ESSA Bancorp, Inc.
Form 10-Q
February 09, 2016
Table of Contents

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, 2015

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)

Pennsylvania	**20-8023072**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

200 Palmer Street, Stroudsburg, Pennsylvania	**18360**
(Address of Principal Executive Offices)	**(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 x 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 x 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 and accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

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

As of February 2, 2016 there were 11,330,544 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

Table of Contents

ESSA Bancorp, Inc.

FORM 10-Q

Table of Contents

		Page
	Part I. Financial Information	
Item 1.	Financial Statements (unaudited)	2
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3	Quantitative and Qualitative Disclosures About Market Risk	43
Item 4	Controls and Procedures	43
	Part II. Other Information	
Item 1.	Legal Proceedings	44
Item 1A.	Risk Factors	44
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	44
Item 3.	Defaults Upon Senior Securities	44
Item 4.	Mine Safety Disclosures	44
Item 5.	Other Information	44
Item 6.	Exhibits	44
Signature Page		46

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2015	September 30, 2015
	(dollars in thousands)	
Cash and due from banks	$ 21,448	$ 15,905
Interest-bearing deposits with other institutions	4,280	2,853
Total cash and cash equivalents	25,728	18,758
Certificates of deposit	1,500	1,750
Investment securities available for sale, at fair value	393,572	379,407
Loans receivable (net of allowance for loan losses of $9,257 and $8,919)	1,228,007	1,102,118
Regulatory stock, at cost	14,679	13,831
Premises and equipment, net	17,524	16,553
Bank-owned life insurance	30,885	30,655
Foreclosed real estate	2,704	2,480
Intangible assets, net	3,076	1,759
Goodwill	13,801	10,259
Deferred income taxes	13,095	11,149
Other assets	18,842	17,825
TOTAL ASSETS	$ 1,763,413	$ 1,606,544
LIABILITIES		
Deposits	$ 1,240,170	$ 1,096,754
Short-term borrowings	84,052	91,339
Other borrowings	249,101	229,101
Advances by borrowers for taxes and insurance	6,992	4,273
Other liabilities	13,070	13,797
TOTAL LIABILITIES	1,593,385	1,435,264
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 issued; 11,330,544 and 11,353,244 outstanding at December 31, 2015 and September 30,	181	181

2015)		
Additional paid in capital	182,371	182,295
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(9,513)	(9,627)
Retained earnings	84,684	83,658
Treasury stock, at cost; 6,802,551 and 6,779,851 shares outstanding at December 31, 2015 and September 30, 2015, respectively	(83,133)	(82,832)
Accumulated other comprehensive loss	(4,562)	(2,395)
TOTAL STOCKHOLDERS EQUITY	170,028	171,280
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,763,413	$ 1,606,544

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended December 31,	
	2015	2014
	(dollars in thousands, except per share data)	
INTEREST INCOME		
Loans receivable, including fees	$ 11,574	$ 11,449
Investment securities:		
Taxable	1,818	1,889
Exempt from federal income tax	244	234
Other investment income	179	136
Total interest income	13,815	13,708
INTEREST EXPENSE		
Deposits	1,845	1,965
Short-term borrowings	94	103
Other borrowings	784	590
Total interest expense	2,723	2,658
NET INTEREST INCOME	11,092	11,050
Provision for loan losses	600	450
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,492	10,600
NONINTEREST INCOME		
Service fees on deposit accounts	863	827
Services charges and fees on loans	280	315
Trust and investment fees	213	238
Gain on sale of investments	3	
Earnings on Bank-owned life insurance	230	239
Insurance commissions	199	182
Other	29	13
Total noninterest income	1,817	1,814

NONINTEREST EXPENSE				
Compensation and employee benefits		5,578		5,114
Occupancy and equipment		1,109		981
Professional fees		453		514
Data processing		919		813
Advertising		87		128
Federal Deposit Insurance Corporation (FDIC) premiums		278		292
Gain on foreclosed real estate		(10)		(38)
Merger related costs		245		
Amortization of intangible assets		174		166
Other		953		996
Total noninterest expense		9,786		8,966
Income before income taxes		2,523		3,448
Income taxes		566		852
NET INCOME	$	1,957	$	2,596
Earnings per share				
Basic	$	0.19	$	0.25
Diluted	$	0.19	$	0.25
Dividends per share	$	0.09	$	0.07

See accompanying notes to the unaudited consolidated financial statements.

3

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended December 31,	
	2015	**2014**
	(dollars in thousands)	
Net income	$ 1,957	$ 2,596
Other comprehensive income (loss):		
Investment securities available for sale:		
Unrealized holding gain (loss)	(3,398)	2,738
Tax effect	1,154	(930)
Reclassification of gains recognized in net income	(3)	
Tax effect	1	
Net of tax amount	(2,246)	1,808
Pension plan adjustment:		
Related to actuarial losses	120	60
Tax effect	(41)	(20)
Net of tax amount	79	40
Total other comprehensive income (loss)	(2,167)	1,848
Comprehensive income (loss)	$ (210)	$ 4,444

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock							
	Number of Shares	**Amount**	**Additional Paid In Capital**	**Unallocated Common Stock Held by the ESOP**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total Stockholders Equity**
				(dollars in thousands)				
Balance, September 30, 2015	11,353,244	$ 181	$ 182,295	$ (9,627)	$ 83,658	$ (82,832)	$ (2,395)	$ 171,280
Net income					1,957			1,957
Other comprehensive loss							(2,167)	(2,167)
Cash dividends declared ($.09 per share)					(931)			(931)
Stock based compensation			39					39
Allocation of ESOP stock			37	114				151
Treasury shares purchased	(22,700)					(301)		(301)
Balance, December 31, 2015	11,330,544	$ 181	$ 182,371	$ (9,513)	$ 84,684	$ (83,133)	$ (4,562)	$ 170,028

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31,	
	2015	2014
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 1,957	$ 2,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	450
Provision for depreciation and amortization	392	316
Amortization and accretion of discounts and premiums, net	832	121
Gain on sale of investment securities	(3)	
Compensation expense on ESOP	151	130
Stock based compensation	39	17
(Increase) decrease in accrued interest receivable	(348)	58
Increase in accrued interest payable	171	114
Earnings on bank-owned life insurance	(230)	(239)
Deferred federal income taxes	114	(477)
Increase in accrued pension liability	296	116
Gain on foreclosed real estate, net	(10)	(38)
Amortization of identifiable intangible assets	174	166
Other, net	(780)	216
Net cash provided by operating activities	3,355	3,546
INVESTING ACTIVITIES		
Certificates of deposit maturities	250	15
Investment securities available for sale:		
Proceeds from sale of investment securities	17,365	
Proceeds from principal repayments and maturities	31,094	11,676
Purchases	(30,134)	(7,054)
Increase in loans receivable, net	(3,972)	(1,774)
Redemption of regulatory stock	4,345	4,704
Purchase of regulatory stock	(4,304)	(3,060)
Proceeds from sale of foreclosed real estate	202	455
Acquisition, net of cash acquired	(16,174)	
Capital improvements to foreclosed real estate		11
Purchase of premises, equipment, and software	(400)	(275)

