09%	1.01%	0.79%	0.69%
Capital Ratios:					
Total risk-based capital (to risk weighted assets)	19.71%	28.54%	32.60%	31.00%	30.30%
Tier 1 risk-based capital (to risk weighted assets)	11.08%	27.30%	31.35%	29.86%	29.42%
Tangible capital (to tangible assets)	18.81%	14.18%	15.07%	15.17%	15.50%
Tier 1 leverage (core) capital (to adjusted tangible assets)	18.81%	14.18%	15.07%	15.17%	15.50%
Average equity to average total assets	14.30%	15.27%	17.26%	18.59%	21.77%
Other Data:					
Number of full service offices	26	17	17	13	13

- (1) The interest rate spread represents the difference between the weighted-average yield on a fully tax equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.
- (2) The net interest margin represents net interest income on a fully tax equivalent basis as a percent of average interest-earning assets for the year.
- (3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Business Strategy

Our business strategy is to grow and improve our profitability by:

Increasing customer relationships through the offering of excellent service and the distribution of that service through effective delivery systems;

Continuing to transform into a full service community bank by meeting the financial services needs of our customers;

Continuing to develop into a high performing financial institution, in part by increasing interest revenue and fee income;

Remaining within our risk management parameters; and

Employing affordable technology to increase profitability and improve customer service.

We intend to continue to pursue our business strategy, subject to changes necessitated by future market conditions and other factors. We also intend to focus on the following:

Increasing customer relationships through a continued commitment to service and enhancing products and delivery systems. We will continue to increase customer relationships by focusing on customer satisfaction with regard to service, products, systems and operations. We have upgraded and expanded certain of our facilities, including our corporate center and added additional branches to provide additional capacity to manage future growth and expand our delivery systems.

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Continuing to develop into a high performing financial institution. We will continue to enhance profitability by focusing on increasing non-interest income as well as increasing commercial products, including commercial real estate lending, which often have a higher profit margin than more traditional products. We also will pursue lower-cost commercial deposits as part of this strategy.

Remaining within our risk management parameters. We place significant emphasis on risk management and compliance training for all of our directors, officers and employees. We focus on establishing regulatory compliance programs to determine the degree of such compliance and to maintain the trust of our customers and community.

Employing cost-effective technology to increase profitability and improve customer service. We will continue to upgrade our technology in an efficient manner. We have implemented new software for marketing purposes and have upgraded both our internal and external communication systems.

Continuing our emphasis on commercial real estate lending to improve our overall performance. We intend to continue to emphasize the origination of higher interest rate margin commercial real estate loans as market conditions, regulations and other factors permit. We have expanded our commercial banking capabilities by adding experienced commercial bankers, and enhancing our direct marketing efforts to local businesses.

Expanding our banking franchise through branching and acquisitions. We will continue to integrate the nine former First Star Branches that we acquired during 2012. The most significant event in that integration is the conversion of the computer banking system used by the former First Star branches to the computer banking system used by ESSA Bank & Trust. The conversion is planned for January, 2013. Post conversion, all 26 ESSA Bank & Trust branches will be using the same computer banking system. We will attempt to use our stock holding company structure, to expand our market footprint through *de novo* branching as well as through additional acquisitions of banks, savings institutions and other financial service providers in our primary market area. We will also consider establishing *de novo* branches or acquiring additional financial institutions in contiguous counties. We will continue to review and assess locations for new branches both within Monroe County and the contiguous counties around Monroe. There can be no assurance that we will be able to consummate any new acquisitions or establish any additional new branches. We may continue to explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise, as a means of supplementing internal growth, filling gaps in our current geographic market area and expanding our customer base, product lines and internal capabilities, although we have no current plans, arrangements or understandings to make any acquisitions.

Maintaining the quality of our loan portfolio. Maintaining the quality of our loan portfolio is a key factor in managing our growth. We will continue to use customary risk management techniques, such as independent internal and external loan reviews, risk-focused portfolio credit analysis and field inspections of collateral in overseeing the performance of our loan portfolio.

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Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal and external loan reviews and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision based on changes in economic and real estate market conditions.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

Other-than-Temporary Investment Security Impairment. Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the

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determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results.

Table of Contents**Comparison of Financial Condition at September 30, 2012 and September 30, 2011**

Total Assets. Total assets increased \$321.3 million, or 29.3%, to \$1.4 billion at September 30, 2012, compared to \$1.10 billion at September 30, 2011. This increase was primarily due to the acquisition of First Star Bank which was completed on July 31, 2012. Increases in investment securities available for sale, loans receivable, goodwill, deferred income taxes and other assets were partially offset by a decrease in interest-bearing deposits with other institutions.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions decreased \$27.4 million, or 85.8%, to \$4.5 million at September 30, 2012 from \$31.9 million at September 30, 2011. The primary reason for the decrease was a decrease in the Company's interest bearing demand deposit account at the FHLB-Pittsburgh of \$27.5 million. This decrease was primarily due to the prepayment of approximately \$52.0 million of former First Star FHLBank Pittsburgh advances shortly after the completion of the First Star acquisition on July 31, 2012. The funds used to complete the prepayment came from the sale of approximately \$26.0 million of former First Star investment securities available for sale and approximately \$26.0 million from cash. In addition, the Company prepaid approximately \$8.2 million of former First Star junior subordinated debt, \$10.0 million of its own repurchase agreements and \$27.0 million of its own FHLB advances during September, 2012.

Investment Securities Available for Sale. Investment securities available for sale increased \$84.2 million, or 34.3% to \$329.6 million at September 30, 2012 from \$245.4 million at September 30, 2011. The increase was due primarily to the First Star merger. The Company acquired approximately \$113.0 million of investment securities available for sale from the First Star acquisition. Approximately \$26.0 million of these securities were promptly sold and the proceeds used to help fund the prepayment of \$52.0 million of FHLBank Pittsburgh advances.

Net Loans. Net loans increased \$211.7 million, or 28.7%, to \$950.4 million at September 30, 2012 from \$738.6 million at September 30, 2011. The primary reasons for the increase were increases in residential and commercial real estate loans. Residential real estate loans increased by \$113.1 million to \$696.7 million at September 30, 2012 from \$583.6 million at September 30, 2011. Residential real estate loans acquired as part of the First Star acquisition were \$113.7 million. Commercial real estate loans increased by \$80.8 million to \$160.2 million at September 30, 2012 from \$79.4 million at September 30, 2011. Commercial and commercial real estate loans acquired from First Star were \$87.3 million.

Goodwill and Deferred Income Taxes. Goodwill increased to \$8.5 million at September 30, 2012 from \$40,000 at September 30, 2011. For the same period, deferred income taxes increased \$8.3 million to \$11.3 million from \$3.0 million. Both of these increases were due primarily to the acquisition of First Star Bank. Please refer to Footnote 18 of the Company's consolidated financial statements for additional details regarding the acquisition.

Other Assets. Other assets increased \$16.9 million, or 130.7% to \$29.8 million at September 30, 2012 from \$12.9 million at September 30, 2011. The primary reasons for the increase were increases in accounts receivable of \$6.7 million at September 30, 2012 compared to September 30, 2011 and in the Company's investment in low income tax credits of \$5.0 million for the same period. Accounts receivable increased primarily due to \$6.0 million of brokered deposits that the Company contracted for prior to September 30, 2012 but for which the funds were not received until October 1, 2012. As previously disclosed, the Company has committed approximately \$8.0 to a low income housing project of which \$7.4 million had been disbursed at September 30, 2012.

Deposits. Deposits increased by \$357.7 million, or 56.1%, to \$995.6 million at September 30, 2012 from \$637.9 million at September 30, 2011. The Company acquired \$340.1 million of deposits as a result of the First Star merger. Overall, the increases in deposits at September 30, 2012 compared to September 30, 2011 included increases in non-interest bearing demand accounts of \$8.5 million or 25.4%, NOW accounts of \$44.8 million or 68.9%, money market accounts of \$41.0 million or 35.8%, savings and club accounts of \$29.1 million or 39.8% and certificates of deposit of \$234.3 million or 66.6%. Included in the certificates of deposit was an increase of \$36.0 million or 29.7% in brokered certificates of deposit. The increase in brokered certificates of deposit was the result of the Company's decision to purchase brokered certificates based on cost compared to other available funding sources. At September 30, 2012, the Company had \$156.8 million of brokered certificates of deposit outstanding.

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Borrowed Funds. Borrowed funds, short term and other, decreased \$53.7 million or 18.6% to \$234.7 million at September 30, 2012 from \$288.4 million at September 30, 2011. Included in borrowed funds at September 30, 2012 were \$45.0 million of repurchase agreements with various financial institution third parties. Except for these borrowings, all borrowed funds are from the FHLB. The decrease in borrowed funds was primarily due to the use of cheaper funding sources to replace maturing FHLB borrowings. Additionally, as previously announced the Company prepaid \$10.0 million of longer term, higher costing repurchase agreements and \$27.0 million of FHLB borrowings during September, 2012.

Stockholders Equity. Stockholders equity increased by \$13.7 million, or 8.5% to \$175.4 million at September 30, 2012 from \$161.7 million at September 30, 2011. The primary reason for the increase was the issuance of approximately 1.2 million additional shares of ESSA Bancorp common stock as a result of the merger with First Star. As previously disclosed, the total purchase price of the First Star acquisition was \$24.6 million. As per the merger agreement, one half of the purchase price, or \$12.3 million, was paid for with ESSA Bancorp common stock.

Comparison of Operating Results for the Years Ended September 30, 2012 and September 30, 2011

Net Income. Net income decreased \$5.0 million, or 95.9%, to \$215,000 for the fiscal year ended September 30, 2012 from \$5.3 million for the fiscal year ended September 30, 2011. The decrease was primarily due to \$1.4 million in merger related costs and \$4.6 million in prepayment penalties incurred on borrowings during the year ended September 30, 2012.

Net Interest Income. Net interest income increased by \$172,000, or 0.60%, to \$29.1 million for fiscal year 2012 from \$28.9 million for fiscal year 2011.

Interest Income. Interest income decreased \$2.0 million or 4.2% to \$45.2 million for fiscal year 2012 from \$47.2 million for fiscal year 2011. The decrease resulted from a 41 basis point decrease in the overall yield on interest earning assets to 4.13% for fiscal year 2012 from 4.54% for fiscal year 2011 which decreased interest income by \$4.1 million. This decrease was partially offset by a \$55.2 million increase in average interest earning assets which had the effect of increasing interest income by \$2.1 million. The increase in average interest earning assets during 2012 compared to 2011 included increases in average loans of \$34.7 million, average investments of \$18.2 million and average other interest earning assets of \$6.6 million. These increases were partially offset by decreases in average mortgage-backed securities of \$2.2 million and regulatory stock of \$2.1 million. The average yield on loans decreased to 4.90% for the fiscal year 2012, from 5.2% for the fiscal year 2011. The average yields on investment securities decreased to 2.13% from 2.56% and the average yields on mortgage backed securities decreased to 2.61% from 3.36% for the 2012 and 2011 periods, respectively.

Interest Expense. Interest expense decreased \$2.1 million, or 11.8% to \$16.1 million for fiscal year 2012 from \$18.3 million for fiscal year 2011. The decrease resulted from a 36 basis point decrease in the overall cost of interest-bearing liabilities to 1.71% for fiscal 2012 from 2.07% for fiscal 2011 which decreased interest expense by \$2.4 million. A \$57.5 million increase in average interest-bearing liabilities had the effect of increasing interest expense by \$287,000 as borrowed funds matured and were replaced by lower cost alternatives. Average savings and club accounts increased by \$9.2 million, average NOW accounts increased \$7.0 million, average money market accounts decreased \$828,000 and average certificates of deposit increased \$75.5 million. For fiscal 2012, average borrowed funds decreased \$33.3 million over 2011. The cost of money market accounts decreased to 0.28% for fiscal year 2012 from 0.47% for fiscal year 2011. The cost of savings and club accounts decreased to 0.10% for fiscal 2012 from 0.22% for fiscal 2011. The cost of certificates of deposit decreased to 1.71% from 2.01% and the cost of borrowed funds decreased to 3.24% from 3.60% for fiscal 2012 and 2011, respectively.

Provision for Loan Losses. The Company establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an

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evaluation of these factors, the Company made a provision of \$2.6 million for fiscal year 2012 compared to a \$2.1 million provision for the 2011 fiscal year. The allowance for loan losses was \$7.3 million or 0.76% of loans outstanding at September 30, 2012, compared to \$8.2 million, or 1.09% of loans outstanding at September 30, 2011.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. Historically, the Bank's loan portfolio has consisted primarily of one-to four-family residential mortgage loans. However, our current business plan calls for increases in commercial real estate loan originations. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous commercial real estate may result in large additions to the allowance for loan losses in future periods. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary, based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Federal Reserve Board, as an integral part of its examination process, will periodically review our allowance for loan losses. This agency may require us to recognize adjustments to the allowance, based on its judgments about information available to it at the time of its examination.

Non-Interest Income. Non-interest income increased \$410,000 or 6.5%, to \$6.7 million for the year ended September 30, 2012, from \$6.3 million for the comparable 2011 period. The increase was primarily due to increases in earnings on bank-owned life insurance of \$168,000 and insurance commissions of \$387,000 which were partially offset by a decrease in the gains on the sales of loans and investments of \$156,000. Earnings on bank-owned life insurance increased during fiscal 2012 as a result of the purchase of \$7.0 million of additional bank-owned life insurance during fiscal 2011. Insurance commissions increased in fiscal 2012 because the Company's insurance subsidiary was not purchased until the third quarter of fiscal 2011.

Non-Interest Expense. Non-interest expense increased \$7.0 million, or 26.7%, to \$33.0 million for fiscal year 2012 from \$26.0 million for the comparable period in 2011. The primary reasons for the increase were the increases in merger related costs of \$1.4 million and prepayment penalties on borrowings of \$4.6 million.

Income Taxes. Income tax expense of \$33,000 was recognized for fiscal year 2012 compared to an income tax expense of \$1.9 million recognized for fiscal year 2011. The primary reason for the decline was the decline in income before income taxes of \$6.9 million.

Table of Contents**Comparison of Operating Results for the Years Ended September 30, 2011 and September 30, 2010**

Net Income. Net income increased \$746,000, or 16.5%, to \$5.3 million for the fiscal year ended September 30, 2011 from \$4.5 million for the fiscal year ended September 30, 2010. The increase was primarily the result of an increase in net interest income. This increase was partially offset by a decrease in non-interest income.

