ESSA Bancorp, Inc.
Form 10-Q
May 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

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 incorporation or organization)	**(I.R.S. Employer 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 ¨ 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 May 6, 2011 there were 12,778,790 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	March 31, 2011	September 30, 2010
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 8,054	$ 7,454
Interest-bearing deposits with other institutions	12,155	3,436
Total cash and cash equivalents	20,209	10,890
Investment securities available for sale	251,862	252,341
Investment securities held to maturity (estimated fair value of $10,179 and $13,254)	9,971	12,795
Loans receivable (net of allowance for loan losses of $8,129 and $7,448)	744,108	730,842
Federal Home Loan Bank stock	18,706	20,727
Premises and equipment	11,858	12,189
Bank-owned life insurance	17,886	15,618
Foreclosed real estate	3,160	2,034
Other assets	16,112	14,561
TOTAL ASSETS	$ 1,093,872	$ 1,071,997
LIABILITIES		
Deposits	$ 632,213	$ 540,410
Short-term borrowings		14,719
Other borrowings	286,657	335,357
Advances by borrowers for taxes and insurance	4,416	1,465
Other liabilities	8,018	8,423
TOTAL LIABILITIES	931,304	900,374
Commitment and contingencies		
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized, none issued)		
Common stock ($.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 12,819,971 and 13,482,612 outstanding at March 31, 2011 and September 30, 2010)	170	170
Additional paid in capital	165,652	164,494
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,664)	(11,891)
Retained earnings	65,309	64,272
Treasury stock, at cost; 4,160,929 and 3,498,288 shares at March 31, 2011 and September 30, 2010, respectively	(53,346)	(44,870)
Accumulated other comprehensive loss	(3,553)	(552)
TOTAL STOCKHOLDERS EQUITY	162,568	171,623

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,093,872	$ 1,071,997

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Six Months Ended March 31, 2011	For the Six Months Ended March 31, 2010
	(dollars in thousands, except per share data)			
INTEREST INCOME				
Loans receivable	$ 9,795	$ 10,166	$ 19,639	$ 20,507
Investment securities:				
Taxable	2,016	2,164	3,938	4,401
Exempt from federal income tax	75	77	153	160
Other investment income	1	1	1	2
Total interest income	11,887	12,408	23,731	25,070
INTEREST EXPENSE				
Deposits	1,795	1,458	3,491	2,864
Short-term borrowings	23	35	45	84
Other borrowings	2,727	3,711	5,723	7,635
Total interest expense	4,545	5,204	9,259	10,583
NET INTEREST INCOME	7,342	7,204	14,472	14,487
Provision for loan losses	650	650	1,130	1,150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,692	6,554	13,342	13,337
NONINTEREST INCOME				
Service fees on deposit accounts	729	777	1,491	1,604
Services charges and fees on loans	145	124	355	225
Trust and investment fees	195	212	406	432
Gain on sale of investments, net	115	308	115	308
Gain on sale of loans, net		40	3	195
Earnings on bank-owned life insurance	131	135	268	275
Other	8	11	20	24
Total noninterest income	1,323	1,607	2,658	3,063
NONINTEREST EXPENSE				
Compensation and employee benefits	3,933	3,601	7,813	7,337
Occupancy and equipment	796	763	1,573	1,322
Professional fees	420	386	849	763
Data processing	481	467	930	917
Advertising	183	166	369	264
Federal Deposit Insurance Corporation (FDIC) premiums	222	123	406	481
(Gain)/Loss on foreclosed real estate	(94)		12	1,200
Other	514	539	1,141	992

Total noninterest expense	6,455	6,045	13,093	13,276
Income before income taxes	1,560	2,116	2,907	3,124
Income taxes	345	513	680	727
NET INCOME	$ 1,215	$ 1,603	$ 2,227	$ 2,397
Earnings per share				
Basic	$ 0.10	$ 0.12	$ 0.19	$ 0.18
Diluted	$ 0.10	$ 0.12	$ 0.19	$ 0.18
Dividends per share	$ 0.05	$ 0.05	$ 0.10	$ 0.10