Net cash (used for) provided by investing activities	(1,728)	4,698
FINANCING ACTIVITIES		
Decrease in deposits, net	(8,857)	(27,435)
Net increase (decrease) in short-term borrowings	(7,287)	2,859
Proceeds from other borrowings	47,300	21,129
Repayment of other borrowings	(27,300)	(7,200)
Increase in advances by borrowers for taxes and insurance	2,719	2,982
Purchase of treasury stock shares	(301)	(1,685)
Dividends on common stock	(931)	(729)
Net cash provided by (used for) financing activities	5,343	(10,079)
Increase (decrease) in cash and cash equivalents	6,970	(1,835)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	18,758	22,301
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 25,728	$ 20,466
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 2,489	$ 2,544
Noncash items:		
Transfers from loans to foreclosed real estate	416	564
Acquisition of Eagle National Bank assets and liabilities		
Noncash assets acquired		
Investment securities, available for sale	36,275	
Loans receivable	123,380	
Federal Home Loan Bank stock	889	
Premises and equipment	945	
Accrued interest receivable	185	
Intangible assets	1,491	
Goodwill	3,542	
Deferred tax assets	715	
Other assets	1,989	
Liabilities assumed:		
Certificates of deposit	32,408	
Deposits other than certificates of deposit	119,865	
Accrued interest payable	64	
Other liabilities	900	
Net noncash assets acquired	16,174	
Cash acquired	8,481	

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), 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; 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. On November 6, 2014, the Company converted its status from a savings and loan holding company to a bank holding company. In addition, the Bank converted from a Pennsylvania-chartered savings association to a Pennsylvania-chartered savings bank. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton, Lehigh, Delaware, Chester, Lackawanna, and Luzerne Counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities 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 and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania Corporation that provided title insurance services and is currently inactive. All significant intercompany accounts and 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, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2016.

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 month periods ended December 31, 2015 and 2014.

Three months ended

	December 31, 2015	December 31, 2014
Weighted-average common shares outstanding	18,133,095	18,133,095
Average treasury stock shares	(6,793,627)	(6,609,500)
Average unearned ESOP shares	(944,875)	(990,151)
Average unearned non-vested shares	(30,168)	(17,347)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,364,425	10,516,097
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	618	
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	170,530	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,535,573	10,516,097

At December 31, 2015 there were 18,021 shares of nonvested stock outstanding at a price of $13.05 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At December 31, 2014 there were 16,820 shares of nonvested stock outstanding at a price of $11.07 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.

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 (GAAP) 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 Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

4. Recent Accounting Pronouncements:

Recent Accounting Pronouncements:

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.* The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This Update did not have a significant impact on the Company s financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This Update did not have a significant impact on the Company s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this Update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This Update did not have a significant impact on the Company s financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period*. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This Update is not expected to have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40)*. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This Update did not have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern (Subtopic* 205-40). The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).* This Update clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Public business entities are required to implement the new requirements in fiscal years and interim periods within those fiscal years beginning after December 15, 2015. This Update is not expected to have a significant impact on the Company s financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement Extraordinary and Unusual Items,* as part of its initiative to reduce complexity in accounting standards. This Update eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of

adoption. This Update is not expected to have a significant impact on the Company s financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related-party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15,

2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation Retirement Benefits (Topic 715),* as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In May 2015, the FASB issued ASU 2015-09, *Financial Services Insurance (Topic 944): Disclosure About Short-Duration Contracts*. The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services Insurance*. The amendments require insurance entities to disclose for annual reporting periods certain information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements.

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this Update represent changes to clarify the FASB Accounting Standards Codification (Codification), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. This Update is not expected to have a significant impact on the Company s financial statements.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers* (*Topic 606*). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09

to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805).* The amendments in this Update require that an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements or the Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

Table of Contents

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This Update is not expected to have a significant impact on the Company s financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

5. Investment Securities

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

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 135,505	$ 1,015	$ (1,027)	$ 135,493
Freddie Mac	92,675	401	(635)	92,441
Governmental National Mortgage Association	14,745	23	(119)	14,649
Other mortgage-backed securities	2,452		(20)	2,432
Total mortgage-backed securities	245,377	1,439	(1,801)	245,015
Obligations of states and political subdivisions	48,433	1,705	(84)	50,054
U.S. government agency securities	45,386	133	(86)	45,433
Corporate obligations	32,156	99	(435)	31,820
Trust-preferred securities	1,620	30		1,650
Other debt securities	19,538	125	(88)	19,575
Total debt securities	392,510	3,531	(2,494)	393,547
Equity securities - financial services	25			25
Total	$ 392,535	$ 3,531	$ (2,494)	$ 393,572

Table of Contents

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 130,476	$ 2,052	$ (541)	$ 131,987
Freddie Mac	88,514	1,063	(286)	89,291
Governmental National Mortgage Association	13,201	103	(52)	13,252
Other mortgage-backed securities	2,494		(17)	2,477
Total mortgage-backed securities	234,685	3,218	(896)	237,007
Obligations of states and political subdivisions	50,094	1,676	(145)	51,625
U.S. government agency securities	45,799	399	(12)	46,186
Corporate obligations	22,440	157	(237)	22,360
Trust-preferred securities	1,613	98		1,711
Other debt securities	20,313	216	(36)	20,493
Total debt securities	374,944	5,764	(1,326)	379,382
Equity securities - financial services	25			25
Total	$ 374,969	$ 5,764	$ (1,326)	$ 379,407

The amortized cost and fair value of debt securities at December 31, 2015, 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	$ 7,756	$ 7,774
Due after one year through five years	54,075	54,272
Due after five years through ten years	74,576	75,129
Due after ten years	256,103	256,372
Total	$ 392,510	$ 393,547

For the three months ended December 31, 2015, the Company realized gross gains of $3,000 and no gross losses on proceeds from the sale of investment securities of $17.4 million. During the first quarter of 2016, the Company sold $16.2 million of investment securities which were acquired in the merger with Eagle National Bancorp, Inc (ENB). The Company realized no gain or loss from the sale of these securities. For the three months ended December 31, 2014, the Company did not sell any investment securities.

6. 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 (dollars in thousands):

	December 31, 2015						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	37	$ 32,234	$ (235)	$ 23,568	$ (792)	$ 55,802	$ (1,027)
Freddie Mac	29	32,721	(196)	13,188	(439)	45,909	(635)
Governmental National Mortgage Association	8	8,351	(57)	2,047	(62)	10,398	(119)
Other mortgage-backed securities	3			2,432	(20)	2,432	(20)
Obligations of states and political subdivisions	10	7,447	(39)	2,934	(45)	10,381	(84)
U.S. government agency securities	10	25,845	(86)			25,845	(86)
Corporate obligations	17	16,925	(400)	965	(35)	17,890	(435)
Other debt securities	10	9,032	(74)	1,532	(14)	10,564	(88)
Total	124	$ 132,555	$ (1,087)	$ 46,666	$ (1,407)	$ 179,221	$ (2,494)

Table of Contents

	September 30, 2015						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	22	$ 7,238	$ (28)	$ 23,609	$ (513)	$ 30,847	$ (541)
Freddie Mac	12	1,487	(1)	15,477	(285)	16,964	(286)
Governmental National Mortgage Association	2			2,209	(52)	2,209	(52)
Other mortgage-backed securities	3			2,477	(17)	2,477	(17)
Obligations of states and political subdivisions	14	9,184	(57)	4,667	(88)	13,851	(145)
U.S. government agency securities	3	3,246	(12)			3,246	(12)
Corporate obligations	10	9,263	(207)	970	(30)	10,233	(237)
Other debt securities	6	5,232	(26)	1,748	(10)	6,980	(36)
Total	72	$ 35,650	$ (331)	$ 51,157	$ (995)	$ 86,807	$ (1,326)

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, other mortgage backed securities, debt obligations of a U.S. state or political subdivision, corporate debt obligations and equity securities.