Net Interest Income. Net interest income increased by \$945,000, or 3.4%, to \$28.9 million for fiscal year 2011 from \$28.0 million for fiscal year 2010. The increase was primarily attributable to an increase of 13 basis points in the interest rate spread to 2.47% for fiscal year 2010 from 2.34% for fiscal year 2010, offset in part by a decrease in the Company's net average interest-earning assets of \$17.2 million.

Interest Income. Interest income decreased \$2.1 million or 4.2% to \$47.2 million for fiscal year 2011 from \$49.3 million for fiscal year 2010. The decrease resulted from a 37 basis point decrease in the overall yield on interest earning assets to 4.54% for fiscal year 2011 from 4.91% for fiscal year 2010 which decreased interest income by \$4.7 million. This decrease was partially offset by a \$35.4 million increase in average interest earning assets which had the effect of increasing interest income by \$2.6 million. The average balance of loans during 2011 increased \$12.2 million over the average balance during 2010, along with decreases in the average balance of investment securities of \$2.0 million and increases in mortgage-backed securities of \$24.6 million. In addition, average FHLB stock decreased \$2.1 million and the average balance of other interest earning assets increased \$2.7 million. The primary reason for the increase in mortgage backed securities was the investment of deposit and loan proceeds in excess of those needed to fund loan growth. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLB in an amount not less than 45 basis points of the outstanding FHLB member asset value plus 4.6% of its outstanding FHLB borrowings, as calculated throughout the year. On December 23, 2008, the FHLB notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice. The FHLB began repurchasing capital stock in February 2011. The increase in average other interest earning assets was the result of an increase in the average balance of interest earning deposits held by the Company in its FHLB demand account of \$2.7 million. The average yield on loans decreased to 5.2% for the fiscal year 2011, from 5.51% for the fiscal year 2010. The average yields on investment securities decreased to 2.56% from 2.72% and the average yields on mortgage backed securities decreased to 3.36% from 3.97% for the 2011 and 2010 periods, respectively.

Interest Expense. Interest expense decreased \$3.0 million, or 14.2% to \$18.3 million for fiscal year 2011 from \$21.3 million for fiscal year 2010. The decrease resulted from a 50 basis point decrease in the overall cost of interest-bearing liabilities to 2.07% for fiscal 2011 from 2.57% for fiscal 2010 which decreased interest expense by \$2.6 million. A \$52.6 million increase in average interest-bearing liabilities had the effect of decreasing interest expense by \$466,000 as borrowed funds matured and were replaced by lower cost alternatives. Average savings and club accounts increased by \$2.2 million, average NOW accounts increased \$3.0 million, average money market accounts increased \$2.4 million and average certificates of deposit increased \$139.8 million. For fiscal 2011, average borrowed funds decreased \$94.7 million over 2010. The cost of money market accounts decreased to 0.47% for fiscal year 2011 from 1.07% for fiscal year 2010. The cost of certificates of deposit decreased to 2.01% from 2.49% and the cost of borrowed funds decreased to 3.60% from 3.78% for fiscal 2011 and 2010, respectively.

Provision for Loan Losses. The Company establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, the Company made a provision of \$2.1 million for fiscal year 2011 compared to a \$2.2 million provision for the 2010 fiscal year. At September 30, 2011, the Company had 52 commercial loan relationships whose loans were judged by management to be impaired. Of these 52 relationships, five commercial real estate relationships with combined outstanding loans of \$2.4 million had an allocation of the allowance for loan loss amounting to \$466,000. Three commercial business relationships with combined loans of \$265,000 had an allocation of the allowance for loan loss amounting to \$101,000. These specific allowance allocations were also considered in the Company's evaluation for its provision for loan losses for the fiscal year ended September 30, 2011. The allowance for loan losses was \$8.2 million or 1.09% of loans outstanding at September 30, 2011, compared to \$7.4 million, or 1.01% of loans outstanding at September 30, 2010.

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Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. Historically, the Bank's loan portfolio has consisted primarily of one-to four-family residential mortgage loans. However, our current business plan calls for increases in commercial real estate loan originations. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous commercial real estate may result in large additions to the allowance for loan losses in future periods. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary, based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Federal Reserve Board, as an integral part of its examination process, will periodically review our allowance for loan losses. This agency may require us to recognize adjustments to the allowance, based on its judgments about information available to it at the time of its examination.

Non-Interest Income. Non-interest income decreased \$383,000 or 5.7%, to \$6.3 million for the year ended September 30, 2011, from \$6.7 million for the comparable 2010 period. The decrease was primarily due to decreases in gain on sale of investments, net of \$442,000 and gains on sales of loans net of \$351,000 for fiscal 2011 compared to fiscal 2010. These decreases were offset, in part, by an increase in insurance commissions of \$361,000.

Non-Interest Expense. Non-interest expense decreased \$83,000, or 0.32%, to \$26.0 million for fiscal year 2011 from \$26.1 million for the comparable period in 2010. The primary reason for the decrease was a decrease in loss on foreclosed real estate of \$1.2 million. This decrease was offset, in part, by increases in compensation and employee benefits of \$884,000 and amortization of intangible assets of \$135,000. The increase in compensation and employee benefits primarily related to new branches opened during the second and third quarters of 2010. The increase in amortization expense was due to the purchase of a benefits consulting business in the third quarter of 2011.

Income Taxes. Income tax expense of \$1.9 million was recognized for fiscal year 2011 compared to an income tax expense of \$1.8 million recognized for fiscal year 2010. The effective tax rate was 26.2% for the year ended September 30, 2011, compared to 29.0% for the 2010 period.

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Average Balances and Yields. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are monthly average balances. The yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income.

	For the Years Ended September 30,								
	Average Balance	2012 Interest Income/Expense	Yield/Cost	Average Balance	2011 Interest Income/Expense	Yield/Cost	Average Balance	2010 Interest Income/Expense	Yield/Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans ^{(1) (2)}	\$ 783,444	\$ 38,384	4.90%	\$ 748,765	\$ 38,949	5.20%	\$ 736,540	\$ 40,598	5.51%
Investment securities									
Taxable ⁽³⁾	58,643	1,116	1.90%	43,629	869	1.99%	44,148	916	2.07%
Exempt from federal income tax ^{(3) (4)}	8,731	209	3.63%	5,516	258	7.09%	7,025	315	6.79%
Total investment securities	67,374	1,325	2.13%	49,145	1,127	2.56%	51,173	1,231	2.72%
Mortgage-backed securities	209,161	5,467	2.61%	211,382	7,095	3.36%	186,748	7,421	3.97%
Regulatory stock	16,521		0.00%	18,626		0.00%	20,727		0.00%
Other	19,917	24	0.12%	13,315	5	0.04%	10,633	7	0.07%
Total interest-earning assets	1,096,417	45,200	4.13%	1,041,233	47,176	4.54%	1,005,821	49,257	4.91%
Allowance for loan losses	(7,899)			(7,967)			(6,547)		
Noninterest-earning assets	69,458			58,031			50,609		
Total assets	\$ 1,157,976			\$ 1,091,297			\$ 1,049,883		
Interest-bearing liabilities:									
NOW accounts	\$ 65,747	25	0.04%	\$ 58,795	25	0.04%	\$ 55,796	42	0.08%
Money market accounts	117,118	327	0.28%	117,946	552	0.47%	115,545	1,235	1.07%
Savings and club accounts	78,943	80	0.10%	69,732	156	0.22%	67,549	213	0.32%
Certificates of deposit	412,207	7,054	1.71%	336,668	6,754	2.01%	196,863	4,896	2.49%
Borrowed funds	266,691	8,646	3.24%	300,024	10,793	3.60%	394,772	14,920	3.78%
Total interest-bearing liabilities	940,706	16,132	1.71%	883,165	18,280	2.07%	830,525	21,306	2.57%
Non-interest bearing demand accounts	37,064			30,236			27,703		
Noninterest-bearing liabilities	14,618			11,280			10,473		
Total liabilities	992,388			924,681			868,701		
Equity	165,588			166,616			181,182		
Total liabilities and equity	\$ 1,157,976			\$ 1,091,297			\$ 1,049,883		
Net interest income		\$ 29,068			\$ 28,896			\$ 27,951	
Interest rate spread			2.42%			2.47%			2.34%
Net interest-earning assets	\$ 155,711			\$ 158,068			\$ 175,296		

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Net interest margin ⁽⁵⁾	2.65%	2.78%	2.78%
Average interest-earning assets to average interest-bearing liabilities	116.55%	117.90%	121.11%

- (1) Non-accruing loans are included in the outstanding loan balances.
- (2) Interest income on loans includes net amortized revenues (costs) on loans totaling \$1,000 in 2012, \$35,000 for 2011, and \$95,000 for 2010.
- (3) Held to maturity securities are reported as amortized cost. Available for sale securities are reported at fair value.
- (4) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.
- (5) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Table of Contents**Rate/Volume Analysis**

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Years Ended September 30, 2012 vs. 2011			For the Years Ended September 30, 2011 vs. 2010		
	Increase (Decrease) Due to		Net (In thousands)	Increase (Decrease) Due to		Net
	Volume	Rate		Volume	Rate	
Interest-earning assets:						
Loans	\$ 1,754	\$ (2,319)	\$ (565)	\$ 690	\$ (2,339)	\$ (1,649)
Investment securities	470	(272)	198	(83)	(21)	(104)
Mortgage-backed securities	(77)	(1,551)	(1,628)	1,978	(2,304)	(326)
Other	1	18	19	2	(4)	(2)
Total interest-earning assets	2,148	(4,124)	(1,976)	2,587	(4,668)	(2,081)
Interest-bearing liabilities:						
NOW accounts				(2)	(15)	(17)
Money market accounts	(4)	(221)	(225)	25	(708)	(683)
Savings and club accounts	24	(100)	(76)	7	(64)	(57)
Certificates of deposit	1,397	(1,097)	300	2,948	(1,090)	1,858
Borrowed funds	(1,130)	(1,017)	(2,147)	(3,444)	(683)	(4,127)
Total interest-bearing liabilities	287	(2,435)	(2,148)	(466)	(2,560)	(3,026)
Net change in interest income	\$ 1,861	\$ (1,689)	\$ 172	\$ 3,053	\$ (2,108)	\$ 945

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits and borrowings. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has approved guidelines for managing the interest rate risk inherent in our assets and liabilities, given our business strategy, operating environment, capital, liquidity and performance objectives. Senior management monitors the level of interest rate risk on a regular basis and the asset/liability committee meets quarterly to review our asset/liability policies and interest rate risk position. We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates.

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates and the relationship of different interest rates. To manage the impact of the rate changes, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities at approximately the same time intervals. The Company uses net interest simulation to assist in interest rate risk management. The process includes simulating various interest rate environments and their impact on net interest income. As of September 30, 2012, the level of net interest income at risk in a 200 basis points increase was within the Company's policy limit of a decline less than 10% of net interest income. Due to the inability to reduce many deposit rates by the full 200 basis points, the Company's net interest income at risk in a 100 basis point decline was within the Company's policy limit of a decline of less than 10% of net interest income.

Table of Contents**Liquidity and Capital Resources**

We maintain liquid assets at levels we consider adequate to meet both our short-term and long-term liquidity needs. We adjust our liquidity levels to fund deposit outflows, repay our borrowings and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to FHLB advances and other borrowings. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

A portion of our liquidity consists of cash and cash equivalents and borrowings, which are a product of our operating, investing and financing activities. At September 30, 2012, \$15.6 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled \$3.5 million at September 30, 2012. As of September 30, 2012, we had \$189.7 million in borrowings outstanding from the FHLB-Pittsburgh and \$45.0 million in repurchase agreements. We have access to FHLB advances of up to approximately \$577 million.

At September 30, 2012, we had \$63.5 million in loan commitments outstanding, which included \$5.6 million in undisbursed construction loans, \$32.6 million in unused home equity lines of credit and \$6.2 million in commercial lines of credit. Certificates of deposit due within one year of September 30, 2012 totaled \$270.3 million, or 46.1% of certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2012. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was \$5.3 million, \$10.2 million and \$7.4 million for the years ended September 30, 2012, 2011 and 2010, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash provided by/(used) in investing activities was \$75.4 million, \$4.1 million and \$(38.7) million in fiscal years 2012, 2011 and 2010, respectively, principally reflecting our loan and investment security activities in the respective periods along with our acquisition of First Star Bank in 2012. Investment security cash flows had the most significant effect, as net cash utilized in purchases amounted to \$92.0 million, \$96.8 million and \$143.0 million in the years ended September 30, 2012, 2011 and 2010, respectively. Cash proceeds from principal repayments, maturities and sales of investment securities amounted to \$117.5 million, \$120.9 million and \$112.0 million in the years ended September 30, 2012, 2011 and 2010, respectively. Deposit and borrowing cash flows have traditionally comprised most of our financing activities which resulted in net cash (used)/provided of \$(106.9) million in fiscal year 2012, \$16.5 million in fiscal year 2011 and \$23.6 million in fiscal year 2010. In addition, during fiscal 2011 we used \$16.9 million and in fiscal 2010 we used \$17.0 million to repurchase our stock as part of previously disclosed stock repurchase plans.

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The following table summarizes our significant fixed and determinable contractual principal obligations and other funding needs by payment date at September 30, 2012. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

Contractual Obligations	Payments Due by Period				Total
	Less than One Year	One to Three Years	Three to Five Years (In thousands)	More than Five Years	
Long-term debt	\$ 130,281	\$ 42,010	\$ 46,550	\$ 15,900	\$ 234,741
Operating leases	575	1,018	718	1,350	3,661
Certificates of deposit	270,280	209,239	94,435	12,181	586,135
Total	\$ 401,136	\$ 252,267	\$ 141,703	\$ 29,431	\$ 824,537
Commitments to extend credit	\$ 24,705	\$	\$	\$ 38,750	\$ 63,455

We also have obligations under our post retirement plan as described in note 14 to the Consolidated Financial Statements. The post retirement benefit payments represent actuarially determined future payments to eligible plan participants. We expect to contribute \$600,000 to our post retirement plan in 2013.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments, letters of credit and unused lines of credit, see note 12 of the notes to the Consolidated Financial Statements.

