ESSA Bancorp, Inc.
Form 10-K
December 14, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

100 F Street NE

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended September 30, 2010

or

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

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania **(State or other jurisdiction of incorporation or organization)**	**20-8023072** **(I.R.S. Employer Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania **(Address of Principal Executive Offices)**	**18360** **Zip Code**

(570) 421-0531

(Registrant s telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 twelve 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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 the definitions of large accelerated filer, 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 December 7, 2010, there were 16,980,900 shares issued and 13,250,290 shares outstanding of the Registrant s Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on March 31, 2010, was $152,294,061.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2010 Annual Meeting of Stockholders of the Registrant (Part III).

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business
Forward Looking Statements

This Annual Report contains certain forward-looking statements which may be identified by the use of words such as believe, expect, anticipate, should, planned, estimated and potential. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

ESSA Bancorp, Inc.

ESSA Bancorp, Inc. is the Pennsylvania-chartered stock holding company of ESSA Bank & Trust. ESSA Bancorp, Inc. owns 100% of the outstanding shares of common stock of ESSA Bank & Trust. Since being formed in 2006, ESSA Bancorp, Inc. has engaged primarily in the business of holding the common stock of ESSA Bank & Trust. Our executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. ESSA Bancorp, Inc. is subject to comprehensive regulation and examination by the Office of Thrift Supervision. At September 30, 2010, ESSA Bancorp, Inc. had consolidated assets of $1.1 billion, consolidated deposits of $540.4 million and consolidated stockholders equity of $171.6 million. Its consolidated net income for the fiscal year ended September 30, 2010 was $4.5 million.

On April 3, 2007, ESSA Bancorp, Inc. consummated its stock offering, resulting in gross proceeds of $158.7 million, through the sale of 15,870,000 shares at a price of $10.00 per share. ESSA Bancorp, Inc. also contributed 1,110,900 shares of its common stock to the ESSA Bank & Trust Foundation along with $1.6 million in cash. Expenses related to the offering were approximately $2.9 million, which resulted in net proceeds of approximately $155.8 million prior to the contribution to the ESSA Bank & Trust Foundation.

ESSA Bancorp, Inc. loaned approximately $13.6 million to the ESSA Bank & Trust s Employee Stock Ownership Plan. ESSA Bancorp, Inc. retained approximately $64.3 million of the net proceeds of the offering prior to the contribution to the ESSA Bank & Trust Foundation, and the remainder of the net proceeds were contributed to ESSA Bank & Trust.

ESSA Bank & Trust

General

ESSA Bank & Trust was organized in 1916. ESSA Bank & Trust is a Pennsylvania chartered full-service, community-oriented savings association. We provide financial services to individuals, families and businesses through our seventeen full-service banking offices, located in Monroe, Northampton and Lehigh Counties, Pennsylvania. ESSA Bank & Trust is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and the Office of Thrift Supervision.

ESSA Bank & Trust s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential first mortgage loans (including construction mortgage loans), commercial real estate loans, home equity loans and lines of credit, commercial and consumer loans. We offer a variety of deposit accounts, including checking, savings and certificates of deposits. We also offer asset management and trust services. We offer investment services through our relationship with PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor.

ESSA Bank & Trust s executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. Our website address is www.essabank.com.

The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission (SEC). All filed SEC reports and interim filings can be obtained from the Bank s website, on the Investor Relations page, without charge from the Company.

Market Area

At September 30, 2010, our seventeen full-service banking offices consisted of thirteen offices in Monroe County, two offices in Lehigh County, and two offices in Northampton County, Pennsylvania. Our primary market for deposits is currently concentrated around the areas where our full-service banking offices are located. Our primary lending area consists of the counties where our branch offices are located, and to a lesser extent, the contiguous counties in the Commonwealth of Pennsylvania.

Monroe County is located in eastern Pennsylvania, situated 90 miles north of Philadelphia, 75 miles west of New York and 116 miles northeast of Harrisburg. Monroe County is comprised of 611 square miles of mostly rural terrain. Major industries include tourism, construction and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. Lehigh County is located southwest of Monroe County. As of June 30, 2010, we had a deposit market share of approximately 23.5% in Monroe County, which represented the largest deposit market share in Monroe County and less than 1.0% in Northampton and Lehigh Counties.