The Company reviews its position quarterly and has asserted that at December 31, 2015, 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 non-collection of principal and interest during the period.

7. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	December 31, 2015	September 30, 2015
Real estate loans:		
Residential	$ 610,041	$ 610,582
Construction	1,864	878
Commercial	289,838	200,004

Commercial	52,277	34,314
Obligations of states and political subdivisions	57,903	59,820
Home equity loans and lines of credit	47,940	39,903
Auto Loans	173,775	162,193
Other	3,626	3,343
	1,237,264	1,111,037
Less allowance for loan losses	9,257	8,919
Net loans	$ 1,228,007	$ 1,102,118

13

Table of Contents

Included in the December 31, 2015 balances are loans acquired from Eagle National Bank, as of the acquisition date of December 4, 2015 as follows:

	2015
Real estate loans:	
Residential	$ 10,743
Commercial	87,336
Commercial	16,604
Home equity loans and lines of credit	8,632
Other	65
Total loans	$ 123,380

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. The fair value of purchased credit-impaired loans, on the acquisition date of December 4, 2015, was determined, primarily based on the fair value of loan collateral. The carrying value of all purchased loans acquired with deteriorated credit quality was $6.4 million at December 31, 2015.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquired in the ENB acquisition was $3.5 million and the estimated fair value of the loans was $2.0 million. Total contractually required payments on these loans, including interest, at the acquisition date was $4.2 million. However, the Company s preliminary estimate of expected cash flows was $2.2 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 $2.0 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 $240,000 on the acquisition date relating to these impaired loans.

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 ENB acquisition as of December 4, 2015 (in thousands):

Unpaid principal balance	$ 3,468
Interest	717
Contractual cash flows	4,185

Non-accretable discount	(1,973)
Expected cash flows	2,212
Accretable discount	(240)
Estimated fair value	$ 1,972

Changes in the accretable yield for purchased credit-impaired loans were as follows, since acquisition, for the periods ended December 31, 2015 and September 30, 2015:

	December 31, 2015	September 30, 2015
Balance at beginning of period	$ 258	$ 170
Reclassification, new additions and other	240	228
Accretion	(50)	(140)
Balance at end of period	$ 448	$ 258

Table of Contents

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	December 31, 2015 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)	September 30, 2015 Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)
Outstanding balance	$ 8,061	$ 4,779
Carrying amount	$ 6,428	$ 4,162

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

	Total Loans	**Individually Evaluated for Impairment**	**Loans Acquired with Deteriorated Credit Quality**	**Collectively Evaluated for Impairment**
December 31, 2015				
Real estate loans:				
Residential	$ 610,041	$ 10,546	$	$ 599,495
Construction	1,864			1,864
Commercial	289,838	13,173	5,790	270,875
Commercial	52,277	2,020		50,257
Obligations of states and political subdivisions	57,903			57,903
Home equity loans and lines of credit	47,940	688	638	46,614
Auto loans	173,775	547		173,228
Other	3,626	18		3,608
Total	$ 1,237,264	$ 26,992	$ 6,428	$ 1,203,844

	Total Loans	**Individually Evaluated for Impairment**	**Loans Acquired with Deteriorated Credit Quality**	**Collectively Evaluated for Impairment**
September 30, 2015				
Real estate loans:				
Residential	$ 610,582	$ 11,985	$	$ 598,597

Construction	878			878
Commercial	200,004	15,100	4,108	180,796
Commercial	34,314	204	54	34,056
Obligations of states and political subdivisions	59,820			59,820
Home equity loans and lines of credit	39,903	795		39,108
Auto loans	162,193	625		161,568
Other	3,343			3,343
Total	$ 1,111,037	$ 28,709	$ 4,162	$ 1,078,166

We maintain a loan review system that 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 one year of performance.

Table of Contents

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable (in thousands):

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
December 31, 2015			
With no specific allowance recorded:			
Real estate loans			
Residential	$ 7,833	$ 9,549	$
Construction			
Commercial	17,589	19,106	
Commercial	2,011	2,027	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1,264	1,339	
Auto loans	298	415	
Other	18	43	
Total	29,013	32,479	
With an allowance recorded:			
Real estate loans			
Residential	2,713	3,125	349
Construction			
Commercial	1,374	1,448	144
Commercial	9	9	9
Obligations of states and political subdivisions			
Home equity loans and lines of credit	62	91	62
Auto loans	249	249	159
Other			
Total	4,407	4,922	723
Total:			
Real estate loans			
Residential	10,546	12,674	349
Construction			
Commercial	18,963	20,554	144
Commercial	2,020	2,036	9
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1,326	1,430	62
Auto loans	547	664	159
Other	18	43	

Total Impaired Loans	$ 33,420	$ 37,401	$ 723

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
September 30, 2015			
With no specific allowance recorded:			
Real Estate Loans			
Residential	$ 9,552	$ 11,521	$
Construction			
Commercial	19,208	20,167	
Commercial	258	270	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	731	743	
Auto Loans	350	464	
Other			
Total	30,099	33,165	
With an allowance recorded:			
Real Estate Loans			
Residential	2,433	2,639	373
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	64	93	64
Auto Loans	275	275	131
Other			
Total	2,772	3,007	568
Total:			
Real Estate Loans			
Residential	11,985	14,160	373
Construction			
Commercial	19,208	20,167	
Commercial	258	270	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	795	836	64
Auto Loans	625	739	131
Other			
Total Impaired Loans	$ 32,871	$ 36,172	$ 568

Table of Contents

The following table represents 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 (in thousands):

	Three months ended December 31,			
	2015 Average Recorded Investment	2014 Average Recorded Investment	2015 Interest Income Recognized	2014 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 8,785	$ 10,929	$ 27	$ 99
Construction				
Commercial	18,574	20,983	176	194
Commercial	820	889	15	2
Obligations of states and political subdivisions				
Home equity loans and lines of credit	962	202	2	2
Auto loans	282		1	
Other				
Total	29,423	33,003	221	297
With an allowance recorded:				
Real estate loans				
Residential	2,592	2,496	5	24
Construction				
Commercial	457	578		
Commercial	3			
Obligations of states and political subdivisions				
Home equity loans and lines of credit	73	13		
Auto loans	141	51	1	2
Other				
Total	3,266	3,138	6	26
Total:				
Real estate loans				
Residential	11,377	13,425	32	123
Construction				
Commercial	19,031	21,561	176	194
Commercial	823	889	15	2

Obligations of states and political subdivisions				
Home equity loans and lines of credit	1,035	215	2	2
Auto loans	423	51	2	2
Other				
Total Impaired Loans	$ 32,689	$ 36,141	$ 227	$ 323

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 fundamentally sound yet, exhibit potentially unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company s credit position at some future date. 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. Loans in the Doubtful category have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the Loss category are considered uncollectible and of little value that their continuance as bankable assets is not warranted. Certain residential real estate loans, construction loans, home equity loans and lines of credit, auto loans and other consumer 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 non-performing.