For fiscal year 2012, we did not engage in any off-balance-sheet transactions other than loan origination commitments and standby letters of credit in the normal course of our lending activities.

Impact of Inflation and Changing Prices

The financial statements and related notes of ESSA Bancorp, Inc. have been prepared in accordance with United States generally accepted accounting principles (GAAP). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information regarding market risk, see Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operation.

Item 8. Financial Statements and Supplementary Data

The Financial Statements are included in Part III, Item 15 of this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Principle Executive Officer and Principle Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the Evaluation Date). Based upon that evaluation, the Principle Executive Officer and Principle Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

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(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management report on internal control over financial reporting.

The management of ESSA Bancorp, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. ESSA Bancorp's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of ESSA Bancorp; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ESSA Bancorp's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As permitted, the Company has excluded the current year acquisition of First Star Bancorp, Inc. from its assessment of internal controls over financial reporting as of September 30, 2012. As discussed in Item 1 of this annual report under the caption Business and in Note 18 of the Company's consolidated financial statements included in this annual report, the Company completed its acquisition of First Star Bancorp, Inc. on July 31, 2012.

ESSA Bancorp, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of September 30, 2012, the Company's internal control over financial reporting is effective based on those criteria.

ESSA Bancorp, Inc.'s independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2012. See the Consolidated Financial Statements of ESSA Bancorp, Inc. and related notes included elsewhere in this Annual Report.

The Sarbanes-Oxley Act Section 302 Certifications have been filed with the SEC as exhibit 31.1 and exhibit 31.2 to this Annual Report on Form 10-K.

Item 9B. Other Information

Not Applicable.

Table of Contents**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding directors, executive officers and corporate governance of the Company is presented under the headings Proposal 1 Election of Directors-General, Nominees for Directors, Continuing Directors, Board Meetings and Committees, Executive Officers of Bank Who Are Not Also Directors, Corporate Governance, Code of Ethics and Business conduct and Section 16(a) Beneficial Ownership Reporting Compliance in the Company's definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be held on March 8, 2013 (the Proxy Statement) and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive compensation is presented under the headings Proposal I Election of Directors-Director Compensation, Benefit Plans and Arrangements, and Summary Compensation Table in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is presented under the heading Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement and is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information, as of September 30, 2012 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights \$	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders	1,458,379	12.35	239,711
Equity compensation plans not approved by stockholders			
Total	1,458,379	12.35	239,711

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence is presented under the heading Transactions with Certain Related Persons and Proposal II Election of Directors Director Independence in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is presented under the heading "Proposal 2 - Ratification of Appointment of Independent Registered Public Accountants" in the Proxy Statement and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The following documents are filed as part of this Form 10-K.

- (A) Report of Independent Registered Public Accounting Firm
- (B) Consolidated Balance Sheet - at September 30, 2012 and 2011
- (C) Consolidated Statement of Income - Years ended September 30, 2012, 2011 and 2010
- (D) Consolidated Statement of Changes In Stockholders Equity - Years ended September 30, 2012, 2011 and 2010
- (E) Consolidated Statement of Cash Flows - Years ended September 30, 2012, 2011 and 2010
- (F) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

- 3.1 Certificate of Incorporation of ESSA Bancorp, Inc.*
- 3.2 Bylaws of ESSA Bancorp, Inc.*
- 4 Form of Common Stock Certificate of ESSA Bancorp, Inc.*
- 10.2 Amended and Restated Employment Agreement for Gary S. Olson**
- 10.3 Amended and Restated Employment Agreement for Robert S. Howes**
- 10.4 Amended and Restated Employment Agreement for Allan A. Muto**
- 10.5 Amended and Restated Employment Agreement for Diane K. Reimer**
- 10.6 Amended and Restated Employment Agreement for V. Gail Warner**
- 10.7 Supplemental Executive Retirement Plan**
- 10.8 Endorsement Split Dollar Life Insurance Agreement for Gary S. Olson**

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10.9	Endorsement Split Dollar Life Insurance Agreement for Robert S. Howes**
10.10	ESSA Bancorp, Inc. 2007 Equity Incentive Plan****
21	Subsidiaries of Registrant
23	Consent of S.R. Snodgrass, A.C.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document***
101.SCH	XBRL Taxonomy Extension Schema Document***
101.CAL	XBRL Taxonomy Calculation Linkbase Document***

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101.DEF	XBRL Taxonomy Definition Linkbase Document***
101.LAB	XBRL Taxonomy Label Linkbase Document***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***

* Incorporated by reference to the Registration Statement on Form S-1 of ESSA Bancorp, Inc. (file no. 333-139157), originally filed with the Securities and Exchange Commission on December 7, 2006.

** Incorporated by reference to ESSA Bancorp, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2008.

*** In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

**** Incorporated by reference to Appendix A to the Proxy Statement for the Annual Meeting of Stockholders of ESSA Bancorp, Inc. (file no. 001-33384), filed by ESSA Bancorp, Inc. under the Exchange Act on April 4, 2008.

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ESSA BANCORP, INC. AND SUBSIDIARY
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SEPTEMBER 30, 2012

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Financial Statements	
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<u>Consolidated Statement of Changes in Stockholders' Equity</u>	F - 6
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**REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL
OVER FINANCIAL REPORTING**

ESSA Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of the Company, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

As permitted, the Company has excluded the current year acquisition of First Star Bancorp, Inc. from its assessment of internal control over financial reporting as of September 30, 2012. As discussed in Note 18 of the Company's consolidated financial statements, the Company completed its acquisition of First Star Bancorp, Inc. on July 31, 2012.

Management assessed the Company's system of internal control over financial reporting as of September 30, 2012, in relation to criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of September 30, 2012, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control - Integrated Framework." S.R. Snodgrass A.C., independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

/s/ Gary S. Olson
Gary S. Olson
President and Chief Executive Officer

/s/ Allan A. Muto
Allan A. Muto
Executive Vice President and Chief Financial Officer

December 14, 2012

Corporate Center: 200 Palmer Street PO Box L Stroudsburg, PA 18360-0160 570-421-0531 Fax: 570-421-7158

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL
CONTROL OVER FINANCIAL REPORTING**

We have audited ESSA Bancorp, Inc.'s internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ESSA Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As described in the Report on Management's Assessment of Internal Control Over Financial Reporting, management has excluded First Star Bancorp, Inc. from its assessment of internal control over financial reporting as of September 30, 2012, because it was acquired by ESSA Bancorp, Inc. in a purchase business combination in the fourth quarter of 2012. We have also excluded First Star Bancorp, Inc. from our audit of internal control over financial reporting.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ESSA Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ESSA Bancorp, Inc. as of September 30, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2012, and our report dated December 14, 2012, expressed an unqualified opinion.

/s/ S.R. Snodgrass, A.C.

Wexford, Pennsylvania
December 14, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENTS**

Board of Directors and Stockholders

ESSA Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of ESSA Bancorp, Inc. and subsidiary as of September 30, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2012. These consolidated financial statements are the responsibility of the ESSA Bancorp, Inc.'s management. Our responsibility is to express an opinion on these 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 ESSA Bancorp, Inc. and subsidiary as of September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ESSA Bancorp, Inc. and subsidiary's internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 14, 2012, expressed an unqualified opinion on the effectiveness of ESSA Bancorp, Inc.'s internal control over financial reporting.

/s/ S.R. Snodgrass, A.C.

Wexford, Pennsylvania
December 14, 2012

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	September 30,	
	2012	2011
	(dollars in thousands)	
ASSETS		
Cash and due from banks	\$ 11,034	\$ 9,801
Interest-bearing deposits with other institutions	4,516	31,893
Total cash and cash equivalents	15,550	41,694
Certificates of deposit	1,266	
Investment securities available for sale, at fair value	329,585	245,393
Loans receivable (net of allowance for loan losses of \$7,302 and \$8,170)	950,355	738,619
Regulatory stock, at cost	21,914	16,882
Premises and equipment, net	16,170	11,494
Bank-owned life insurance	27,848	23,256
Foreclosed real estate	2,998	2,356
Intangible assets, net	3,457	1,825
Goodwill	8,541	40
Deferred income taxes	11,336	2,993
Other assets	29,766	12,928
TOTAL ASSETS	\$ 1,418,786	\$ 1,097,480
LIABILITIES		
Deposits	\$ 995,634	\$ 637,924
Short-term borrowings	43,281	4,000
Other borrowings	191,460	284,410
Advances by borrowers for taxes and insurance	3,432	1,381
Other liabilities	9,568	8,086
TOTAL LIABILITIES	1,243,375	935,801
STOCKHOLDERS EQUITY		
Preferred stock (\$.01 par value; 10,000,000 shares authorized, none issued)		
Common stock (\$.01 par value; 40,000,000 shares authorized, 18,133,095 and 16,980,900 issued; 13,229,908 and 12,109,622 outstanding at September 30, 2012 and 2011, respectively)	181	170
Additional paid-in capital	181,220	166,758
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(10,985)	(11,438)
Retained earnings	65,181	67,215
Treasury stock, at cost; 4,903,187 and 4,871,278 shares outstanding at September 30, 2012 and 2011, respectively	(61,944)	(61,612)
Accumulated other comprehensive income	1,758	586
TOTAL STOCKHOLDERS EQUITY	175,411	161,679
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,418,786	\$ 1,097,480

See accompanying notes to the consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

	Years Ended September 30,		
	2012	2011	2010
	(dollars in thousands)		
INTEREST INCOME			
Loans receivable, including fees	\$ 38,384	\$ 38,949	\$ 40,598
Investment securities:			
Taxable	6,583	7,964	8,337
Exempt from federal income tax	209	258	315
Other investment income	24	5	7
Total interest income	45,200	47,176	49,257
INTEREST EXPENSE			
Deposits	7,486	7,486	6,386
Short-term borrowings	32	46	88
Other borrowings	8,614	10,748	14,832
Total interest expense	16,132	18,280	21,306
NET INTEREST INCOME	29,068	28,896	27,951
Provision for loan losses	2,550	2,055	2,175
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,518	26,841	25,776
NON-INTEREST INCOME			
Service fees on deposit accounts	2,871	3,019	3,191
Services charges and fees on loans	747	639	515
Trust and investment fees	905	851	842
Gain on sale of investments, net	343	778	1,220
Gain on sale of loans, net	282	3	354
Earnings on bank-owned life insurance	806	638	547
Insurance commissions	748	361	
Other	33	36	39
Total non-interest income	6,735	6,325	6,708
NON-INTEREST EXPENSE			
Compensation and employee benefits	16,284	15,865	14,981
Occupancy and equipment	3,178	3,071	2,951
Professional fees	1,368	1,488	1,491
Data processing	2,058	1,876	1,971
Advertising	415	658	626
Federal Deposit Insurance Corporation (FDIC) premiums	783	763	821
Loss on foreclosed real estate	112	35	1,200
Merger related costs	1,379		
Prepayment penalties on borrowings	4,644		
Amortization of intangible assets	436	135	

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Other	2,348	2,154	2,087
Total non-interest expense	33,005	26,045	26,128
Income before income taxes	248	7,121	6,356
Income taxes	33	1,863	1,844
NET INCOME	\$ 215	\$ 5,258	\$ 4,512
Earnings per share:			
Basic	\$ 0.02	\$ 0.46	\$ 0.36
Diluted	\$ 0.02	\$ 0.46	\$ 0.36
Dividends per share:	\$ 0.20	\$ 0.20	\$ 0.20

See accompanying notes to the consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive Income (Loss)
	Number of Shares	Amount							
Balance, September 30, 2009	14,878,620	\$ 170	\$ 162,243	\$ (12,339)	\$ 62,337	\$ (27,695)	\$ 790	\$ 185,506	
Net income					4,512			4,512	\$ 4,512
Other comprehensive loss:									
Unrealized loss on securities available for sale, net of income tax benefit of \$226							(438)	(438)	(438)
Change in unrecognized pension cost, net of income taxes of \$466							(904)	(904)	(904)
Comprehensive income									\$ 3,170
Cash dividends declared (\$.20 per share)					(2,577)			(2,577)	
Stock-based compensation			2,143					2,143	
Allocation of ESOP stock			108	448				556	
Treasury shares purchased	(1,396,008)					(17,175)		(17,175)	
Balance, September 30, 2010	13,482,612	170	164,494	(11,891)	64,272	(44,870)	(552)	171,623	
Net income					5,258			5,258	\$ 5,258
Other comprehensive income (loss):									
Unrealized gain on securities available for sale, net of income taxes of \$942							1,828	1,828	1,828
Change in unrecognized pension cost, net of income tax benefit of \$355							(690)	(690)	(690)
Comprehensive income									\$ 6,396
Cash dividends declared (\$.20 per share)					(2,315)			(2,315)	
Stock-based compensation			2,162					2,162	
Allocation of ESOP stock			102	453				555	
Treasury shares purchased	(1,372,990)					(16,742)		(16,742)	
Balance, September 30, 2011	12,109,622	170	166,758	(11,438)	67,215	(61,612)	586	161,679	
Net income					215			215	\$ 215
Other comprehensive income:									
Unrealized gain on securities available for sale, net of income taxes of \$279							541	541	541

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Change in unrecognized pension cost, net of income taxes of \$325							631	631	631
Comprehensive income									\$ 1,387
Cash dividends declared (\$.20 per share)							(2,249)	(2,249)	(2,249)
Stock-based compensation			2,151						2,151
Allocation of ESOP stock			16	453					469
Treasury shares purchased	(31,909)						(332)		(332)
First Star Bank acquisition	1,152,195	11	12,295						12,306
Balance, September 30, 2012	13,229,908	\$ 181	\$ 181,220	\$ (10,985)	\$ 65,181	\$ (61,944)	\$ 1,758	\$ 175,411	

	2012	2011	2010
Components of other comprehensive income (loss):			
Change in net unrealized gain (loss) on investment securities available for sale	\$ 315	\$ 1,315	\$ (1,243)
Realized gains included in net income, net of taxes of \$117, \$265, and \$415 in 2012, 2011, and 2010, respectively	226	513	805
Change in unrealized pension cost, net of (tax) benefit of \$(325), \$355, and \$466 in 2012, 2011, and 2010, respectively	631	(690)	(904)
Total	\$ 1,172	\$ 1,138	\$ (1,342)