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock							
	Number of Shares	Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Stockholders Equity
	(Dollars in thousands, except number of shares)							
Balance, September 30, 2010	13,482,612	$ 170	$ 164,494	$ (11,891)	$ 64,272	$ (44,870)	$ (552)	$ 171,623
Net income					2,227			2,227
Other comprehensive (loss):								
Unrealized loss on securities available for sale, net of income tax benefit of $1,616							(3,137)	(3,137)
Change in unrecognized pension cost, net of income taxes of $70							136	136
Cash dividends declared ($.10 per share)					(1,190)			(1,190)
Stock based compensation			1,094					1,094
Allocation of ESOP stock			64	227				291
Treasury shares purchased	(662,641)					(8,476)		(8,476)
Balance, March 31, 2011	12,819,971	$ 170	$ 165,652	$ (11,664)	$ 65,309	$ (53,346)	$ (3,553)	$ 162,568

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended March 31, 2011	2010
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 2,227	$ 2,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,130	1,150
Provision for depreciation and amortization	572	579
Accretion of discounts and premiums, net	668	249
Gain on sale of investment securities, net	(115)	(308)
Gain on sale of loans, net	(3)	(195)
Origination of mortgage loans sold	(97)	(8,218)
Proceeds from sale of mortgage loans originated for sale	100	8,413
Compensation expense on ESOP	291	279
Stock based compensation	1,094	1,070
Decrease in accrued interest receivable	194	5
Decrease in accrued interest payable	(164)	(95)
Earnings on bank-owned life insurance	(268)	(275)
Deferred federal income taxes	(628)	179
Prepaid FDIC premiums	372	(1,600)
Loss on foreclosed real estate	224	1,200
Other, net	(434)	(1,339)
Net cash provided by operating activities	5,163	3,491
INVESTING ACTIVITIES		
Proceeds from repayments of certificates of deposit		3,385
Investment securities available for sale:		
Proceeds from sale of investment securities	6,209	13,940
Proceeds from principal repayments and maturities	53,701	31,199
Purchases	(64,739)	(52,018)
Investment securities held to maturity:		
Proceeds from sale of investment securities	643	
Proceeds from principal repayments and maturities	2,174	1,633
Purchases		(10,163)
(Increase) decrease in loans receivable, net	(15,895)	3,396
Redemption of FHLB stock	2,021	
Purchase of bank owned life insurance	(2,000)	
Proceeds from sale of other real estate	192	
Capital improvements to foreclosed real estate	(20)	(43)
Purchase of premises, equipment, and software	(271)	(2,158)
Net cash used for investing activities	(17,985)	(10,829)
FINANCING ACTIVITIES		
Increase in deposits, net	91,803	73,672

Net decrease in short-term borrowings	(14,719)	(33,091)
Proceeds from other borrowings	8,300	15,750
Repayment of other borrowings	(57,000)	(35,500)
Increase in advances by borrowers for taxes and insurance	2,951	2,846
Purchase of treasury stock	(8,004)	(7,694)
Dividends on common stock	(1,190)	(1,323)
Net cash provided by financing activities	22,141	14,660
Increase in cash and cash equivalents	9,319	7,322
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,890	18,593
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 20,209	$ 25,915
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 9,423	$ 10,678
Income taxes	1,775	1,246
Noncash items:		
Transfers from loans to foreclosed real estate	1,508	379
Treasury stock payable	472	$ (345)

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

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

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

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

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three and six month periods ended March 31, 2011 and 2010.

	Three months ended		Six months ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Weighted-average common shares outstanding	16,980,900	16,980,900	16,980,900	16,980,900
Average treasury stock shares	(3,870,623)	(2,501,794)	(3,763,624)	(2,386,935)
Average unearned ESOP shares	(1,159,939)	(1,205,215)	(1,165,659)	(1,210,935)
Average unearned non-vested shares	(274,148)	(393,162)	(278,867)	(398,124)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	11,676,190	12,880,729	11,772,750	12,984,906
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share				
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	9,690		6,273	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	11,685,880	12,880,729	11,779,023	12,984,906

At March 31, 2011 and 2010 there were options to purchase 317,910 and 1,458,379 shares, respectively, of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At March 31, 2011 and 2010 there were 253,960 and 372,026 shares, respectively, of nonvested stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