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 $500,000 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 $1,000,000 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 tables present 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, 2015 and September 30, 2015 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2015					
Commercial real estate loans	$ 255,955	$ 10,926	$ 22,957	$	$ 289,838
Commercial	48,672	320	3,285		52,277
Obligations of states and political subdivisions	57,903				57,903
Total	$ 362,530	$ 11,246	$ 26,242	$	$ 400,018

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2015					
Commercial real estate loans	$ 174,516	$ 4,521	$ 20,967	$	$ 200,004
Commercial	33,801		513		34,314
Obligations of states and political subdivisions	59,820				59,820
Total	$ 268,137	$ 4,521	$ 21,480	$	$ 294,138

Table of Contents

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 non-performing. The following tables present the risk ratings in the consumer categories of performing and non-performing loans at December 31, 2015 and September 30, 2015 (in thousands):

	Performing	Non-performing	Total
December 31, 2015			
Real estate loans:			
Residential	$ 600,544	$ 9,497	$ 610,041
Construction	1,864		1,864
Home equity loans and lines of credit	46,615	1,325	47,940
Auto loans	173,228	547	173,775
Other	3,608	18	3,626
Total	$ 825,859	$ 11,387	$ 837,246

	Performing	Non-performing	Total
September 30, 2015			
Real estate loans:			
Residential	$ 600,810	$ 9,772	$ 610,582
Construction	878		878
Home equity loans and lines of credit	39,213	690	39,903
Auto loans	161,827	366	162,193
Other	3,322	21	3,343
Total	$ 806,050	$ 10,849	$ 816,899

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 tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2015 and September 30, 2015 (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, 2015							
Real estate loans							

Residential	$ 597,903	$ 1,883	$ 758	$	$ 9,497	$ 12,138	$ 610,041
Construction	1,864						1,864
Commercial	278,220	507	337		10,774	11,618	289,838
Commercial	51,673	116	51		437	604	52,277
Obligations of states and political subdivisions	57,903						57,903
Home equity loans and lines of credit	46,414	157	44		1,325	1,526	47,940
Auto loans	171,599	1,399	230		547	2,176	173,775
Other	3,586	22			18	40	3,626
Total	$ 1,209,162	$ 4,084	$ 1,420	$	$ 22,598	$ 28,102	$ 1,237,264

Table of Contents

	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
September 30, 2015							
Real estate loans							
Residential	$ 598,190	$ 1,575	$ 1,045	$	$ 9,772	$ 12,392	$ 610,582
Construction	878						878
Commercial	190,440	137	587		8,840	9,564	200,004
Commercial	33,545	346	7		416	769	34,314
Obligations of states and political subdivisions	59,820						59,820
Home equity loans and lines of credit	39,136	32	45		690	767	39,903
Auto loans	160,272	1,375	180		366	1,921	162,193
Other	3,295	27			21	48	3,343
Total	$ 1,085,576	$ 3,492	$ 1,864	$	$ 20,105	$ 25,461	$ 1,111,037

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, 2015 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 FDIC and the Pennsylvania Department of Banking and Securities, 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 its analysis and review of information available to it at the time of its examination.

22

Table of Contents

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 tables summarize changes in the primary segments of the ALL for the three month periods ending December 31, 2015 and 2014 (in thousands):

	Real Estate Loans									
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
ALL balance at September 30, 2015	$ 5,140	$ 7	$ 671	$ 693	$ 189	$ 461	$ 1,570	$ 27	$ 161	$ 8,919
Charge-offs	(91)			(3)		(25)	(188)			(307)
Recoveries	3			1		1	37	3		45
Provision	(305)	7	187	14	(2)	(48)	335	(3)	415	600
ALL balance at December 31, 2015	$ 4,747	$ 14	$ 858	$ 705	$ 187	$ 389	$ 1,754	$ 27	$ 576	$ 9,257
September 30, 2014	$ 5,573	$ 11	$ 663	$ 528	$ 163	$ 470	$ 459	$ 32	$ 735	$ 8,634
Charge-offs	(509)		(11)	(27)		(19)	(40)			(606)
Recoveries	18		11			8	1			38
Provision	489	2	13	14	(18)	86	254	(6)	(384)	450
ALL balance at December 31, 2014	$ 5,571	$ 13	$ 676	$ 515	$ 145	$ 545	$ 674	$ 26	$ 351	$ 8,516

Acquired loans are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

The following table summarizes the primary segments of the ALL, segregated into amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2015 and September 30, 2015 (in thousands):

Real Estate Loans									
Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political	Home Equity Loans and Lines	Auto Loans	Other Loans	Unallocated	Total

					Subdivisions	of Credit				
Individually evaluated for impairment	$ 349	$	$ 144	$ 9	$	$ 62	$ 159	$	$	$ 723
Collectively evaluated for impairment	4,398	14	714	696	187	327	1,595	27	576	8,534
ALL Balance at December 31, 2015	$ 4,747	$ 14	$ 858	$ 705	$ 187	$ 389	$ 1,754	$ 27	$ 576	$ 9,257
Individually evaluated for impairment	$ 373	$	$	$	$	$ 64	$ 131	$	$	$ 568
Collectively evaluated for impairment	4,767	7	671	693	189	397	1,439	27	161	8,351
ALL balance at September 30, 2015	$ 5,140	$ 7	$ 671	$ 693	$ 189	$ 461	$ 1,570	$ 27	$ 161	$ 8,919

Table of Contents

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 decreased provisions to residential real estate, obligations of states and political subdivisions and home equity loans and lines of credit for the three month period ending December 31, 2015 due to declining loan balances and impairment evaluations in those segments. The Company allocated increased provisions to commercial real estate, commercial loans and construction loans for the three month period ending December 31, 2015 due primarily to increased loan balances and increased classified assets. The Company allocated increased provisions in auto loans due to increased loan balances, increased classified assets and increased charge off activity. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The following is a summary of troubled debt restructuring granted during the three months ended December 31, 2015 and 2014 (dollars in thousands).

	For the Three Months Ended December 31, 2015 Dollars in thousands		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	1	$ 81	$ 81
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Auto loans			
Other			
Total	1	$ 81	$ 81

	For the Three Months Ended December 31, 2014 Dollars in thousands		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	7	$ 1,073	$ 1,073
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Auto loans			
Other			
Total	7	$ 1,073	$ 1,073

The one new troubled debt restructuring granted for the three months ended December 31, 2015 was granted term concessions.

Of the seven new troubled debt restructurings granted for the three months ended December 31, 2014, four loans totaling $548,000 were granted term and rate concessions, two loans totaling $348,000 were granted term concessions and one loan totaling $177,000 was granted a rate concession.

For the three months ended December 31, 2015, no loans defaulted on a restructuring agreement within one year of modification.

For the three months ended December 31, 2014, one residential real estate loan totaling $156,000 defaulted on a restructuring agreement within one year of modification.