See accompanying notes to the consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended September 30,		
	2012	2011	2010
	(dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 215	\$ 5,258	\$ 4,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,550	2,055	2,175
Provision for depreciation and amortization	986	1,082	1,228
Amortization and accretion of discounts and premiums, net	1,567	1,195	775
Net gain on sale of investment securities	(343)	(778)	(1,220)
Gain on sale of loans, net	(282)	(3)	(354)
Origination of mortgage loans sold	(7,966)	(97)	(13,478)
Proceeds from sale of mortgage loans originated for sale	8,248	100	13,832
Compensation expense on ESOP	469	555	556
Stock-based compensation	2,151	2,162	2,143
Decrease in accrued interest receivable	73	199	27
Decrease in accrued interest payable	(836)	(161)	(140)
Earnings on bank-owned life insurance	(806)	(638)	(547)
Deferred federal income taxes	1,825	(274)	(177)
(Increase) decrease in prepaid FDIC insurance premiums	(1,340)	699	(1,293)
Increase in accrued pension liability	379	419	575
Loss on foreclosed real estate	112	35	1,200
Amortization of identifiable intangible assets	436	135	
Other, net	(2,111)	(1,755)	(2,397)
Net cash provided by operating activities	5,327	10,188	7,417
INVESTING ACTIVITIES			
Proceeds from repayments of certificates of deposit			5,385
Purchase of certificates of deposit	(1,250)		
Investment securities available for sale:			
Proceeds from sale of investment securities	44,844	18,856	43,471
Proceeds from principal repayments and maturities	72,667	93,711	64,445
Purchases	(91,967)	(96,814)	(143,023)
Investment securities held to maturity:			
Proceeds from sale of investment securities		5,787	
Proceeds from principal repayments and maturities		2,523	4,065
Purchases		(2,001)	(10,163)
Increase in loans receivable, net	(4,353)	(13,276)	(268)
Redemption of FHLB stock	3,793	3,845	
Purchase of bank-owned life insurance	(8)	(7,000)	
Investment in limited partnership	(4,951)	(2,441)	
Proceeds from sale of foreclosed real estate	2,354	3,318	308
Capital improvements to foreclosed real estate	(30)	(46)	(71)
Purchase of insurance subsidiary		(2,025)	
Investment in insurance subsidiary	(374)		
Acquisition, net of cash acquired	55,472		
Purchase of premises, equipment, and software	(799)	(353)	(2,813)
Net cash provided by (used for) investing activities	75,398	4,084	(38,664)

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FINANCING ACTIVITIES			
Increase in deposits, net	12,044	97,514	131,555
Net increase (decrease) in short-term borrowings	39,281	(10,719)	(33,372)
Proceeds from other borrowings	23,150	38,300	20,350
Repayment of other borrowings	(177,338)	(89,247)	(75,500)
Increase (decrease) in advances by borrowers for taxes and insurance	(1,425)	(84)	88
Purchase of treasury stock shares	(332)	(16,917)	(17,000)
Dividends on common stock	(2,249)	(2,315)	(2,577)
Net cash (used for) provided by financing activities	(106,869)	16,532	23,544
Increase (decrease) in cash and cash equivalents	(26,144)	30,804	(7,703)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	41,694	10,890	18,593
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 15,550	\$ 41,694	\$ 10,890
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Cash paid:			
Interest	\$ 16,489	\$ 18,441	\$ 21,446
Income taxes	300	2,475	1,869
Noncash items:			
Transfers from loans to foreclosed real estate	2,685	3,349	926
Treasury stock payable		(175)	175
Transfers from held to maturity investments to available for sale investments		(6,442)	
Brokered certificate purchase	5,597		
Acquisition of insurance company:			
Cash paid:		(2,025)	
Acquisition of First Star Bank:			
Cash paid:	24,611		
Noncash assets acquired			
Investments available for sale	110,140		
Certificates of deposit	16		
Loans receivable	212,617		
Regulatory stock	8,825		
Premises and equipment	4,881		
Bank-owned life insurance	3,778		
Foreclosed real estate	393		
Accrued interest receivable	1,059		
Intangible assets	2,068	1,960	
Goodwill	8,127	40	
Deferred tax assets	11,760		
Other assets	1,702		
	365,366	2,000	
Liabilities assumed:			
Certificates of deposit	221,442		
Deposits other than certificates of deposit	118,627		
Borrowings	61,238		
Advances by borrowers for taxes and insurance	3,476		
Accrued interest payable	479		
Other liabilities	3,270		
	408,532		
Net Noncash Assets Acquired	(43,166)	2,000	
Cash Acquired	67,777		

See accompanying notes to the consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank's wholly owned subsidiaries, ESSACOR Inc.; Pocono Investments Company; ESSA Advisory Services, LLC; Integrated Financial Corporation; Integrated Delaware, Inc. and Integrated Abstract Incorporated, a wholly owned subsidiary of Integrated Financial Corporation. The primary purpose of the Company is to act as a holding company for the Bank. The Company is subject to regulation and supervision as a savings and loan holding company by the Federal Reserve Board. The Bank is a Pennsylvania-chartered savings association located in Stroudsburg, Pennsylvania. The Bank's primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Banking Department and the Federal Deposit Insurance Corporation. The investment in subsidiary on the parent company's financial statements is carried at the parent company's equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania Corporation that provided investment advisory services to the general public as a former subsidiary of First Star. The Company acquired First Star Bank in a transaction that closed on July 31, 2012. Integrated Financial Corporation is currently inactive. Integrated Delaware, Inc. is a Delaware Investment Corporation and was previously owned by First Star Bank. Integrated Abstract Incorporated is a Pennsylvania Corporation that provides title insurance services. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiary and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

Securities

The Company determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. During the year ended September 30, 2011, the Company decided to change its intent to hold securities in the held-to-maturity portfolio until maturity. In accordance with existing accounting guidance, the remaining securities in held to maturity were transferred to and accounted for as available for sale.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities (Continued)

Securities classified as available for sale are those securities that the Company 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 maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of the related deferred tax effects. 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 period to maturity.

Declines in the fair value of 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, the Company 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 Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

Loans Receivable

Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Mortgage loans sold in the secondary market are sold without recourse.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or the Company 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 is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to the Company's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current and 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.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans Acquired

Loans acquired including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Loans Acquired (Continued)**

cash flows) with no valuation allowance. Loans are evaluated individually to determine if there is evidence of deterioration of credit quality since origination. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the accretable yield, is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the non-accretable difference, are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. Any valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Company records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

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 by management which represents the evaluation of known and inherent risks in the loan portfolio at the consolidated balance sheet date. Management's periodic evaluation of the adequacy of the allowance is based on the Company'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, since it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans 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 nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring. 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

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Allowance for Loan Losses (Continued)**

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 the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

Federal Home Loan Bank Stock

The Company is a member of the Federal Home Loan Bank System and holds stock in the Federal Home Loan Bank (FHLB) of Pittsburgh. As a member, the Company maintains an investment in the capital stock of the FHLB of Pittsburgh in an amount not less than 35 basis points of the outstanding member asset value plus 4.6 percent of its outstanding FHLB borrowings, as calculated throughout the year. The equity security is accounted for at cost and classified separately on the Consolidated Balance Sheet. The stock is bought from and sold to the Federal Home Loan Bank based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted (b) Commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) The impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank and (d) The liquidity position of the Federal Home Loan Bank.

While the Federal Home Loan Banks have been negatively impacted by the current economic conditions, the Federal Home Loan Bank of Pittsburgh has reported profits for 2011, remains in compliance with regulatory capital and liquidity requirements, and continues to make redemptions at the par value. With consideration given these factors, management concluded that the stock was not impaired at September 30, 2012.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon a third-party appraisal. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. The Company's loan servicing assets at September 30, 2012 and 2011, were not impaired. Total servicing assets included in other assets as of September 30, 2012 and 2011, were \$365,000 and \$248,000, respectively.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Premises and Equipment**

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the useful lives of the related assets, which range from 10 to 40 years for buildings, land improvements, and leasehold improvements and 3 to 7 years for furniture, fixtures, and equipment. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance (BOLI)

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increase in cash surrender value is recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit which would be recorded as non-interest income.

Foreclosed Real Estate

Real estate owned acquired in settlement of foreclosed loans is carried at fair value minus estimated costs to sell. Valuation allowances for estimated losses are provided when the carrying value of the real estate acquired exceeds fair value minus estimated costs to sell. Operating expenses of such properties, net of related income, are expensed in the period incurred.

Goodwill and Intangible Assets

Goodwill is not amortized, but it is tested at least annually for impairment, in the fourth quarter or more frequently if indicators of impairment are present. If the estimated current fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. The Company uses market capitalization and multiples of tangible book value methods to determine the estimated current fair value of its reporting unit. Based on this analysis, no impairment was recorded in 2012 or 2011.

The other intangibles are assigned useful lives, which are amortized on an accelerated basis over their weighted average lives. The Company periodically review the intangible asset for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

The following tables provide information for the carrying amount of goodwill and intangible assets.

Goodwill	2012	2011
Balance at beginning of year	\$ 40	\$
Goodwill acquired	8,501	40
Balance at end of year	\$ 8,541	\$ 40

Intangibles	2012	2011
Balance at beginning of year	\$ 1,825	\$
Intangible assets acquired	2,068	1,960
Amortization	(436)	(135)
Balance at end of year	\$ 3,457	\$ 1,825

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Goodwill and Intangible Assets (Continued)**

Amortizable intangible assets were composed of the following:

		September 30,	
		2012	2011
	Gross Carrying Amount (Dollar amounts in thousands)	Accumulated Amortization	
Customer data	\$ 2,408	\$ 283	\$ 71
Employment obligations	1,620	288	64
	\$ 4,028	\$ 571	\$ 135

	2012	2011
Aggregate amortization expense: For the years ended September 30	436	135
Estimated amortization expense:		

2013	\$ 991,000
2014	870,000
2015	477,000
2016	382,000
2017	267,000
2018	180,000
2019	81,000
2020	81,000
2021	78,000
2022	50,000
	\$ 3,457,000

Employee Benefit Plans

The Bank maintains a noncontributory, defined benefit pension plan for all employees who have met age and length of service requirements. The Bank's funding policy is to contribute annually up to the maximum amount that can be deducted for federal income tax purposes. The Bank also maintains a defined contribution Section 401(k) plan covering eligible employees. Contributions matching those made by eligible employees and an elective contribution are made annually at the discretion of the Board of Directors. The Company created an ESOP for the benefit of employees who meet certain eligibility requirements. The Company makes cash contributions to the ESOP on an annual basis.

The Company maintains an Equity Incentive Plan to provide for issuance or granting of shares of common stock for stock options or restricted stock. The Company has recorded stock-based employee compensation cost using the fair value method as allowed under generally accepted accounting principles. Management estimated the fair values of all option grants using the Black-Scholes option-pricing model. Management estimated the expected life of the options using the simplified method as allowed under generally accepted accounting principles. The risk-free

rate was determined utilizing the treasury yield for the expected life of the option contract.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

In accordance with generally accepted accounting principles, the Company expenses all advertising expenditures incurred.

Transfers of Financial Assets

Transfers of financial assets 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 Company; (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred tax assets and liabilities are reflected based on the differences between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expense and benefit are based on the changes in the deferred tax assets or liabilities from period to period. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which such items are expected to be realized or settled. As changes in tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return and individual state income tax returns.

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Accounting literature also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. In accordance with generally accepted accounting principles, interest or penalties incurred for income taxes will be recorded as a component of other expenses.

Cash and Cash Equivalents

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits with other institutions with original maturities of less than 90 days.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported as the numerator and average shares outstanding as the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any options are adjusted for in the denominator.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Comprehensive Income (Loss)**

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed of net unrealized holding gains or losses on its available-for-sale investment and mortgage-backed securities portfolio, as well as changes in unrecognized pension cost.

The components of accumulated other comprehensive income, net of tax, as of year-end were as follows:

	2012	2011	2010
Net unrealized gain on securities available for sale	\$ 6,208	\$ 5,667	\$ 3,839
Net unrecognized pension cost	(4,450)	(5,081)	(4,391)
Total	\$ 1,758	\$ 586	\$ (552)

Fair Value Measurements

We group our assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level I Valuation is based upon quoted prices for identical instruments traded in active markets.

Level II Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in generally accepted accounting principles.

Fair value measurements for most of our assets are obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid, and other market information. Subsequently, all of our financial instruments use either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. In certain cases, however, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of financial instruments. The degree of management judgment involved in determining the fair value of financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including

discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Reclassification of Comparative Amounts**

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect consolidated net income or consolidated stockholders' equity.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has presented the necessary disclosures in Note 16, herein.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

In September 2011, the FASB issued ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan*. The amendments in this Update will require additional disclosures about an employer's participation in a multiemployer pension plan to enable users of financial statements to assess the potential cash flow implications relating to an employer's participation in multiemployer pension plans. The disclosures also will indicate the financial health of all of the significant plans in which the employer participates and assist a financial statement user to access additional information that is available outside the financial statements. For public entities, the amendments in this Update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for annual periods of fiscal years ending after December 15, 2012, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. This ASU did not have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification*. The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05.

Table of Contents**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recent Accounting Pronouncements (Continued)**

All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This ASU is not expected to have a significant impact on the Company's financial statements.

2. EARNINGS PER SHARE

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ended September 30, 2012, 2011, and 2010.