Lending Activities

Historically, our principal lending activity has been the origination of first mortgage loans for the purchase, construction or refinancing of one- to four-family residential real property. During the past five years, we have increased our originations of commercial real estate loans in an effort to increase interest income, diversify our loan portfolio, and better serve the community. These loans have increased from 8.4% of our total loan portfolio at September 30, 2006 to $78.1 million, or 10.6% of our total loan portfolio at September 30, 2010. One- to four-family residential real estate mortgage loans represented $596.2 million, or 80.8%, of our loan portfolio at September 30, 2010. Home equity loans and lines of credit totaled $43.5 million, or 5.9% of our loan portfolio at September 30, 2010. Commercial loans totaled $16.6 million, or 2.2% of our loan portfolio at September 30, 2010 and construction first mortgage loans totaled $1.3 million, or 0.2% of the total loan portfolio at September 30, 2010. We originate other consumer loans on a limited basis.

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At September 30,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential first mortgage loans:										
One- to four-family	$ 596,170	80.8%	$ 603,830	81.7%	$ 572,038	80.3%	$ 500,104	80.0%	$ 452,406	80.4%
Construction	1,302	0.2	1,707	0.2	8,254	1.1	7,800	1.3	5,943	1.1
Commercial	16,569	2.2	16,452	2.2	11,987	1.7	7,699	1.2	6,159	1.1
Commercial real estate	78,056	10.6	68,040	9.2	69,505	9.8	58,447	9.3	47,479	8.4
Home equity loans and lines of credit	43,538	5.9	46,792	6.3	47,508	6.7	47,544	7.6	46,796	8.3
Other	2,486	0.3	2,526	0.4	3,059	0.4	3,875	0.6	4,247	0.7
Total loans receivable	$ 738,121	100.0%	$ 739,347	100.0%	$ 712,351	100.0%	$ 625,469	100.0%	$ 563,030	100.0%
Deferred loan costs (fees)	169		48		(546)		(1,418)		(2,498)	
Allowance for loan losses	(7,448)		(5,815)		(4,915)		(4,206)		(3,855)	
Total loans receivable, net	$ 730,842		$ 733,580		$ 706,890		$ 619,845		$ 556,677	

3

Table of Contents

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2010. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to Four-Family		Construction		Commercial		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
				(Dollars in thousands)				
Due During the Years Ending September 30,								
2011	$ 645	5.92%	$		$ 2,166	4.65%	$ 2,924	6.33%
2012	264	6.69%			296	7.32%	3,653	6.00%
2013	2,920	5.05%			213	6.59%	1,482	6.05%
2014 to 2015	4,377	5.17%			833	6.80%	8,433	6.52%
2016 to 2020	84,144	4.95%			4,313	5.06%	28,173	6.43%
2021 to 2025	156,736	4.93%			2,147	5.23%	6,955	5.81%
2025 and beyond	347,084	5.81%	1,302	5.38%	6,601	4.37%	26,436	5.32%
Total	$ 596,170	5.45%	$ 1,302	5.38%	$ 16,569	4.90%	$ 78,056	5.98%

	Home Equity Loans and Lines of Credit		Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending September 30,						
2011	$ 388	6.92%	$ 694	6.92%	$ 6,817	5.85%
2012	290	6.76%	292	8.50%	4,795	6.31%
2013	538	6.21%	475	8.03%	5,628	5.74%
2014 to 2015	1,857	5.78%	883	7.30%	16,383	6.13%
2016 to 2020	7,903	6.06%	142	8.63%	124,675	5.36%
2021 to 2025	18,792	5.11%			184,630	4.99%
2025 and beyond	13,770	3.48%			395,193	5.67%
Total	$ 43,538	4.83%	$ 2,486	7.55%	$ 738,121	5.46%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2010 that are contractually due after September 30, 2011.

	Due After September 30, 2011		
	Fixed	Adjustable	Total
		(In thousands)	
Residential first mortgage loans:			
One- to four-family	$ 538,546	$ 56,979	$ 595,525
Construction	1,302		1,302
Commercial	11,683	2,720	14,403
Commercial real estate	30,439	44,693	75,132

Home equity loans and lines of credit	21,509	21,641	43,150
Other	1,792		1,792
Total	$ 605,271	$ 126,033	$ 731,304

Loan Originations and Repayments. Historically, we have originated residential mortgage loans pursuant to underwriting standards that generally conform to Fannie Mae and Freddie Mac guidelines. Loan origination activities are primarily concentrated in Monroe, Northampton and Lehigh Counties, Pennsylvania and secondarily from other Pennsylvania counties contiguous to Monroe County. New loans are generated primarily from the efforts of employees and advertising, a network of select mortgage brokers, other parties with whom we do business, customer referrals, and from walk-in customers. Loan applications are underwritten and processed at our corporate center.