Table of Contents

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in other assets on the Consolidated Balance Sheet. As of December 31, 2015 and September 30, 2015 included with other assets are $2.7 million and $2.5 million, respectively, of foreclosed assets. As of December 31, 2015, included within the foreclosed assets is $2.2 million of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2015, the Company has initiated formal foreclosure proceedings on $4.6 million of consumer residential mortgages which have not yet been transferred into foreclosed assets.

8. Deposits

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

	December 31, 2015	September 30, 2015
Non-interest bearing demand accounts	$ 152,968	$ 98,514
Interest bearing demand accounts	99,151	110,268
Money market accounts	214,384	162,418
Savings and club accounts	138,936	129,227
Certificates of deposit	634,731	596,327
Total	$ 1,240,170	$ 1,096,754

9. Net Periodic Benefit Cost-Defined Benefit Plan

For a detailed disclosure on the Bank s pension and employee benefits plans, please refer to Note 13 of the Company s Consolidated Financial Statements for the year ended September 30, 2015 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,	
	2015	2014
Service Cost	$ 249	$ 218
Interest Cost	245	206
Expected return on plan assets	(311)	(308)
Amortization of unrecognized loss	120	60
Net periodic benefit cost	$ 303	$ 176

The Bank plans to contribute $650,000 to its pension plan in March 2016.

10. 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 on May 23, 2008. Certain officers were granted in aggregate 30,000 shares of restricted stock on April 1, 2013, 19,880 of restricted stock on July 22, 2014 and 21,843 shares of restricted stock on May 20, 2015. In accordance with generally accepted accounting principles, 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.

The 2013 restricted stock shares vested over an 18-month service period. The 2014 restricted shares vest over a 39 month service period. The 2015 restricted shares vest over a 40 month 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, 2015 and 2014, the Company recorded $39,000 and $17,000 of share-based compensation expense, respectively, comprised of restricted stock expense. Expected future compensation expense relating to the 9,932 (2014 shares) restricted shares, at December 31, 2015 is $119,000 over the remaining vesting period of 1.75 years. Expected future compensation expense relating to the 16,379 restricted shares (2015 shares) at December 31, 2015 is $235,000 over the remaining vesting period of 2.75 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, 2015.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2015	1,314,580	$ 12.35	2.67	$ 802,000
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2015	1,314,580	$ 12.35	2.42	$ 1,748,000
Exercisable at December 31, 2015	1,314,580	$ 12.35	2.42	$ 1,748,000

The following is a summary of the status of the Company s restricted stock as of December 31, 2015, and changes therein during the three month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2015	26,311	$ 12.30
Granted		
Vested		

Forfeited			
Nonvested at December 31, 2015	26,311	$	12.30

11. Fair Value Measurement

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.

Table of Contents

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, 2015 and September 30, 2015 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, 2015			
Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of December 31, 2015
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 245,015	$	$ 245,015
Obligations of states and political subdivisions		50,054		50,054
U.S. government agencies		45,433		45,433
Corporate obligations		26,820	5,000	31,820
Trust-preferred securities			1,650	1,650
Other debt securities		19,089	486	19,575
Equity securities-financial services	25			25
Total debt and equity securities	$ 25	$ 386,411	$ 7,136	$ 393,572
Assets measured at fair value on a recurring basis:				
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,704	$ 2,704
Impaired loans measured on a non-recurring basis	$	$	$ 32,697	$ 32,697
Mortgage servicing rights	$	$	$ 575	$ 575

	Fair Value Measurement at September 30, 2015			
Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of September 30, 2014
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 237,007	$	$ 237,007
Obligations of states and political subdivisions		51,625		51,625
U.S. government agencies		46,186		46,186
Corporate obligations		20,360	2,000	22,360
Trust-preferred securities			1,711	1,711
Other debt securities		19,993	500	20,493
Equity securities-financial services	25			25
Total debt and equity securities	$ 25	$ 375,171	$ 4,211	$ 379,407

Assets measured at fair value on a nonrecurring basis:				
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,480	$ 2,480
Impaired loans measured on a non-recurring basis	$	$	$ 32,303	$ 32,303
Mortgage Servicing rights			412	412

Table of Contents

The following table presents a summary of changes in the fair value of the Company s Level III investments for the three month periods ended December 31, 2015 and December 31, 2014 (in thousands).

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	Three months ended	
	December 31, 2015	December 31, 2014
Beginning balance	$ 4,211	$ 2,230
Purchases, sales, issuances, settlements, net	3,000	
Total unrealized gain:		
Included in earnings		
Included in other comprehensive income	(75)	(30)
Transfers in and/or out of Level III		
	$ 7,136	$ 2,200

Each financial asset and liability is 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 Company 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. A few securities are valued using Level 3 inputs, most of these are classified as available for sale

and are reported at fair value using Level 3 inputs. 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 December 31, 2015, 240 impaired loans with a carrying value of $33.4 million were reduced by specific valuation allowance totaling $723,000 resulting in a net fair value of $32.7 million based on Level 3 inputs. At September 30, 2015, 227 impaired loans with a carrying value of $32.9 million were reduced by a specific valuation totaling $568,000 resulting in a net fair value of $32.3 million based on Level 3 inputs.

Table of Contents

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 3 Fair Value Measurements			
(in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
December 31, 2015:				
Impaired loans	$ 32,697	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 50% (20.2%)
Foreclosed real estate owned	2,704	Appraisal of collateral (1)	Appraisal adjustments (2)	20% to 35% (18.2%)
Mortgage servicing rights	575	Discounted cash flow	Discount rate	6% to 11% (10.3%)
			Prepayment speeds	6% to 32% (14.3%)

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
September 30, 2015:				
Impaired loans	$ 32,303	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 60% (22.3%)
Foreclosed real estate owned	2,480	Appraisal of collateral (1)	Appraisal adjustments (2)	20% to 46% (21.3%)
Mortgage servicing rights	412	Discounted cash flow	Discount rate	6% to 11% (10.1%)
			Prepayment speeds	5% to 79% (17.9%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 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.

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

Table of Contents

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, 2015				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 25,728	$ 25,728	$	$	$ 25,728
Certificates of deposit	1,500			1,513	1,513
Investment and mortgage backed securities available for sale	393,572	25	386,411	7,136	393,572
Loans receivable, net	1,228,007			1,233,511	1,233,511
Accrued interest receivable	5,601	5,601			5,601
Regulatory stock	14,679	14,679			14,679
Mortgage servicing rights	575			575	575
Bank owned life insurance	30,885	30,885			30,885
Financial liabilities:					
Deposits	$ 1,240,170	$ 605,439	$	$ 636,267	$ 1,241,706
Short-term borrowings	84,052	84,052			84,052
Other borrowings	249,101			249,076	249,076
Advances by borrowers for taxes and insurance	6,992	6,992			6,992
Accrued interest payable	1,101	1,101			1,101

	September 30, 2015				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 18,758	$ 18,758	$	$	$ 18,758
Certificates of deposit	1,750			1,774	1,774
Investment and mortgage backed securities available for sale	379,407	25	375,171	4,211	379,407
Loans receivable, net	1,102,118			1,123,436	1,123,436
Accrued interest receivable	5,068	5,068			5,068
Regulatory stock	13,831	13,831			13,831
Mortgage servicing rights	412			412	412
Bank owned life insurance	30,655	30,655			30,655
Financial liabilities:					
Deposits	$ 1,096,754	$ 500,427	$	$ 600,250	1,100,677
Short-term borrowings	91,339	91,339			91,339
Other borrowings	229,101			230,255	230,255
Advances by borrowers for taxes and insurance	4,273	4,273			4,273

Accrued interest payable	866	866		866

31

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 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 Regulatory 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 Regulatory stock is not actively traded on a secondary market and held exclusively by member financial institutions, the fair market value approximates the carrying amount. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management s best estimate is used. Management s best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

Loans Receivable

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage Servicing Rights

The Company utilizes a third party provider to estimate the fair value of certain loan servicing rights. Fair value for the purpose of this measurement is defined as the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced liquidation.