	2012	2011	2010
Weighted-average common shares outstanding	17,172,932	16,980,900	16,980,900
Average treasury stock shares	(4,882,611)	(4,089,417)	(2,736,207)
Average unearned ESOP shares	(1,109,012)	(1,154,272)	(1,199,548)
Average unearned nonvested shares	(130,626)	(249,296)	(368,008)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	11,050,683	11,487,915	12,677,137
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share			
Additional common stock equivalents (stock options) used to calculate diluted earnings per share			
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	11,050,683	11,487,915	12,677,137

At September 30, 2012, there were 76,716 shares of nonvested stock outstanding at a price of \$12.35 per share and options to purchase 1,458,379 shares of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2011, there were 195,262 shares of nonvested stock outstanding at a price of \$12.35 per share and options to purchase 1,458,379 shares of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2010, there were 313,288 shares of nonvested stock outstanding at a price of \$12.35 per share and options to purchase 1,458,379 shares of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

Table of Contents**3. INVESTMENT SECURITIES**

The amortized cost and fair value of investment securities available for sale are summarized as follows (in thousands):

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	\$ 111,145	\$ 4,652	\$ (3)	\$ 115,794
Freddie Mac	48,913	1,952	(11)	50,854
Governmental National Mortgage Association	43,164	803	(16)	43,951
Other mortgage-backed securities	5,043	162		5,205
Total mortgage-backed securities	208,265	7,569	(30)	215,804
Obligations of states and political subdivisions	18,611	906		19,517
U.S. government agency securities	74,106	379	(1)	74,484
Corporate obligations	8,602	146	(91)	8,657
Trust-preferred securities	5,852	382	(1)	6,233
Other debt securities	1,476	36		1,512
Total debt securities	316,912	9,418	(123)	326,207
Equity securities - financial services	3,267	111		3,378
Total	\$ 320,179	\$ 9,529	\$ (123)	\$ 329,585

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	\$ 118,945	\$ 4,618	\$ (11)	\$ 123,552
Freddie Mac	47,449	2,207		49,656
Governmental National Mortgage Association	30,247	802	(48)	31,001
Total mortgage-backed securities	196,641	7,627	(59)	204,209
Obligations of states and political subdivisions	13,760	789	(50)	14,499
U.S. government agency securities	21,797	289	(3)	22,083
Corporate obligations	4,598	26	(40)	4,584
Total debt securities	236,796	8,731	(152)	245,375
Equity securities - financial services	11	7		18
Total	\$ 236,807	\$ 8,738	\$ (152)	\$ 245,393

Table of Contents**3. INVESTMENT SECURITIES (Continued)**

The amortized cost and fair value of debt securities at September 30, 2012, 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 (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 3,460	\$ 3,474
Due after one year through five years	65,136	65,690
Due after five years through ten years	49,499	51,110
Due after ten years	198,817	205,933
Total	\$ 316,912	\$ 326,207

For the years ended September 30, 2012, 2011, and 2010, the Company realized gross gains of \$343,000, 792,000, and \$1,220,000, and gross losses of \$0, \$14,000 and \$0, respectively, and proceeds from the sale of investment securities of \$44,844,000, \$24,643,000, and \$43,471,000 respectively. During the fourth quarter of 2012, the Company sold \$26.7 million of investment securities which were acquired in the merger with First Star Bank. The Company realized no gain or loss from the sale of these securities.

Investment securities with carrying values of \$22,832,000 and \$25,258,000 at September 30, 2012 and 2011, respectively, were pledged to secure public deposits and other purposes as required by law. Securities sold under agreements to repurchase and other borrowings are secured by U.S. government agency and mortgage-backed securities with a carrying value of \$56,947,000 and \$70,270,000 at September 30, 2012 and 2011, respectively.

4. UNREALIZED LOSSES ON SECURITIES

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (in thousands):

	Number of Securities	2012		2012		Total	
		Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	\$ 4,083	\$ (3)	\$	\$	\$ 4,083	\$ (3)
Freddie Mac	1	2,002	(11)			2,002	(11)
Governmental National Mortgage Association securities	5	6,090	(16)			6,090	(16)
U.S. government agency securities	1	999	(1)			999	(1)
Corporate obligations	5	1,059	(25)	1,434	(66)	2,493	(91)
Trust-preferred securities	1	998	(1)			998	(1)
Total	16	\$ 15,231	\$ (57)	\$ 1,434	\$ (66)	\$ 16,665	\$ (123)

Table of Contents**4. UNREALIZED LOSSES ON SECURITIES (Continued)**

	Number of Securities	Less than Twelve Months		2011 Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	\$ 5,156	\$ (11)	\$	\$	\$ 5,156	\$ (11)
Governmental National Mortgage Association securities	4	2,723	(11)	4,440	(37)	7,163	(48)
Obligations of states and political subdivisions	2	1,403	(50)			1,403	(50)
U.S. government agency securities	2	3,045	(3)			3,045	(3)
Corporate obligations	3	1,460	(40)			1,460	(40)
Total	14	\$ 13,787	\$ (115)	\$ 4,440	\$ (37)	\$ 18,227	\$ (152)

The Company's investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, corporate obligations, and debt obligations of a U.S. state or political subdivision.

The Company reviews its position quarterly and has asserted that at September 30, 2012 and 2011, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio at September 30, 2012, is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period. The Company has concluded that any impairment of its investment securities portfolio at September 30, 2012 and 2011, is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

5. LOANS RECEIVABLE

Included in the 2012 balances are loans acquired from First Star Bank, as of the acquisition date as follows:

Real estate loans:	
Residential	\$ 113,697
Commercial real estate	
Commercial	87,281
Obligations of states and political subdivisions	
Home equity loans and lines of credit	10,627
Other	525
Total loans	\$ 212,130

Table of Contents**5. LOANS RECEIVABLE (Continued)**

Loans receivable consist of the following (in thousands):

	2012	2011
Real estate loans:		
Residential	\$ 696,696	\$ 583,599
Construction	3,805	691
Commercial	160,192	79,362
Commercial	12,818	14,766
Obligations of states and political subdivisions	33,736	25,869
Home equity loans and lines of credit	47,925	40,484
Other	2,485	2,018
	957,657	746,789
Less allowance for loan losses	7,302	8,170
Net loans	\$ 950,355	\$ 738,619

Purchased loans acquired in a business combination are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

Upon acquisition, the Company evaluated whether each acquired loan (regardless of size) was within the scope of ASC 310-30, *Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. There were no material increases or decreases in the expected cash flows of these loans between July 31, 2012 (the acquisition date) and September 30, 2012. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was \$7.5 million at September 30, 2012.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquired in the First Star acquisition was \$12.9 million and the estimated fair value of the loans was \$7.3 million. Total contractually required payments on these loans, including interest, at the acquisition date was \$13.9 million. However, the Company's preliminary estimate of expected cash flows was \$8.8 million. At such date, the Company established a credit risk related non-accretable discount (a discount representing amounts which are not expected to be collected from the customer nor liquidation of collateral) of \$5.1 million relating to these impaired loans, reflected in the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount of \$1.4 million on the acquisition date relating to these impaired loans.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

The carrying value of the loans acquired and accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, was determined by projecting discounted contractual cash flows. The table below presents the components of the purchase accounting adjustments related to the purchased impaired loans acquired in the First Star acquisition as of July 31, 2012:

Unpaid principal balance	\$ 12,922
Interest	968
Contractual cash flows	13,890
Non-accretable discount	(5,137)
Expected cash flows	8,753
Accretable discount	(1,432)
Estimated fair value	\$ 7,321

Changes in the accretable yield for purchased credit-impaired loans were as follows, since acquisition, for the period ended September 30, 2012.

Balance at acquisition	\$ 1,432
Accretion	(334)
Balance at end of period	\$ 1,098

	July 31, 2012 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)	September 30, 2012 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)
Outstanding Balance	12,922	12,527
Carrying Amount	7,321	7,500

There has been no allowance for loan losses recorded for acquired loans with or without specific evidence of deterioration in credit quality as of July 31, 2012, or September 30, 2012. In addition, there has been no allowance for loan losses reversed.

Loans serviced by the Company for others amounted to \$82,263,000 and \$37,519,000, at September 30, 2012, and 2011, respectively.

The Company's primary business activity is with customers located within its local trade area. Commercial, residential, and consumer loans are granted. The Company also funds commercial and residential loans originated outside its immediate trade area provided such loans meet the Company's credit policy guidelines. Although the Company has a diversified loan portfolio at September 30, 2012 and 2011, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

At September 30, 2012, 2011, and 2010, the Company had nonaccrual loans of \$23,707,000, \$10,971,000, and \$10,516,000, respectively. Additional interest income that would have been recorded under the original terms of the loan agreements amounted to \$592,000, \$615,000, and \$509,000, for the years ended September 30, 2012, 2011, and 2010, respectively.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

Impaired loans for the year ended September 30 are summarized as follows (in thousands):

	2012	2011	2010
Impaired loans with a related allowance	\$ 4,368	\$ 5,630	\$ 2,965
Impaired loans without a related allowance	29,103	12,589	5,110
Related allowance for loan losses	952	1,160	429
Average recorded balance of impaired loans	22,393	10,718	7,977
Interest income recognized	649	109	

The following table shows the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated:

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2012				
Real estate loans:				
Residential	\$ 696,696	\$ 7,942	\$ 271	\$ 688,483
Construction	3,805			3,805
Commercial	160,192	17,415	6,159	136,618
Commercial loans	12,818	423	1,007	11,388
Obligations of states and political subdivisions	33,736			33,736
Home equity loans and lines of credit	47,925	191	44	47,690
Other loans	2,485		19	2,466
Total	957,657	25,971	7,500	924,186

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2011				
Real estate loans:				
Residential	\$ 583,599	\$ 5,441	\$	\$ 578,158
Construction	691			691
Commercial	79,362	11,916		67,446
Commercial loans	14,766	490		14,276
Obligations of states and political subdivisions	25,869			25,869
Home equity loans and lines of credit	40,484	314		40,170
Other loans	2,018	58		1,960
Total	746,789	18,219		728,570

The Company maintains a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral, and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2012					
With no specific allowance recorded:					
Real estate loans:					
Residential	\$ 5,182	\$ 5,177	\$	\$ 4,687	\$ 82
Construction					
Commercial	22,290	22,341		13,584	457
Commercial	1,386	1,385		581	28
Obligations of states and political subdivisions					
Home equity loans and lines of credit	226	226		238	
Other	19	19		25	
Subtotal	29,103	29,148		19,115	567
With an allowance recorded:					
Real estate loans:					
Residential	3,031	3,030	661	1,892	68
Construction					
Commercial	1,284	1,286	270	1,326	13
Commercial	44	44	12	47	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	9	9	9	13	1
Other					
Subtotal	4,368	4,369	952	3,278	82
Total:					
Real estate loans:					
Residential	8,213	8,207	661	6,579	150
Construction					
Commercial	23,574	23,627	270	14,910	470
Commercial	1,430	1,429	12	628	28
Obligations of states and political subdivisions					
Home equity loans and lines of credit	235	235	9	251	1
Other	19	19		25	

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Subtotal	\$ 33,471	\$ 33,517	\$ 952	\$ 22,393	\$ 649
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Table of Contents**5. LOANS RECEIVABLE (Continued)**

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011					
With no specific allowance recorded:					
Real estate loans:					
Residential	\$ 2,623	\$ 2,621	\$	\$ 3,397	\$
Construction					
Commercial	9,557	9,501		3,375	41
Commercial	225	220		123	5
Obligations of states and political subdivisions					
Home equity loans and lines of credit	126	126		95	
Other	58	58		58	
Subtotal	12,589	12,526		7,048	46
With an allowance recorded:					
Real estate loans:					
Residential	2,818	2,811	475	2,257	
Construction					
Commercial	2,359	2,297	466	1,279	60
Commercial	265	263	101	36	3
Obligations of states and political subdivisions					
Home equity loans and lines of credit	188	188	118	98	
Other					
Subtotal	5,630	5,559	1,160	3,670	63
Total:					
Real estate loans:					
Residential	5,441	5,432	475	5,654	
Construction					
Commercial	11,916	11,798	466	4,654	101
Commercial	490	483	101	159	8
Obligations of states and political subdivisions					
Home equity loans and lines of credit	314	314	118	193	
Other	58	58		58	
Subtotal	\$ 18,219	\$ 18,085	\$ 1,160	\$ 10,718	\$ 109

Table of Contents**5. LOANS RECEIVABLE (Continued)**

The Company uses a ten-point internal risk-rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as Pass-rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death, occurs to raise awareness of a possible credit event. The Company's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Company's Commercial Loan Officers perform an annual review of all commercial relationships \$250,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Company engages an external consultant to conduct loan reviews on at least a semiannual basis. Generally, the external consultant reviews commercial relationships greater than \$500,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of September 30, 2012 and 2011 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2012					
Commercial real estate loans	\$ 132,841	\$ 5,502	\$ 21,849	\$	\$ 160,192
Commercial	12,035	360	423		12,818
Obligations of states and political subdivisions	33,736				33,736
Total	\$ 178,612	\$ 5,862	\$ 22,272	\$	\$ 206,746

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2011					
Commercial real estate loans	\$ 65,214	\$	\$ 13,682	\$ 466	\$ 79,362
Commercial	13,781	48	806	131	14,766
Obligations of states and political subdivisions	25,869				25,869
Total	\$ 104,864	\$ 48	\$ 14,488	\$ 597	\$ 119,997

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or nonperforming.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

For residential real estate loans, construction loans, home equity loans and lines of credit, and other consumer loans, the Company evaluates credit quality based on the performance of the individual credits. The following table presents the recorded investment in the loan classes based on payment activity as of September 30, 2012 and September 30, 2011 (in thousands):

	Performing	Nonperforming	Total
September 30, 2012			
Real estate loans:			
Residential	\$ 686,160	\$ 10,536	\$ 696,696
Construction	3,805		3,805
Home equity loans and lines of credit	47,552	373	47,925
Other	2,466	19	2,485
Total	\$ 739,983	\$ 10,928	\$ 750,911

	Performing	Nonperforming	Total
September 30, 2011			
Real estate loans:			
Residential	\$ 576,745	\$ 6,854	\$ 583,599
Construction	691		691
Home equity loans and lines of credit	40,236	248	40,484
Other	1,957	61	2,018
Total	\$ 619,629	\$ 7,163	\$ 626,792

The Company further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of September 30, 2012 and 2011 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Non- Accrual	Total Past Due	Total Loans
September 30, 2012							
Real estate loans:							
Residential	\$ 681,222	\$ 3,664	\$ 1,274	\$	\$ 10,536	\$ 15,474	\$ 696,696
Construction	3,805						3,805
Commercial	142,277	3,658	3,348		10,909	17,915	160,192
Commercial	10,948				1,870	1,870	12,818
Obligations of states and political subdivisions	33,736						33,736
Home equity loans and lines of credit	46,967	447	138		373	958	47,925
Other	2,452	14			19	33	2,485
Total	\$ 921,407	\$ 7,783	\$ 4,760	\$	\$ 23,707	\$ 36,250	\$ 957,657

Table of Contents**5. LOANS RECEIVABLE (Continued)**

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Non- Accrual	Total Past Due	Total Loans
September 30, 2011							
Real estate loans:							
Residential	\$ 573,229	\$ 2,588	\$ 928	\$	\$ 6,854	\$ 10,370	\$ 583,599
Construction	691						691
Commercial	75,438	422			3,502	3,924	79,362
Commercial	14,459		1		306	307	14,766
Obligations of states and political subdivisions	25,869						25,869
Home equity loans and lines of credit	39,952	97	187		248	532	40,484
Other	1,950	5	2		61	68	2,018
Total	\$ 731,588	\$ 3,112	\$ 1,118	\$	\$ 10,971	\$ 15,201	\$ 746,789

The allowance for loan losses (ALL) is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. The allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral, and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of September 30, 2012, is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

Table of Contents**5. LOANS RECEIVABLE (Continued)**

In addition, the Office of Thrift Supervision (OTS) and the Pennsylvania Department of Banking, as an integral part of their examination process, have periodically reviewed our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on their analysis and review of information available to it at the time of their examination.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged-off against the ALL.