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3. Use of Estimates in the Preparation of Financial Statements

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

4. Comprehensive Income

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

	Three Months Ended March 31		Six Months Ended March 31	
	2011	2010	2011	2010
Net income	$ 1,215	$ 1,603	$ 2,227	$ 2,397
Unrealized loss on securities available for sale	(385)	(281)	(4,638)	(1,100)
Realized gains included in net income	(115)	(308)	(115)	(308)
Change in unrecognized pension cost	103	79	206	156
Other comprehensive loss before tax benefit	(397)	(510)	(4,547)	(1,252)
Income tax benefit related to comprehensive loss	(135)	(173)	(1,546)	(426)
Other comprehensive loss	(262)	(337)	(3,001)	(826)
Comprehensive income (loss)	$ 953	$ 1,266	$ (774)	$ 1,571

5. Recent Accounting Pronouncements

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

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

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

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

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

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

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20, enabling public-entity creditors to provide those disclosures after the FASB clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the FASB proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. The adoption of this guidance in not expected to have a significant impact on the Company s financial statements.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

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6. Investment Securities

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

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 126,130	$ 1,264	$ (1,750)	$ 125,644
Freddie Mac	45,999	1,415	(426)	46,988
Governmental National Mortgage Association	30,661	795	(329)	31,127
Total mortgage-backed securities	202,790	3,474	(2,505)	203,759
Obligations of states and political subdivisions	15,935	280	(279)	15,936
U.S. government agency securities	29,935	125	(113)	29,947
Corporate obligations	2,130	15	(5)	2,140
Total debt securities	250,790	3,894	(2,902)	251,782
Equity securities	11	69		80
Total	$ 250,801	$ 3,963	$ (2,902)	$ 251,862
Held to Maturity				
Fannie Mae	$ 1,413	$ 81	$	$ 1,494
Freddie Mac	8,558	127		8,685
Total	$ 9,971	$ 208	$	$ 10,179

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

The amortized cost and fair value of debt securities at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,061	$ 2,067	$	$
Due after one year through five years	21,608	21,679	786	834
Due after five years through ten years	48,000	48,595	1,033	1,095
Due after ten years	179,121	179,441	8,152	8,250
Total	$ 250,790	$ 251,782	$ 9,971	$ 10,179

For the three and six months ended March 31, 2011, the Company realized gross gains of $148,000 and gross losses of $33,000 and proceeds from the sale of investment securities of $14.0 million. For the three and six months ended March 31, 2010, the Company realized gross gains of $308,000 and proceeds from the sale of investment securities of $13.9 million. Included in the gross gains realized for the three and six months ended March 31, 2011 was $18,000 from the sale of investment securities classified as held to maturity. Proceeds from the sale of these securities were $643,000. The investment remaining in these securities at the time of sale was less than 20% of the original investment.

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7. Unrealized Losses on Securities

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

	March 31, 2011						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	28	$ 67,531	$ (1,750)	$	$	$ 67,531	$ (1,750)
Freddie Mac	6	14,310	(426)			14,310	(426)
Governmental National Mortgage Association	8	13,296	(329)			13,296	(329)
Obligations of states and political subdivisions	5	4,372	(279)			4,372	(279)
U.S. government agency securities	6	11,841	(113)			11,841	(113)
Corporate obligations	1	495	(5)			495	(5)
Total	54	$ 111,845	$ (2,902)	$	$	$ 111,845	$ (2,902)

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

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

The Company reviews its position quarterly and has asserted that at March 31, 2011, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

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

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8. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	March 31, 2011	September 30, 2010
Real Estate Loans:		
Residential	$ 595,470	$ 596,455
Construction	904	1,302
Commercial	96,857	77,943
Commercial	15,169	16,545
Home equity loans and lines of credit	41,770	43,559
Other	2,067	2,486
	752,237	738,290
Less allowance for loan losses	8,129	7,448
Net loans	$ 744,108	$ 730,842