Deposits

The fair values disclosed for demand, savings, and money market deposit accounts are valued at the amount payable on demand as of quarter-end. Fair values for time deposits 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 of similar remaining maturities.

Table of Contents

Other Borrowings

Fair values for 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 other 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.

12. Accumulated Other Comprehensive Income/(Loss)

The activity in accumulated other comprehensive income/(loss) for the three and three months ended December 31, 2015 and 2014 is as follows (in thousands):

		Accumulated Other Comprehensive Income/(Loss)	
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Total
Balance at September 30, 2015	$ (5,325)	$ 2,930	$ (2,395)
Other comprehensive loss before reclassifications		(2,244)	(2,244)
Amounts reclassified from accumulated other comprehensive loss, net of tax	79	(2)	77
Period change	79	(2,246)	(2,167)
Balance at December 31, 2015	$ (5,246)	$ 684	$ (4,562)
Balance at September 30, 2014	$ (3,228)	$ 649	$ (2,579)
Other comprehensive income before reclassifications		1,808	1,808
Amounts reclassified from accumulated other comprehensive loss, net of tax	40		40
Period change	40	1,808	1,848
Balance at December 31, 2014	$ (3,188)	$ 2,457	$ (731)

	Amount Reclassified from Accumulated Other Comprehensive Income Accumulated Other Comprehensive Income for the Three months Ended December 31,		Affected Line Item in the Consolidated Statement of Income
	2015	2014	
Securities available for sale:			
Securities gains reclassified into earnings	$ 3	$	Gain on sale of investments
Related income tax expense	(1)		Income taxes
Net effect on accumulated other comprehensive loss for the period	2		Net of tax
Defined benefit pension plan:			
Amortization of net loss	(120)	(60)	Compensation and employee benefits
Related income tax expense	41	20	Income taxes
Net effect on accumulated other comprehensive loss for the period	$ (79)	$ (40)	Net of tax
Total reclassification for the period	$ (77)	$ (40)	Net of tax

Table of Contents

13. Acquisitions
Acquisition of Eagle National Bancorp, Inc.

On December 4, 2015, the Company closed on a merger transaction pursuant to which ESSA Bancorp, Inc. acquired Eagle National Bancorp, Inc. (ENB) and its wholly owned subsidiary Eagle National Bank, in a cash transaction. The acquisition added five branch locations in the Philadelphia, Pennsylvania market, establishing ESSA s presence in that market.

Under the terms of the merger agreement, the Company acquired all of the outstanding shares of ENB, for a total cash purchase price of approximately $24.7 million. Eagle National 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 ENB. The Company also recorded an identifiable intangible asset representing the core deposit base of ENB based on management s evaluation of the cost of such deposits relative to alternative funding sources. Management used market quotations to measure the fair value of investment securities. The business combination resulted in the acquisition of loans with and without evidence of credit quality deterioration. ENB 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 $3.5 million of purchased credit-impaired loans subject to a nonaccretable difference of $2.0 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 as amortized cost.

ENB s loans without evidence of credit deterioration were measured to 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, ENB s loan portfolio without evidence of deterioration totaled $120.7 million and was recorded at a fair value of $121.4 million.

The following condensed statement reflects the values assigned to ENB net assets as of the acquisitions date:

Total purchase price	$	24,655
Net assets acquired:		
Cash	$	8,481
Investments available for sale		36,275
Loans receivable		123,380
Regulatory stock		889
Premises and equipment, net		945
Intangible assets		1,491
Deferred tax assets		715
Other assets		2,174

Certificates of deposits	(32,408)
Deposits other than certificates of deposits	(119,865)
Other liabilities	(964)
	21,113
Goodwill resulting from the ENB merger	3,542

34

Table of Contents

Results of operations for ENB prior to the acquisition date are not included in the Consolidated Statement of Income for the three month period ended December 31, 2015. The following table presents financial information regarding the former Eagle National Bank operations included in the Consolidated Statement of Income from the date of acquisition through December 31, 2015 under column Actual from acquisition date through December 31, 2015. In addition, the following table presents unaudited pro forma information as if the acquisition of ENB had occurred on October 1, 2014 under the Pro Forma columns. The table below has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited pro forma information does not reflect management s estimate of any revenue-enhancing opportunities nor anticipated cost savings as a result of the integration and consolidation of the acquisition. Merger and acquisition integration costs and amortization of fair value adjustments net of the related income tax effects are included in the amounts below.

	Actual From Acquisition Date Through December 31, 2015 (in thousands)
Net interest income	$ 473
Non interest income	31
Net income	$ 14

	Pro Formas Three months ended December 31,	
	2015	2014
	(in thousands, except per share data)	
Net interest income	$ 12,476	$ 12,723
Non interest income	1,899	1,962
Net income	308	2,492
Pro forma earnings per share:		
Basic	$ 0.03	$ 0.24
Diluted	$ 0.03	$ 0.24

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;
- 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 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, 2015 and September 30, 2015

Total Assets. Total assets increased by $156.9 million, or 9.8%, to $1.76 billion at December 31, 2015 from $1.61 billion at September 30, 2015. The acquisition of ENB was the primary reason for the increase. At the acquisition date of December 4, 2015, ENB had total assets of $173.7 million, including total loans of $124.2 million and total deposits of $152.2 million. After subtracting the acquisition purchase price of $24.7 million and purchase accounting adjustments, net assets contributed at the acquisition date were $153.2 million.

Total Cash and Cash Equivalents. Total cash and cash equivalents increased $7.0 million, or 37.2%, to $25.7 million at December 31, 2015 from $18.8 million at September 30, 2015. Increases in cash and due from banks of $5.5 million in interest bearing deposits with other institutions of $1.4 million were the primary reasons for the increase.

Net Loans. Net loans increased $125.9 million, or 11.4%, to $1.23 billion at December 31, 2015 from $1.10 billion at September 30, 2015. Net loans acquired from ENB in the merger were $123.4 million. During this period, construction loans increased $986,000 to $1.9 million, commercial real estate loans increased $89.8 million to $289.8 million, commercial loans increased $18.0 million to $52.3 million, home equity loans and lines of credit increased $8.0 million to $47.9 million, auto loans increased $11.6 million to $173.8 million and other loans increased $283,000 to $3.6 million. These increases were partially offset by decreases in residential loans of $541,000 to $610.0 million, and obligations of states and political subdivisions of $1.9 million to $57.9 million.