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2012 (in thousands):

	Real Estate Loans		Commercial	Loans	Political States and Subdivisions	Obligations of Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
ALL balance at September 30, 2010	4,462	15	1,556	204		569	22	620	7,448
Charge-offs	(1,175)			(131)		(188)	(4)		(1,498)
Recoveries	146			2		14	3		165
Provision	1,787	(7)	(301)	425	74	227	59	(209)	2,055
ALL balance at September 30, 2011	5,220	8	1,255	500	74	622	80	411	8,170
September 30, 2011	5,220	8	1,255	500	74	622	80	411	8,170
Charge-offs	(2,366)		(987)	(31)		(393)			(3,777)
Recoveries	291		7	26		35			359
Provision	2,256	21	424	(21)	53	235	(58)	(360)	2,550
ALL balance at September 30, 2012	5,401	29	699	474	127	499	22	51	7,302
Individually evaluated for impairment	661		270	12		9			952
Collectively evaluated for impairment	4,740	29	429	462	127	490	22	51	6,350
ALL balance at September 30, 2012	5,401	29	699	474	127	499	22	51	7,302
Individually evaluated for impairment	475		466	101		118			1,160
Collectively evaluated for impairment	4,745	8	789	399	74	504	80	411	7,010
ALL balance at September 30, 2011	5,220	8	1,255	500	74	622	80	411	8,170

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated increased provisions to the residential real estate, commercial and home equity loans, and lines of credit segments for the year ended September 30, 2012, due to increased charge-off activity in those segments. The Company allocated decreased allowance for loan loss provisions to the commercial real estate segment due to actual loss experience being less than previously estimated. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

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5. LOANS RECEIVABLE (Continued)

The following is a summary of troubled debt restructuring granted during the past year.

	For the Year Ended September 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled Debt Restructurings</u>			
Real estate loans:			
Residential	20	\$ 3,365	\$ 3,281
Construction			
Commercial	10	3,165	3,102
Commercial	3	217	162
Obligations of states and political subdivisions			
Home equity loans and lines of credit	2	5	4
Other			
Total	35	\$ 6,752	\$ 6,549

The following is a summary of troubled debt restructurings that have subsequently defaulted within one year of modification.

	For the Year Ended September 30, 2012	
	Number of Contracts	Recorded Investment
<u>Troubled Debt Restructurings</u>		
Real estate loans:		
Residential		\$
Construction		
Commercial	1	41
Commercial	1	31
Obligations of states and political subdivisions		
Home equity loans and lines of credit		
Other		
Total	2	\$ 72

Table of Contents**6. PREMISES AND EQUIPMENT**

Premises and equipment consist of the following (in thousands):

	2012	2011
Land and land improvements	\$ 5,001	\$ 3,932
Buildings and leasehold improvements	14,772	11,080
Furniture, fixtures, and equipment	9,003	8,464
Construction in process	234	
	29,010	23,476
Less accumulated depreciation	(12,840)	(11,982)
Total	\$ 16,170	\$ 11,494

Depreciation expense amounted to \$885,000, \$920,000, and \$1,037,000, for the years ended September 30, 2012, 2011, and 2010, respectively.

7. DEPOSITS

Deposits and their respective weighted-average interest rates consist of the following major classifications (in thousands):

	2012		2011	
	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount
Non-interest-bearing demand accounts	%	\$ 41,767	%	\$ 33,296
NOW accounts	0.05	109,923	0.03	65,074
Money market accounts	0.30	155,666	0.28	114,617
Savings and club accounts	0.06	102,143	0.10	73,058
Certificates of deposit	1.46	586,135	1.93	351,879
Total	0.92%	\$ 995,634	1.13%	\$ 637,924

Table of Contents**7. DEPOSITS (Continued)**

	2012		2011	
	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount
Certificates of deposit:				
0.00 - 2.00%	0.93%	\$ 423,426	1.08%	\$ 187,823
2.01 - 4.00%	2.72	150,692	2.64	143,077
4.01 - 6.00%	4.46	12,017	4.68	20,979
Total	1.46%	\$ 586,135	1.93%	\$ 351,879

At September 30 scheduled maturities of certificates of deposit are as follows (in thousands):

2013	\$ 270,280
2014	113,574
2015	95,665
2016	57,909
2017	36,526
2018 and thereafter	12,181
Total	\$ 586,135

Brokered deposits totaled \$156,823,000 and \$120,871,000 at September 30, 2012 and 2011, respectively. The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 were \$366,947,000 at September 30, 2012.

The scheduled maturities of certificates of deposit in denominations of \$100,000 or more as of September 30, 2012, are as follows (in thousands):

Within three months	\$ 55,751
Three through six months	33,508
Six through twelve months	49,438
Over twelve months	228,250
Total	\$ 366,947

Table of Contents**7. DEPOSITS (Continued)**

A summary of interest expense on deposits for the years ended is as follows (in thousands):

	2012	2011	2010
NOW accounts	\$ 24	\$ 25	\$ 42
Money market accounts	326	551	1,235
Savings and club accounts	80	156	213
Certificates of deposits	7,056	6,754	4,896
Total	\$ 7,486	\$ 7,486	\$ 6,386

8. SHORT-TERM BORROWINGS

As of September 30, 2012 and 2011, the Company had \$43,281,000 and \$4,000,000 of short-term borrowings, respectively, of which \$20,281,000 and \$0, respectively, were advances on a \$75,000,000 line of credit with the FHLB.

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans that are owned by the Company free and clear of any liens or encumbrances. At September 30, 2012, the Company had a borrowing limit of approximately \$577 million, with a variable rate of interest, based on the FHLB's cost of funds.

The following table sets forth information concerning short-term borrowings (in thousands):

	2012	2011	2010
Balance at year-end	\$ 43,281	\$ 4,000	\$ 14,719
Maximum amount outstanding at any month-end	43,281	28,086	61,013
Average balance outstanding during the year	11,712	6,439	22,947
Weighted-average interest rate:			
As of year-end	0.30%	0.22%	0.65%
Paid during the year	0.27%	0.71%	0.38%

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expenses divided by the related average balance.

9. OTHER BORROWINGS

The following table presents contractual maturities of FHLB long-term advances and securities sold under agreements to repurchase (in thousands):

Description	Maturity Range		Weighted-Average Interest Rate	Stated Interest Rate Ranged		2012	2011
	From	To		From	To		
Convertible	12/5/2018	12/5/2018	3.30%	3.30%	3.30%	\$ 5,000	\$ 38,000
Fixed rate	11/19/2012	6/10/2019	2.59	0.90	5.05	133,960	160,010

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Mid-term	12/10/2012	6/13/2014	1.09	0.83	1.86	7,500	26,400
Securities sold under agreements to repurchase	11/28/2012	4/6/2014	3.53	2.63	4.01	45,000	60,000
Total						\$ 191,460	\$ 284,410

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Table of Contents**9. OTHER BORROWINGS (Continued)**

Maturities of FHLB long-term advances and securities sold under agreements to repurchase are summarized as follows (in thousands):

Year Ending September 30,	Amount	Weighted-Average Rate
2013	\$ 87,000	3.57%
2014	33,710	2.74
2015	8,300	2.69
2016	26,300	1.47
2017	20,250	1.51
2018 and thereafter	15,900	2.22
Total	\$ 191,460	2.77%

Included above is one convertible note for \$5,000,000 which is convertible to a variable-rate advance on specific dates at the discretion of the FHLB. Should the FHLB convert this advance, the Bank has the option of accepting the variable rate or repaying the advance without penalty.

The FHLB long-term advances are secured by qualifying assets of the Bank, which include the FHLB stock, securities, and first-mortgage loans.

Included in other borrowings are sales of securities under repurchase agreements. Repurchase agreements are treated as financings with the obligations to repurchase securities sold reflected as a liability in the balance sheet. The dollar amount of securities underlying the agreements remains recorded as an asset, although the securities underlying the agreements are delivered to the brokers who arranged the transactions.

Securities sold under agreements to repurchase and other borrowings are secured by U.S. government mortgage-backed securities with a carrying value of \$56,947,000 and \$70,270,000 at September 30, 2012 and 2011, respectively.

Table of Contents**10. INCOME TAXES**

The provision for income taxes consists of (in thousands):

	2012	2011	2010
Current:			
Federal	\$ (1,807)	\$ 2,130	\$ 2,003
State	15	7	18
Total current taxes	(1,792)	2,137	2,021
Deferred income tax benefit	1,825	(274)	(177)
Total income tax provision	\$ 33	\$ 1,863	\$ 1,844

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2012	2011
Deferred tax assets:		
Allowance for loan losses	\$ 2,515	\$ 3,167
Charitable contributions carryover	12	3,096
Employee benefit plan	2,292	2,617
Investment losses subject to Section 382 limitation	5,895	
Purchase accounting adjustment	2,287	
Premises and equipment		11
Other	3,447	1,576
Total gross deferred tax assets	16,448	10,467
Valuation allowance		(2,883)
Total net deferred tax assets	16,448	7,584
Deferred tax liabilities:		
Pension plan	1,197	1,393
Net unrealized gain on securities	3,198	2,919
Mortgage servicing rights	125	85
Premises and equipment	175	
Other	417	194
Total gross deferred tax liabilities	5,112	4,591
Net deferred tax assets	\$ 11,336	\$ 2,993

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The tax deduction generated by the contribution to the ESSA Bank & Trust Foundation exceeded the allowable federal income tax deduction limitations, resulting in the establishment of a valuation allowance in the amount of \$2,883,000 at September 30, 2011. At September 30, 2012 this tax deduction and the corresponding allowance were both \$0 due to the expiration of the carry forward for the deduction.

Accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only

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when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Statement of Income. The Company's federal and state income tax returns for taxable years through 2007 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

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Table of Contents**10. INCOME TAXES (Continued)**

The reconciliation of the federal statutory rate and the Company's effective income tax rate is as follows (in thousands):

	2012		2011		2010	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 84	34.0%	\$ 2,421	34.0%	\$ 2,161	34.0%
Valuation allowance	247	99.6	39	0.5	212	3.3
Income from Bank-owned life insurance	(274)	(110.7)	(217)	(3.0)	(186)	(2.9)
Tax-exempt income	(310)	(125.5)	(371)	(5.2)	(245)	(3.9)
Low-income housing credits	(195)	(78.7)	(175)	(2.5)	(31)	(0.5)
Non deductible merger expenses	163	65.8				
Other, net	318	128.8	166	2.3	(67)	(1.1)
Actual tax expense and effective rate	\$ 33	13.3%	\$ 1,863	26.1%	\$ 1,844	29.0%

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax that is calculated at 11.5 percent of earnings based on U.S. generally accepted accounting principles with certain adjustments.

Retained earnings include \$4,600,000 at September 30, 2012, for which no provision for federal income tax has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain definitional tests prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Bank itself pays a cash dividend in excess of earnings and profits or liquidates. The act also provides for the recapture of deductions arising from applicable excess reserve: defined as the total amount of reserve over the base year reserve. The Bank's total reserve exceeds the base year reserve, and deferred taxes have been provided for this excess.

11. COMMITMENTS

In the normal course of business, management makes various commitments that are not reflected in the consolidated financial statements. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. Losses, if any, are charged to the allowance for loan losses. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements, as deemed necessary, in compliance with lending policy guidelines.

The off-balance sheet commitments consist of the following (in thousands):

	2012	2011
Commitments to extend credit	\$ 21,461	\$ 9,744
Standby letters of credit	3,244	1,045
Unfunded lines of credit	38,750	38,340

Commitments to extend credit consist of fixed-rate commitments with interest rates ranging from 2.65 percent to 7.5 percent. The commitments outstanding at September 30, 2012, contractually mature in less than one year.

Table of Contents**11. COMMITMENTS (Continued)**

The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the lending policy guidelines. Since many of the credit line commitments are expected to expire without being fully drawn upon, the total contractual amounts do not necessarily represent future funding requirements.

Standby letters of credit and financial guarantees represent conditional commitments issued to guarantee performance of a customer to a third party. The coverage period for these instruments is typically a one-year period with renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Company deposit instruments.

12. LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

The Company leases various branch locations and other offices under long-term operating leases. Future minimum lease payments by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more, consisted of the following at September 30, 2012 (in thousands):

2013	\$ 575
2014	546
2015	472
2016	421
2017	297
2018 and beyond	1,350
Total	\$ 3,661

The total rental expenses for the above leases for the years ended September 30, 2012, 2011, and 2010, were \$835,000, \$760,000, and \$678,000, respectively.

13. EMPLOYEE BENEFITS**Employee Stock Ownership Plan (ESOP)**

The Company created an ESOP for the benefit of employees who meet the eligibility requirements, which include having completed one year of service with the Company or its subsidiary and attained age 21. The ESOP trust acquired 1,358,472 shares of the Company's stock from proceeds from a loan with the Company. The Company makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP. The ESOP trust's outstanding loan bears interest at 3.25 percent and requires an annual payment of principal and interest of \$718,000 through December of 2036. The Company's ESOP, which is internally leveraged, does not report the loans receivable extended to the ESOP as assets and does not report the ESOP debt due to the Company.

Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Employee Stock Ownership Plan (ESOP) (Continued)**

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of payments made during the year to the remaining amount of payments due on the loan through maturity. Accordingly, the shares pledged as collateral are reported as unallocated common stock held by the ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized ESOP expense of \$469,000, \$555,000, and \$556,000, for the years ended September 30, 2012, 2011, and 2010, respectively.