	Real Estate Loans				Home Equity and Lines of Credit		
	Residential	Construction	Commercial	Commercial Loans		Other Loans	Total
				(dollars in thousands)			
March 31, 2011							
Total Loans	$ 595,470	$ 904	$ 96,857	$ 15,169	$ 41,770	$ 2,067	$ 752,237
Individually evaluated for impairment	6,212		5,089	153	298		11,752
Collectively evaluated for impairment	589,258	904	91,768	15,016	41,472	2,067	740,485

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

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

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

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

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	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2011					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 2,922	$ 2,915	$	$ 2,481	$
Construction					
Commercial	3,850	3,855		2,524	
Commercial	116	116		47	
Home equity loans and lines of credit	91	91		25	
Other					
Total	6,979	6,977		5,077	
With an allowance recorded:					
Real Estate Loans					
Residential	3,290	3,286	435	2,806	
Construction					
Commercial	1,239	1,240	247	938	
Commercial	37	37	37	8	
Home equity loans and lines of credit	207	207	109	101	
Other					
Total	4,773	4,770	828	3,853	
Total:					
Real Estate Loans					
Residential	6,212	6,201	435	5,287	
Construction					
Commercial	5,089	5,095	247	3,462	
Commercial	153	153	37	55	
Home equity loans and lines of credit	298	298	109	126	
Other					
Total Impaired Loans	$ 11,752	$ 11,747	$ 828	$ 8,930	$

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

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

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The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of March 31, 2011 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	81,638	1,479	13,740		96,857
Commercial	14,607	284	243	35	15,169
Total	$ 96,245	$ 1,763	$ 13,983	$ 35	$ 112,026

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.

	Performing	Non-performing	Total
March 31, 2011			
Real estate loans:			
Residential	$ 586,283	$ 9,187	$ 595,470
Construction	904		904
Home Equity loans and lines of credit	41,594	176	41,770
Other	1,874	193	2,067
Total	$ 630,655	$ 9,556	$ 640,211

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of March 31, 2011 (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
March 31, 2011							
Real estate loans							
Residential	$ 581,285	$ 3,481	$ 1,517	$	$ 9,187	$ 14,185	$ 595,470
Construction	904						904
Commercial	94,086	410			2,361	2,771	96,857
Commercial	15,039	74			56	130	15,169
Home equity loans and lines of credit	41,094	360	141		175	676	41,770
Other	1,864	3	7		193	203	2,067
Total	$ 734,272	$ 4,328	$ 1,665	$	$ 11,972	$ 17,965	$ 752,237

Non-performing assets, which are composed of non-performing loans of $12.0 million, troubled debt restructures of $322,000, and foreclosed real estate of $3.2 million, were $15.5 million at March 31, 2011. Nonperforming assets were $12.9 million at September 30, 2010. The increase was due to increases of $825,000 in nonperforming residential loans, $807,000 in nonperforming commercial loans and $1.1 million in foreclosed real estate offset, in part, by a decrease of $178,000 in nonperforming consumer loans. Commercial nonperforming loans increased primarily as a result of the addition of two commercial real estate relationships. Nonperforming residential loans increased due to an increase in the average per loan balance of nonperforming residential loans to $180,000 at March 31, 2011 compared to $167,000 at September 30, 2010. The number of nonperforming residential loans at March 31, 2011 increased by one loan to 51 compared to 50 at September 30, 2010. Within the non-performing loans of $12.0 million at March 31, 2011, $4.3 million were impaired loans. As of March 31, 2011, the Company had total impaired loans of $11.5 million which the Company has determined that a reserve of $828,000 is required. Foreclosed real estate was $3.2 million at March 31, 2011 and $2.0 million at September 30, 2010.