Investment Securities Available for Sale. Investment securities available for sale increased $14.2 million, or 3.7%, to $393.6 million at December 31, 2015 from $379.4 million at September 30, 2015. Net investment securities acquired from ENB in the merger were $20.3 million. The increase was due primarily to increases in mortgage backed securities of $8.0 million, and corporate obligations of $9.5 million, offset in part by decreases in obligations of states and political subdivisions of $1.6 million, US government agency securities of $753,000, trust preferred securities of $61,000 and other debt securities of $918,000.

Deposits. Deposits increased $143.4 million, or 13.1%, to $1.24 billion at December 31, 2015 from $1.10 billion at September 30, 2015 primarily as a result of the ENB acquisition. Net deposits acquired from ENB in the merger were $152.3 million. With the exception of interest bearing demand accounts, which declined $11.1 million, all deposit categories increased the largest being a $54.5 million increase in non-interest bearing demand accounts. At December 31, 2015, compared to September 30, 2015, certificates of deposit, which increased $38.4 million to $634.7 million, included an increase in brokered certificates of $22.8 million to $294.7 million.

Borrowed Funds. Borrowed funds increased by $12.7 million, or 4.0%, to $333.2 million at December 31, 2015, from $320.4 million at September 30, 2015. No borrowings were assumed from ENB in the merger. The increase in borrowed funds was due to increases in other borrowings of $20.0 million offset by a decrease in short term borrowings of $7.3 million. All borrowings at December 31, 2015 represent advances from the Pittsburgh FHLB.

Stockholders Equity. Stockholders equity decreased by $1.3 million, or 0.7% to $170.0 million at December 31, 2015 from $171.3 million at September 30, 2015. The decrease in stockholders equity was due to the change to accumulated other comprehensive loss, the payment of dividends and the repurchase of common stock, were partially offset by net income.

Table of Contents

Average Balance Sheets for the Three Months Ended December 31, 2015 and 2014

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,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Yield/Cost	Average Balance	Interest Income/ Expense	Yield/Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans[1]	$ 1,144,346	$ 11,574	4.01%	$ 1,067,240	$ 11,449	4.26%
Investment Securities						
Taxable[2]	86,498	497	2.28%	80,914	505	2.48%
Exempt from federal income tax[2][3]	40,145	244	3.65%	34,609	234	4.06%
Total investment securities	126,643	741	2.72%	115,523	739	2.95%
Mortgage-backed securities	258,653	1,321	2.03%	268,113	1,384	2.05%
Regulatory stock	14,471	175	4.80%	12,671	129	4.04%
Other	3,628	4	0.44%	3,368	7	0.82%
Total interest-earning assets	1,547,741	13,815	3.57%	1,466,915	13,708	3.74%
Allowance for loan losses	(8,981)			(8,566)		
Noninterest-earning assets	111,446			112,044		
Total assets	$ 1,650,206			$ 1,570,393		
Interest-bearing liabilities:						
Interest bearing demand accounts	$ 101,478	$ 25	0.10%	$ 130,681	26	0.08%
Money market accounts	176,775	102	0.23%	196,783	125	0.25%
Savings and club accounts	127,511	16	0.05%	118,418	15	0.05%
Certificates of deposit	609,525	1,702	1.11%	593,364	1,799	1.20%
Borrowed funds	332,636	878	1.05%	277,908	693	0.99%
Total interest-bearing liabilities	1,347,925	2,723	0.80%	1,317,154	2,658	0.80%
Non-interest-bearing demand accounts	110,806			68,243		
Non-interest-bearing liabilities	18,833			15,070		
Total liabilities	1,477,564			1,400,467		
Equity	172,642			169,926		

Total liabilities and equity	$ 1,650,206			$ 1,570,393		
Net interest income		$ 11,092			$ 11,050	
Interest rate spread			2.77%			2.94%
Net interest-earning assets	$ 199,816			$ 149,761		
Net interest margin			2.84%			2.99%
Average interest-earning assets to average interest-bearing liabilities		114.82%			111.37%	

(1) Non-accruing loans are included in the outstanding loan balances.
(2) 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, 2015 and December 31, 2014

Net Income. Net income decreased $639,000, or 24.6%, to $2.0 million for the three months ended December 31, 2015 compared to net income of $2.6 million for the comparable period in 2014. The decrease was due primarily to increases in non-interest expense partially offset by increases in net interest income and non-interest income.

Net Interest Income. Net interest income increased $42,000, or 0.4%, to $11.1 million for the three months ended December 31, 2015 from $11.1 million for the comparable period in 2014. The increase was primarily attributable to an increase in the Company s average balance of net interest earning assets of $50.1 million, offset in part by a decrease in the Company s interest rate spread to 2.77% for the three months ended December 31, 2015 from 2.94% for the comparable period in 2014. Net interest-earning assets increased primarily due to the Company s acquisition of ENB on December 4, 2015.

Interest Income. Interest income increased $107,000, or 0.8%, to $13.8 million for the three months ended December 31, 2015 from $13.7 million for the comparable 2014 period. The increase resulted primarily from an increase in the average balance of interest earning assets of $80.8 million, offset in part by a decrease in the yield on interest earning assets of 17 basis points. The average yield on interest earning assets was 3.57% for the three months ended December 31, 2015, as compared to 3.74% for the comparable 2014 period. Loans increased on average $77.1 million between the two periods. In addition, average investment securities increased $11.1 million, mortgage-backed securities decreased $9.5 million, regulatory stock increased $1.8 million and other interest earning assets increased $260,000.

Interest Expense. Interest expense increased $65,000, or 2.5%, to $2.7 million for the three months ended December 31, 2015 from $2.7 million for the comparable 2014 period. The increase resulted from an increase in average interest bearing liabilities of $30.8 million. Increases in average balances of borrowed funds, certificates of deposit and savings and club accounts were offset by declines in interest bearing demand accounts and money market accounts. For the three months ended December 31, 2015 and 2014 the average cost of interest bearing liabilities was 0.80%.

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 $600,000 for the three month period ended December 31, 2015 compared to $450,000 for the three month period ended December 31, 2014. The allowance for loan losses was $9.3 million, or 0.75% of loans outstanding, at December 31, 2015, compared to $8.9 million, or 0.80% of loans outstanding at September 30, 2015. Purchased loans were initially recorded at fair market value and did not require an additional allowance at December 31, 2015.

Non-interest Income. Non-interest income increased $3,000, or 0.2%, to $1.8 million for the three months ended December 31, 2015 from $1.8 million for the comparable period in 2014.

Non-interest Expense. Non-interest expense increased $820,000, or 9.2%, to $9.8 million for the three months ended December 31, 2015 from $9.0 million for the comparable period in 2014. The primary reasons for the increase were increases in compensation and employee benefits of $464,000, occupancy and equipment of $128,000, data processing of $106,000, foreclosed real estate of $28,000, merger related costs of $245,000 and amortization of intangible assets of $8,000 which were offset in part by declines in professional fees of $61,000, advertising of

$41,000 and other expenses of $43,000. The increase in compensation and employee benefits included expenses related primarily to the addition of former ENB employees as well as additional expenses related to the Company s qualified and non-qualified benefit plans.

Income Taxes. Income tax expense decreased $286,000 to $566,000 for the three months ended December 31, 2015 from $852,000 for the comparable 2014 period. The decrease was primarily a result of the decrease in income before taxes of $925,000 for the three months ended December 31, 2015 and a decline in the effective tax rate. The effective tax rate was 22.4% for the three months ended December 31, 2015, compared to 24.7% for the 2014 period.