The following table presents the components of the ESOP shares:

	2012	2011
Allocated shares	226,412	181,130
Shares committed to be released	33,962	33,962
Unreleased shares	1,098,098	1,143,380
Total ESOP shares	1,358,472	1,358,472
Fair value of unreleased shares (in thousands)	\$ 11,409	\$ 12,017

Equity Incentive Plan

The Company implemented the ESSA Bancorp, Inc. Equity Incentive Plan (the Plan). The Plan provides for a total of 2,377,326 shares of common stock for issuance upon the grant or exercise of awards. Of the shares available under the Plan, 1,698,090 may be issued in connection with the exercise of stock options and 679,236 may be issued as restricted stock. The Plan allows for the granting of non-qualified stock options (NSOs), incentive stock options (ISOs), and restricted stock. Options are granted at no less than the fair value of the Company's common stock on the date of the grant.

Certain officers, employees and outside directors were granted in aggregate 1,140,469 NSOs; 317,910 ISOs; and 590,320 shares of restricted stock. In accordance with generally accepted accounting principles, the Company began to expense the fair value of all share-based compensation grants over the requisite service periods.

The Company classifies share-based compensation for employees and outside directors within Compensation and employee benefits in the consolidated statement of income to correspond with the same line item as compensation paid. Additionally, generally accepted accounting principles require the Company to report: (1) the expense associated with the grants as an adjustment to operating cash flows, and (2) any benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense as a financing cash flow.

Stock options vest over a five-year service period and expire ten years after grant date. Management recognizes compensation expense for the fair values of these awards, which vest on a straight-line basis over the requisite service period of the awards.

Restricted shares vest over a five-year service period. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted shares under the Company's restricted stock plan. Management recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period for the entire award.

Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Equity Incentive Plan (Continued)**

During the years ended September 30, 2012 and 2011, the Company recorded \$2.2 million of share-based compensation expense, consisting of stock option expense of \$687,000 and \$705,000, and restricted stock expense of \$1.5 million and \$1.5 million, respectively. Expected future expense relating to the 288,675 non-vested options outstanding as of September 30, 2012, is \$458,000 over the remaining vesting period of 0.67 years. Expected future compensation expense relating to the 115,212 restricted shares at September 30, 2012, is \$949,000 over the remaining vesting period of 0.67 years.

The following is a summary of the Company's stock option activity and related information for its option plan for the year ended September 30, 2012.

	Number of Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2011	1,458,379	\$ 12.35	6.67	\$
Granted				
Exercised				
Forfeited				
Outstanding, September 30, 2012	1,458,379	12.35	5.67	
Exercisable at year-end	1,169,704	12.35	5.67	

The weighted-average grant date fair value of the Company's nonvested options as of September 30, 2012 and 2011, was \$2.38.

The following is a summary of the status of the Company's restricted stock as of September 30, 2012, and changes therein during the year then ended:

	Number of Restricted Stock	Weighted- Average Grant Date Fair Value
Nonvested at September 30, 2011	234,425	\$ 12.35
Granted		
Vested	(119,213)	12.35
Forfeited		
Nonvested at September 30, 2012	115,212	12.35

Defined Benefit Plan

The Bank sponsors a trustee, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near

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retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

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Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Defined Benefit Plan (Continued)**

The following table sets forth the change in plan assets and benefit obligation at September 30 (in thousands):

	2012	2011	
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 15,024	\$ 13,303	
Service cost	597	533	
Interest cost	713	698	
Actuarial gains	1,043	575	
Benefits paid	(113)	(85)	
Benefit obligation at end of year	17,264	15,024	
Change in plan assets:			
Fair value of plan assets at beginning of year	11,457	10,155	
Actual return on plan assets	2,338	(113)	
Contributions	360	1,500	
Benefits paid	(113)	(85)	
Fair value of plan assets at end of year	14,042	11,457	
Funded status	\$ (3,222)	\$ (3,567)	
Amounts not yet recognized as a component of net periodic pension cost (in thousands):			
	2012	2011	2010
Amounts recognized in accumulated other comprehensive income consist of:			
Net gain	\$ 6,742	\$ 7,697	\$ 6,644
Prior service cost			8
Total	\$ 6,742	\$ 7,697	\$ 6,652

The accumulated benefit obligation for the defined benefit pension plan was \$11,746,000 and \$9,373,000 at September 30, 2012 and 2011, respectively.

Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Defined Benefit Plan (Continued)**

The following table comprises the components of net periodic benefit cost for the years ended (in thousands):

	2012	2011	2010
Service cost	\$ 598	\$ 533	\$ 421
Interest cost	713	698	570
Expected return on plan assets	(814)	(769)	(598)
Amortization of prior service cost		8	10
Amortization of unrecognized loss	475	404	302
Net periodic benefit cost	\$ 972	\$ 874	\$ 705

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$392,000 and \$475,000, respectively.

Weighted-average assumptions used to determine benefit obligations:

	2012	2011
Discount rate	4.15%	4.75%
Rate of compensation increase	4.00	5.00

Weighted-average assumptions used to determine net periodic benefit cost for the years ended:

	2012	2011	2010
Discount rate	4.75%	5.25%	5.50%
Expected long-term return on plan assets	7.00	7.00	7.00
Rate of compensation increase	5.00	5.00	5.00

The expected long-term rate of return was estimated using market benchmarks by which the plan assets would outperform the market in the future, based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on similar investments compared with past periods.

Plan Assets

The following table sets forth by level, within the fair value hierarchy, the plan's financial assets at fair value as of September 30, 2012:

	September 30, 2012			Total
	Level I	Level II	Level III	
Assets:				
Investment in collective trusts				
Fixed income	\$	\$	\$ 4,884	\$ 4,884

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Equity			9,142	9,142
Investment in short-term investments			16	16
Total assets at fair value	\$	\$	\$ 14,042	\$ 14,042

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Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Defined Benefit Plan (Continued)**

The following table sets forth by level, within the fair value hierarchy, the plan's financial assets at fair value as of September 30, 2011:

	September 30, 2011			Total
	Level I	Level II	Level III	
Assets:				
Investment in collective trusts				
Fixed income	\$	\$	\$ 4,130	\$ 4,130
Equity			7,260	7,260
Investment in short-term investments	66			66
Total assets at fair value	\$ 66	\$	\$ 11,390	\$ 11,456

Investments in collective trusts and short-term investments are valued at the net asset value of shares held by the plan.

The table below sets forth a summary of changes in the fair value of the plan's Level III assets for the years ended September 30, 2012 and 2011.

	Fair Value Measurements Using Significant Unobservable Inputs (Level III)	
Beginning balance, October 1, 2010	\$	10,141
Total gains or losses (realized/unrealized) relating to instruments still held at the reporting date		(158)
Purchases, sales, issuances, and settlements, net		1,407
Ending balance, September 30, 2011		11,390
Total gains or losses (realized/unrealized) relating to instruments still held at the reporting date		2,348
Purchases, sales, issuances, and settlements, net		304
Ending balance, September 30, 2012	\$	14,042

The Bank's defined benefit pension plan weighted-average asset allocations at September 30, by asset category, are as follows:

Asset Category	2012	2011
Cash and fixed income securities	34.8%	36.0%
Equity securities	65.1	63.4
Other	0.1	0.6

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Total

100.0%

100.0%

The Bank believes that the plan's risk and liquidity position are, in large part, a function of the asset class mix. The Bank desires to utilize a portfolio mix that results in a balanced investment strategy. Two asset classes are outlined, as above. The target allocations of these classes are as follows: equities, 65 percent, and cash and fixed income, 35 percent.

Cash Flows

The Bank expects to contribute \$600,000 to its pension plan in 2013.

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Table of Contents**13. EMPLOYEE BENEFITS (Continued)****Defined Benefit Plan (Continued)**

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (in thousands):

2013	\$ 53
2014	70
2015	77
2016	84
2017	110
2018-2022	3,362

401(k) Plan

The Bank also has a savings plan qualified under Section 401(k) of the Internal Revenue Code, which covers substantially all employees over 21 years of age. Employees can contribute to the plan, but are not required to. Employer contributions were suspended in January 2011. The expense related to the plan for the years ended September 30, 2012, 2011, and 2010, were \$0, \$65,000, and \$240,000, respectively.

Supplemental Executive Retirement Plan

The Bank maintains a salary continuation agreement with certain executives of the Bank, which provides for benefits upon retirement to be paid to the executive for no less than 192 months, unless the executive elects to receive the present value of the payments as a lump sum. The Bank has recorded accruals of \$677,000 and \$677,000, at September 30, 2012 and September 30, 2011, respectively, which represents the estimated present value (using a discount rate of 6.25 percent) of the benefits earned under this agreement.

14. REGULATORY RESTRICTIONS**Reserve Requirements**

The Bank is required to maintain reserve funds in cash or in deposit with the Federal Reserve Bank. The required reserve at September 30, 2012 and 2011, was \$9,003,000 and \$5,248,000, respectively.

Dividend Restrictions

Federal banking laws, regulations, and policies limit the Bank's ability to pay dividends to the Company. Dividends may be declared and paid by the Bank only out of net earnings for the then current year. A dividend may not be declared or paid if it would impair the general reserves of the Bank as required to be maintained under the Savings Association Code. In addition, the Bank is required to notify the Federal Reserve Board prior to declaring a dividend to the Company and receive the nonobjection of the Federal Reserve Board to any such dividend.

Table of Contents**15. REGULATORY CAPITAL REQUIREMENTS**

Federal regulations require the Bank to maintain certain minimum amounts of capital. Specifically, the Bank is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from well capitalized to critically undercapitalized. Should any institution fail to meet the requirements to be considered adequately capitalized, it would become subject to a series of increasingly restrictive regulatory actions. Management believes as of September 30, 2012, the Bank met all capital adequacy requirements to which they are subject.

As of September 30, 2012 and 2011, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier I risk-based, core capital, and tangible equity capital ratios must be at least 10 percent, 6 percent, 5 percent, and 1.5 percent, respectively. There have been no conditions or events since the notification that management believes have changed the Bank's category.

The following table reconciles the Bank's capital under U.S. generally accepted accounting principles to regulatory capital (in thousands):

	2012	2011
Total stockholders' equity	\$ 168,676	\$ 158,065
Accumulated other comprehensive (income) loss	(1,702)	(586)
Goodwill and certain other intangible assets	(11,812)	(1,865)
Disallowed servicing assets	(36)	(223)
Tier I, core, and tangible capital	155,126	155,391
Allowance for loan losses	6,402	7,010
Unrealized gains on equity securities	4	3
Total risk-based capital	\$ 161,532	\$ 162,404

The Bank's actual capital ratios are presented in the following table (dollars in thousands):

	2012		2011	
	Amount	Ratio	Amount	Ratio
Total Capital				
<u>(to Risk-Weighted Assets)</u>				
Actual	\$ 161,532	19.6%	\$ 162,404	28.5%
For Capital Adequacy Purposes	65,962	8.0	45,531	8.0
To Be Well Capitalized	82,453	10.0	56,914	10.0
Tier I Capital				
<u>(to Risk-Weighted Assets)</u>				
Actual	\$ 155,126	18.8%	\$ 155,391	27.3%
For Capital Adequacy Purposes	32,981	4.0	22,766	4.0
To Be Well Capitalized	49,972	6.0	34,148	6.0
Tier I Capital				
<u>(to Adjusted Assets)</u>				
Actual	\$ 155,126	11.1%	\$ 155,391	14.2%
For Capital Adequacy Purposes	56,001	4.0	43,837	4.0
To Be Well Capitalized	70,002	5.0	54,797	5.0

Table of Contents**16. FAIR VALUE MEASUREMENTS**

In accordance with U.S. generally accepted accounting principles, the following disclosures show the hierarchal disclosure framework associated within the level of pricing observations utilized in measuring assets and liabilities at fair value. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities.

The following table presents information about the Company's securities, other real estate owned and impaired loans measured at fair value as of September 30, 2012 and 2011, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	September 30, 2012			Total
	Level I	Level II	Level III	
Assets measured at fair value on a recurring basis:				
Investment securities available for sale				
Mortgage-backed securities	\$	\$ 215,804	\$	\$ 215,804
Obligations of states and political subdivisions		19,517		19,517
U.S. government agencies		74,484		74,484
Corporate obligations		8,657		8,657
Trust-preferred securities		4,493	1,740	6,233
Other debt securities		1,512		1,512
Equity securities - financial services	3,378			3,378
Total securities	3,378	324,467	1,740	329,585
Assets measured at fair value on a non-recurring basis:				
Foreclosed real estate owned			2,998	2,998
Impaired loans			32,520	32,520
Mortgage servicing rights			365	365
	September 30, 2011			Total
	Level I	Level II	Level III	
Assets measured at fair value on a recurring basis:				
Investment securities available for sale				
Mortgage-backed securities	\$	\$ 204,209	\$	\$ 204,209
Obligations of states and political subdivisions		14,499		14,499
U.S. government agencies		22,083		22,083
Corporate obligations		4,584		4,584
Equity securities - financial services	18			18
Total securities	18	245,375		245,393
Assets measured at fair value on a non-recurring basis:				
Foreclosed real estate owned			2,356	2,356
Impaired loans			17,059	17,059
Mortgage servicing rights			248	248

Table of Contents**16. FAIR VALUE MEASUREMENTS (Continued)**

The following table presents a summary of changes in the fair value of the Company's Level III investments for the year ended September 30, 2012. There were no Level III investments for the year ended September 30, 2011.

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)
Beginning balance	\$
Purchases, sales, issuances, settlements, net	1,528
Total unrealized gain:	
Included in earnings	
Included in other comprehensive income	212
Transfers in and/or out of Level III	
	\$ 1,740

As required by GAAP, each financial asset and liability must be identified as having been valued according to a specified level of input, 1, 2 or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on a security's relationship to other benchmark quoted securities. Most of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Securities reported at fair value utilizing Level 1 inputs are limited to actively traded equity securities whose market price is readily available from the New York Stock Exchange or the NASDAQ exchange. Foreclosed real estate is measured at fair value, less cost to sell at the date of foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from foreclosed real estate. Impaired loans are reported at fair value utilizing level three inputs. For these loans, a review of the collateral is conducted and an appropriate allowance for loan losses is allocated to the loan. At September 30, 2012, 93 impaired loans with a carrying value of \$33.5 million were reduced by specific valuation allowance totaling \$952,000 resulting in a net fair value of \$32.5 million based on Level 3 inputs.