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and

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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 March 31, 2011 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

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

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

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2011 (in thousands):

	Real Estate Loans							
	Residential	**Construction**	**Commercial**	**Commercial Loans**	**Home Equity Loans and Lines of Credit**	**Other Loans**	**Unallocated**	**Total**
ALL balance at September 30, 2010	4,462	15	1,556	204	569	22	620	7,448
Charge-offs	(314)			(132)	(101)			(547)
Recoveries	83			1	14			98
Provision	811	(7)	(135)	274	152	2	33	1,130
ALL balance at March 31, 2011	5,042	8	1,421	347	634	24	653	8,129
Individually evaluated for impairment	435		247	37	109			828
Collectively evaluated for impairment	4,607	8	1,174	310	525	24	653	7,301

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated increased provisions to the residential real estate, commercial and home equity loans and lines of credit segments for the six month period ending March 31, 2011 due to increased charge off activity in those segments. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

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

	Six Months Ended March 31, 2011	2010
Balance, beginning of period	$ 7,448	$ 5,815
Add		
Provision charged to operations	1,130	1,150
Loan recoveries	98	26
	8,676	6,991
Less loans charged off	(547)	(396)
Balance, end of period	$ 8,129	$ 6,595

9. Deposits

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

	March 31, 2011	September 30, 2010
Non-interest bearing demand accounts	$ 28,712	$ 30,448
NOW accounts	59,058	61,878
Money market accounts	118,692	119,238
Savings and club accounts	72,511	67,763
Certificates of deposit	353,240	261,083
Total	$ 632,213	$ 540,410

10. Net Periodic Benefit Cost-Defined Benefit Plan

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Service Cost	$ 134	$ 106	$ 267	$ 211
Interest Cost	175	142	349	285
Expected return on plan assets	(193)	(145)	(385)	(290)
Amortization of prior service cost	2	3	4	5
Amortization of unrecognized loss	101	74	202	150

Net periodic benefit cost	$ 219	$ 180	$ 437	$ 361

The Bank expects to contribute $500,000 to its pension plan in fiscal 2011.

11. Equity Incentive Plan

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

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

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

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

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

For the six months ended March 31, 2011 and 2010, the Company recorded $1.1 million of share-based compensation expense, comprised of stock option expense of $362,000 and restricted stock expense of $732,000 for the March 31, 2011 period and stock option expense of $347,000 and restricted stock expense of $724,000 for the March 31, 2010 period. Expected future expense relating to the 863,027 non-vested options outstanding as of March 31, 2011, is $1.5 million over the remaining vesting period of 2.17 years. Expected future compensation expense relating to the 351,638 restricted shares at March 31, 2011, is $3.1 million over the remaining vesting period of 2.17 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 March 31, 2011.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2010	1,458,379	$ 12.35	7.67	$
Granted				
Exercised				
Forfeited				
Outstanding, March 31, 2011	1,458,379	$ 12.35	7.12	$ 1,240
Exercisable at March 31, 2011	595,352	$ 12.35	7.12	$ 506

The weighted-average grant date fair value of the Company s non-vested options as of March 31, 2011 and 2010, was $2.38.

The following is a summary of the status of the Company s restricted stock as of March 31, 2011, and changes therein during the six month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2010	352,448	$ 12.35
Granted		
Vested	810	12.35
Forfeited		
Nonvested at March 31, 2011	351,638	$ 12.35

12. 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.

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The following table presents information about the Company s securities, other real estate owned and impaired loans measured at fair value as of March 31, 2011 and September 30, 2010 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

Fair Value Measurement at March 31, 2011

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 March 31, 2011
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 203,759	$	$ 203,759
Obligations of states and political subdivisions		15,936		15,936
U.S. government agencies		29,947		29,947
Corporate obligations		2,140		2,140
Equity securities	24	56		80
Total debt and equity securities	$ 24	$ 251,838	$	$ 251,862
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 3,160	$ 3,160
Impaired loans measured on a non-recurring basis	$	$	$ 10,924	$ 10,924
Mortgage servicing rights measured on a non-recurring basis	$	$	$ 273	$ 273

Fair Value Measurement at September 30, 2010

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 March 31, 2011
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 187,288	$	$ 187,288
Obligations of states and political subdivisions		10,904		10,904
U.S. government agencies		52,434		52,434
Corporate obligations		1,677		1,677
Equity securities	38			38
Total debt and equity securities	$ 38	$ 252,303	$	$ 252,341
Foreclosed real estate owned measured on a non-recurring basis	$	$ 2,034	$	$ 2,034
Impaired loans measured on a non-recurring basis	$	$ 7,646	$	$ 7,646
Mortgage servicing rights measured on a non-recurring basis	$	$	$ 318	$ 318

As required by generall