Table of Contents

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, 2015	September 30, 2015
Non-performing assets:		
Non-accruing loans	$ 22,598	$ 20,105
Total non-performing loans	22,598	20,105
Foreclosed real estate	2,704	2,480
Other repossessed assets	99	64
Total non-performing assets	$ 25,401	$ 22,649
Ratio of non-performing loans to total loans	1.83%	1.81%
Ratio of non-performing loans to total assets	1.28%	1.25%
Ratio of non-performing assets to total assets	1.44%	1.41%
Ratio of allowance for loan losses to total loans	0.75%	0.80%

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. Non-performing assets increased $2.8 million to $25.4 million at December 31, 2015 from $22.6 million at September 30, 2015. Non-performing loans increased $2.5 million to $22.6 million at December 31, 2015 from $20.1 million at September 30, 2015. The year to date increase was primarily due to the addition of non-performing loans acquired as a result of the merger with ENB. The number of nonperforming residential loans remained at 96 for December 31, 2015, and September 30, 2014. The $22.6 million of non-accruing loans at December 31, 2015 included 94 residential loans with an aggregate outstanding balance of $9.5 million, 57 commercial and commercial real estate loans with aggregate outstanding balances of $11.2 million and 57 consumer loans with aggregate balances of $1.9 million. Within the residential loan balance are $4.4 million of loans less than 90 days past due. In the quarter ended December 31, 2015, the Company identified 35 residential loans which, although paying as agreed, have a high probability of default. Foreclosed real estate increased $224,000 to $2.7 million at December 31, 2015 from $2.5 million at September 30, 2015. Foreclosed real estate consists of 28 residential properties, five building lots and three commercial properties.

At December 31, 2015, the principal balance of troubled debt restructures was $6.5 million as compared to $7.6 million at September 30, 2015. Of the $6.5 million of troubled debt restructures at December 31, 2015, $621,000 are performing loans and $5.1 million are non-accrual loans.

Of the 52 loans that comprise our troubled debt restructures at December 31, 2015, no loans were granted a rate concession at a below market interest rate. Twenty-four loans with balances totaling $3.3 million were granted market rate and terms concessions, 11 loans totaling $963,000 were granted an interest rate concession and 19 loans with balances totaling $2.3 million were granted term concessions.

As of December 31, 2015, troubled debt restructures were comprised of 47 residential loans totaling $5.6 million, 4 commercial and commercial real estate loans totaling $617,000, and three consumer (home equity loans, home equity lines and credit, and other) loans totaling $263,000.

For the three month period ended December 31, 2015, four loans totaling $508,000 were removed from non-performing TDR status due to completion of one year of consecutive timely payments, two loans totaling $298,000 were paid in full and two loans were foreclosed totaling $294,000.

We have modified terms of loans that do not meet the definition of a TDR. The vast majority of such loans were rate modifications of residential first mortgage loans in lieu of refinancing. The non-TDR rate modifications were all performing loans when the rates were reset to current market rates. For the three months ended December 31, 2015, we modified eight loans totaling $1.2 million in this fashion. With regard to commercial loans, including commercial real estate loans, there were three loans in the three months ended December 31, 2015 totaling $634,000.

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.

Table of Contents

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.

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, 2015, $25.7 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 $7.8 million at December 31, 2015. As of December 31, 2015, we had $333.2 million in borrowings outstanding from FHLBank Pittsburgh. We have access to total FHLBank advances of up to approximately $552.0 million.

At December 31, 2015, we had $138.1 million in loan commitments outstanding, which included, in part, $43.4 million in undisbursed construction loans and land development loans, $36.3 million in unused home equity lines of credit, $54.4 million in commercial lines of credit and commitments to originate commercial loans, $3.3 million in performance standby letters of credit and $734,000 in other unused commitments which are primarily to originate residential mortgage loans and multifamily loans. Certificates of deposit due within one year of December 31, 2015 totaled $314.3 million, or 49.5% 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, 2016. 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 $3.4 million and $3.5 million for the three months ended December 31, 2015 and 2014, 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 (used for) provided by investing activities was ($1.7) million and $4.7 million for the three months ended December 31, 2015 and 2014, 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 by (used for) of $5.3 million and ($10.1) million for the three months ended December 31, 2015 and 2014, 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 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.

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 2015 or 2014.

The other intangibles assets are assigned useful lives, which are amortized on an accelerated basis over their weighted-average lives. The Company periodically reviews the intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Based on these reviews, no impairment was recorded in 2015 and 2014.

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 also maintains a defined contribution Section 401(k) plan covering eligible employees. 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.

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 a 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.

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 that would adversely affect our operating results.

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 2016, the Company s contractual obligations did not change materially from those discussed in the Company s Financial Statements for the year ended September 30, 2015.

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 Company s stock 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, 2015.

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 changes made in the Company s internal controls over financial reporting (as defined by rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) or in other factors that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting during the period covered by this report.

Table of Contents

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

In addition to the risk factors relating the Company that were disclosed in response to Item 1A of Form 10-K for the year ended September 30, 2015, the following additional risk factor exists relating to the recently announced execution of a merger agreement by and among the Company and ENB, Inc., the holding company to Eagle National Bank:

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 ENB 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 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, 2015.

Company Purchases of Common Stock

Month Ending	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 31, 2015	3,500	$ 12.99	3,500	19,200
November 30, 2015	18,000	13.29	18,000	1,200
December 31, 2015	1,200	13.28	1,200	
Total	22,700	$ 13.24	22,700	

On February 27, 2014, the Board of Directors approved a sixth stock repurchase program, which authorized the repurchase of up to 5% of the Company s outstanding shares of common stock. Stock repurchases will be made from time to time and may be effected through open market purchases, block trades and in privately negotiated transactions.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

3.1	Articles of Incorporation of ESSA Bancorp, Inc.*
3.2	Bylaws of ESSA Bancorp, Inc.*
4	Form of Common Stock Certificate of ESSA Bancorp, Inc.*

10.1	Amended and Restated Employment Agreement for Gary S, Olson**
10.2	Amended and Restated Employment Agreement for Allan A, Muto**
10.3	Amended and Restated Employment Agreement for Diane K, Reimer **
10.4	Amended and Restated Employment Agreement for V, Gail Bryant (Warner)**
10.5	Supplemental Executive Retirement Plan**
10.6	Endorsement Split Dollar Life Insurance Agreement for Gary S, Olson**
10.7	Endorsement Split Dollar Life Insurance Agreement for Allan A, Muto **
10.8	Endorsement Split Dollar Life Insurance Agreement for Diane K, Reimer **
10.9	Endorsement Split Dollar Life Insurance Agreement for V, Gail Bryant (Warner)**
10.10	ESSA Bancorp, Inc. 2007 Equity Incentive Plan***
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	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition; (ii) the Consolidated Statement of Income; (iii) the Consolidated Statement of Changes in Stockholder Equity; the Consolidated Statement of Cash Flows; and (iv) the Notes to Consolidated Financial Statements.

* 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.

*** 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.

Table of Contents

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, 2016	/s/ Gary S, Olson Gary S, Olson President and Chief Executive Officer
Date: February 9, 2016	/s/ Allan A, Muto Allan A, Muto Executive Vice President and Chief Financial Officer