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16. FAIR VALUE MEASUREMENTS (Continued)

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information About Level III Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
<u>September 30, 2012</u>				
Impaired loans	32,520	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30%
Foreclosed real estate owned	2,998	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	0% to 30%

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

Investment Securities Available for Sale

Fair values for securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique that is widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark-quoted securities.

Mortgage Servicing Rights (MSRs)

Mortgage servicing rights are carried at the lower of cost or estimated fair value. The estimated fair values of MSRs are obtained through independent third-party valuations through an analysis of future cash flows, incorporating estimates of assumptions market participants would use in determining fair value, including market discount rates, prepayment speeds, servicing income, servicing costs, default rates and other market-driven data, including the market's perception of future interest rate movements and, as such, are classified as Level III.

Table of Contents**16. FAIR VALUE MEASUREMENTS (Continued)****Impaired Loans**

The Company has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Evaluating impaired loan collateral is based on Level II inputs utilizing outside appraisals. Those impaired loans for which management incorporates significant adjustments for sales costs and other discount assumptions regarding market conditions are considered Level III fair values. The fair value consists of the loan balances of \$33,471,000 less their valuation allowances of \$952,000 at September 30, 2012. The fair value consists of the loan balances of \$18,219,000 less their valuation allowances of \$1,160,000 at September 30, 2011.

Foreclosed Real Estate Owned

Foreclosed real estate owned is measured at fair value, less cost to sell at the date of foreclosure; valuations are periodically performed by management; and the assets are carried at fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from foreclosed real estate.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

	September 30, 2012			Total Fair Value
	Level I	Level II	Level III	
	(dollars in thousands)			
Financial assets:				
Cash and cash equivalents	\$ 15,550	\$	\$	\$ 15,550
Investment and mortgage-backed securities available for sale:	3,378	324,467	1,740	329,585
Loans receivable, net			997,685	997,685
Accrued interest receivable	4,929			4,929
Regulatory stock	21,914			21,914
Mortgage servicing rights			365	365
Bank-owned life insurance	27,848			27,848
Financial liabilities:				
Deposits	\$ 409,499	\$ 597,028	\$	\$ 1,006,527
Short-term borrowings	43,281			43,281
Other borrowings		195,636		195,636
Advances by borrowers for taxes and insurance	3,432			3,432
Accrued interest payable	1,128			1,128

Table of Contents**17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The fair values of the Company's financial instruments are as follows (in thousands):

	September 30, 2012		September 30, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 15,550	\$ 15,550	\$ 41,694	\$ 41,694
Investment and mortgage-backed securities:				
Available for sale	329,585	329,585	245,393	245,393
Loans receivable, net	950,355	997,685	738,619	773,142
Accrued interest receivable	4,929	4,929	4,193	4,193
Regulatory stock	21,914	21,914	16,882	16,882
Mortgage servicing rights	365	365	248	248
Bank-owned life insurance	27,848	27,848	23,256	23,256
Financial liabilities:				
Deposits	\$ 995,634	\$ 1,006,527	\$ 637,924	\$ 647,090
Short-term borrowings	43,281	43,281	4,000	4,000
Other borrowings	191,460	195,636	284,410	296,324
Advances by borrowers for taxes and insurance	3,432	3,432	1,381	1,381
Accrued interest payable	1,128	1,128	1,485	1,485

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling.

As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments but have value, this fair value of financial instruments would not represent the full market value of the Company.

The Company employed simulation modeling in determining the fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Accrued Interest Receivable, Short-Term Borrowings, Advances by Borrowers for Taxes and Insurance, and Accrued Interest Payable

The fair value approximates the current book value.

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17. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the Bank-owned life insurance.

Investment and Mortgage-Backed Securities Available for Sale and FHLB Stock

The fair value of investment and mortgage-backed securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the fair market value approximates the carrying amount.

Certificates of Deposit, Loans Receivable, Deposits, Other Borrowings, and Mortgage Servicing Rights

The fair values for loans and mortgage servicing rights are estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year end. Fair values for certificates of deposit, time deposits, and other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits and borrowings of similar remaining maturities.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 11.

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18. ACQUISITION OF FIRST STAR BANCORP, INC.

On July 31, 2012, the Company closed on a merger transaction pursuant to which ESSA Bancorp, Inc. acquired First Star Bancorp, Inc. (First Star), the parent company of First Star Bank, in a stock and cash transaction. The acquisition added nine branch locations in the Lehigh Valley, Pennsylvania market, expanding ESSA s presence in that market.

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of First Star Bancorp, Inc. for a total purchase price of approximately \$24.6 million. As a result of the acquisition, the Company issued 1,152,195 common shares to former shareholders of First Star Bancorp, Inc. and paid \$12.3 million in cash. First Star Bank has been merged into ESSA Bank & Trust, with ESSA Bank & Trust as the surviving entity.

The acquired assets and assumed liabilities were measured at estimated fair values. Management made significant estimates and exercised significant judgment in accounting for the acquisition. Management measured loan fair values based on loan file reviews (including borrower financial statements or tax returns), appraised collateral values, expected cash flows and historical loss factors of First Star Bank. Real estate acquired through foreclosure was primarily valued based on appraised collateral values. The Company also recorded an identifiable intangible asset representing the core deposit base of First Star Bank based on management s evaluation of the cost of such deposits relative to alternative funding sources. Management used market quotations to fair value investment securities and FHLB advances.

The business combination resulted in the acquisition of loans with and without evidence of credit quality deterioration. First Star Bank s loans were deemed impaired at the acquisition date if the Company did not expect to receive all contractually required cash flows due to concerns about credit quality. Such loans were fair valued and the difference between contractually required payments at the acquisition date and cash flows expected to be collected was recorded as a nonaccretable difference. At the acquisition date, the Company recorded \$12.9 million of purchased credit-impaired loans subject to a nonaccretable difference of \$4.2 million. The method of measuring carrying value of purchased loans differs from loans originated by the Company (originated loans), and as such, the Company identifies purchased loans and purchased loans with a credit quality discount and originated loans at amortized cost.

First Star Bank s loans without evidence of credit deterioration were fair valued by discounting both expected principal and interest cash flows using an observable discount rate for similar instruments that a market participant would consider in determining fair value. Additionally, consideration was given to management s best estimates of default rates and payment speeds. At acquisition, First Star s loan portfolio without evidence of deterioration totaled \$205.4 million and was recorded at a fair value of \$204.8 million.

Table of Contents**18. ACQUISITION OF FIRST STAR BANCORP, INC. (Continued)**

The following condensed statement reflects the values assigned to First Star Bancorp, Inc.'s net assets as of the acquisition date:

Total purchase price	\$ 24,611
Net assets acquired:	
Cash	\$ 67,777
Certificates of deposit	16
Investments available for sale	110,140
Loans receivable	212,617
Regulatory stock	8,825
Premises and equipment, net	4,881
Bank-owned life insurance	3,778
Foreclosed real estate	393
Intangible assets	2,068
Deferred tax assets	11,760
Other assets	2,761
Certificates of deposits	(221,442)
Deposits other than certificates of deposits	(118,627)
Borrowings	(52,642)
Advances by borrowers for loans and insurance	(3,476)
Junior subordinated debentures	(8,596)
Other liabilities	(3,749)
	16,484
Goodwill resulting from First Star merger	\$ 8,127

Results of operations for First Star prior to the acquisition date are not included in the Consolidated Statement of Income for the period ended September 30, 2012. Due to the significant amount of fair value adjustments historical results of First Star are not relevant to the Company's results of operations.

The following table presents financial information regarding the former First Star operations included in our Consolidated Statement of Income from the date of acquisition through September 30, 2012 under the column "Actual from acquisition date through September 30, 2012". In addition, the following table presents unaudited pro forma information as if the acquisition of First Star had occurred on October 1, 2010 under the "Pro forma" columns. Merger and acquisition integration costs of \$1,379,000 related to the First Star merger that we incurred during the year ended September 30, 2012 are not reflected in the unaudited pro forma amounts. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company merged with First Star at the beginning of 2011. Cost savings are also not reflected in the unaudited pro forma amounts for the years ended September 30, 2012 and 2011.

	Actual from acquisition date through September 30, 2012	Pro Forma year ended September 30,	
		2012	2011
Net interest income	2,227	36,277	37,225
Noninterest income	140	4,936	3,703
Net Income	1,238	(1,234)	4,161
Pro forma earnings per share			
Basic		0.11	0.36
Diluted		0.11	0.36

Table of Contents**19. PARENT COMPANY**

Condensed financial statements of ESSA Bancorp, Inc. are as follows:

CONDENSED BALANCE SHEET

	September 30,	
	2012	2011
ASSETS		
Cash and due from banks	\$ 3,650	\$ 3,196
Certificates of deposit	16	
Investment securities available for sale	1,280	
Investment in subsidiary	168,082	158,065
Premises and equipment, net	1,727	
Other assets	1,505	2,476
TOTAL ASSETS	\$ 176,260	\$ 163,737
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	\$ 850	\$ 2,058
Stockholders' equity	175,410	161,679
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 176,260	\$ 163,737

CONDENSED STATEMENT OF INCOME

	Year Ended September 30,		
	2012	2011	2010
INCOME			
Interest income	\$ 403	\$ 473	\$ 765
Net gains on sale of investments		99	55
Dividends	25,000	10,000	
Other			1
Total income	25,403	10,572	821
EXPENSES			
Interest expense	101		
Professional fees	1,741	303	323
Other	132	63	77
Total expenses	1,974	366	400
Income before income tax expense	23,429	10,206	421
Income tax expense	(32)	94	386
Income before equity in undistributed net earnings of subsidiary	23,461	10,112	35
Equity in undistributed net earnings of subsidiary	(23,246)	(4,854)	4,477

NET INCOME	\$ 215	\$ 5,258	\$ 4,512
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Table of Contents**19. PARENT COMPANY (CONTINUED)**

CONDENSED STATEMENT OF CASH FLOWS

	2012	September 30, 2011	2010
OPERATING ACTIVITIES			
Net income	\$ 215	\$ 5,258	\$ 4,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net earnings of subsidiary	23,246	4,854	(4,477)
Net gain on sale of investments		(99)	(55)
Increase in accrued income taxes	1,254	56	92
Decrease in accrued interest receivable	8	117	58
Deferred federal income taxes	576	(91)	408
Other, net	(1,362)	186	266
Net cash provided by operating activities	23,937	10,281	804
INVESTING ACTIVITIES			
Proceeds from repayments of certificates of deposit			1,500
Outlays for business acquisitions	(12,306)		
Purchase of premises		9,788	9,184
Net cash provided by investing activities	(12,306)	9,788	10,684
FINANCING ACTIVITIES			
Repayment of trust preferred debt	(8,596)		
Purchase of treasury stock shares	(332)	(16,917)	(17,000)
Dividends on common stock	(2,249)	(2,315)	(2,577)
Net cash used for financing activities	(11,177)	(19,232)	(19,577)
Increase (decrease) in cash	454	837	(8,089)
CASH AT BEGINNING OF YEAR	3,196	2,359	10,448
CASH AT END OF YEAR	\$ 3,650	\$ 3,196	\$ 2,359

Table of Contents**20. SELECTED QUARTERLY DATA (UNAUDITED)**

	Three Months Ended			
	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012
Total interest income	\$ 11,029	\$ 10,834	\$ 10,576	\$ 12,761
Total interest expense	4,321	4,063	3,840	3,908
Net interest income	6,708	6,771	6,736	8,853
Provision for loan losses	500	650	600	800
Net interest income after provision for loan losses	6,208	6,121	6,136	8,053
Total non-interest income	1,524	1,623	1,495	2,093
Total non-interest expense	6,662	6,874	6,526	12,943
Income (loss) before income taxes	1,070	870	1,105	(2,797)
Income taxes (benefit)	184	211	311	(673)
Net income (loss)	\$ 886	\$ 659	\$ 794	\$ (2,124)
Per share data:				
Net income				
Basic	\$ 0.08	\$ 0.06	\$ 0.07	\$ (0.18)
Diluted	\$ 0.08	\$ 0.06	\$ 0.07	\$ (0.18)
Average shares outstanding				
Basic	10,807,598	10,840,604	10,857,483	11,632,918
Diluted	10,807,598	10,840,604	10,857,483	11,632,918

	Three Months Ended			
	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011
Total interest income	\$ 11,844	\$ 11,887	\$ 11,842	\$ 11,603
Total interest expense	4,714	4,545	4,482	4,539
Net interest income	7,130	7,342	7,360	7,064
Provision for loan losses	480	650	475	450
Net interest income after provision for loan losses	6,650	6,692	6,885	6,614
Total non-interest income	1,301	1,323	1,459	2,208
Total non-interest expense	6,604	6,455	6,567	6,385
Income before income taxes	1,347	1,560	1,777	2,437
Income taxes	335	345	536	647
Net income	\$ 1,012	\$ 1,215	\$ 1,241	\$ 1,790

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Per share data:				
Net income				
Basic	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.16
Diluted	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.16
Average shares outstanding				
Basic	11,857,337	11,676,190	11,350,620	11,009,812
Diluted	11,860,210	11,685,880	11,350,620	11,009,812

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ESSA BANCORP, INC.

Date: December 14, 2012

By: /s/ Gary S. Olson
Gary S. Olson

Chief Executive Officer and President

(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Gary S. Olson Gary S. Olson	President, Chief Executive Officer and Director (Principal Executive Officer)	December 14, 2012
/s/ Allan A. Muto Allan A. Muto	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 14, 2012
/s/ John E. Burrus John E. Burrus	Director	December 14, 2012
/s/ William P. Douglass William P. Douglass	Director	December 14, 2012
/s/ Daniel J. Henning Daniel J. Henning	Director	December 14, 2012
/s/ Frederick E. Kutteroff Frederick E. Kutteroff	Director	December 14, 2012
/s/ Robert C. Selig, Jr. Robert C. Selig, Jr.	Director	December 14, 2012
/s/ John S. Schoonover, Jr. John S. Schoonover, Jr.	Director	December 14, 2012
/s/ William A. Viechnicki, D.D.S. William A. Viechnicki, D.D.S.	Director	December 14, 2012
/s/ Elizabeth B. Weekes Elizabeth B. Weekes	Director	December 14, 2012
/s/ Brian T. Regan Brian T. Regan	Director	December 14, 2012

/s/ Joseph T. Svetik
Joseph T. Svetik

Director

December 14, 2012