One- to Four-Family Residential Loans. Historically, our primary lending activity has consisted of the origination of one- to four-family residential mortgage loans secured primarily by properties located in Monroe and Northampton Counties, Pennsylvania. At September 30, 2010, approximately $596.2 million, or 80.8% of our loan portfolio, consisted of one- to four-family residential loans. Our origination of one- to four-family loans decreased in fiscal year 2010 compared to fiscal years 2009 and 2008. Originations in fiscal year 2010 were positively influenced by a significant amount of refinancing activity due to record low mortgage rates. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, although loans may be made with higher loan-to-value ratios at a higher interest rate to compensate for the risk. Private mortgage insurance is generally required on loans with a loan-to-value ratio in excess of 80%. Fixed-rate loans are originated for terms of 10, 15, 20 and 30 years. At September 30, 2010, our largest loan secured by one- to four-family real estate had a principal balance of approximately $771,000 and was secured by a single family house. This loan was performing in accordance with its repayment terms.

We also offer adjustable-rate mortgage loans which have fixed terms of one, three, five or seven-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated $1.7 million of adjustable rate one- to four-family residential loans during the year ended September 30, 2010 and $5.0 million during the year ended September 30, 2009. Our adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 500 basis points. Our adjustable rate mortgage loans amortize over terms of up to 30 years.

Adjustable rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the principal and interest payments on the loan increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments, permitted by our loan documents; and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At September 30, 2010, $57.0 million, or 9.6%, of our one- to four-family residential loans had adjustable rates of interest.

All one- to four-family residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

Regulations limit the amount that a savings association may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. For all purchase money loans, we utilize outside independent appraisers approved by the Board of Directors. All purchase money borrowers are required to obtain title insurance. Certain modest refinance requests may utilize an automated valuation model and title search. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Home Equity Loans and Lines of Credit. Home equity loans and lines of credit are generated almost exclusively by our branch staff. Eligible properties include primary and vacation homes in northeastern Pennsylvania, with the large majority of loans being originated in Monroe County. As of September 30, 2010, home equity loans and lines totaled about $43.5 million, or 5.9% or our loan portfolio.

The maximum combined loan-to-value originated is currently 70-80%, depending on the collateral and the holder of the first mortgage. There is a modest portion of the portfolio originated in years past that contains original combined loan-to-values of up to 90%. Our home equity lines of credit typically feature a 10 year draw period with interest-only payments permitted, followed by another 10 years of fully amortizing payments with no further ability to draw funds. Similar combined loan-to-value characteristics and standards exist for the lines as are outlined above for the loans.

Loan underwriting standards restrict the size of a junior lien loan to between $100,000 and $200,000, depending on the loan type and collateral. All loans exceeding 70-75% of value require an appraisal by bank-approved, licensed appraisers. Loans with lesser loan-to-value ratios may have utilized either automated valuation models or county tax assessments. Title/lien searches are secured on all home equity loans and lines greater than $25,000.

Table of Contents

Commercial Real Estate Loans. At September 30, 2010, $78.1 million, or 10.6% of our total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. We generally originate adjustable rate commercial real estate loans with an initial term of five years and a repricing option, and a maximum term of up to 25 years. The maximum loan-to-value ratio of our commercial real estate loans is 85%. At September 30, 2010, we had 290 commercial real estate loans with an outstanding balance of $78.1 million. At September 30, 2010, our largest commercial real estate loan balance was $3.7 million, which was performing in accordance with its terms. At September 30, 2010, eight of our loans secured by commercial real estate totaling $1.4 million were not performing in accordance with their terms and were on nonaccrual status.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service. All commercial real estate loans in excess of $250,000 are appraised by outside independent appraisers approved by the Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will occasionally consider waiving this requirement based upon the loan-to-value ratio of the proposed loan. All purchase money and asset refinance borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Loans secured by commercial real estate generally are considered to present greater risk than one- to four-family residential loans. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

First Mortgage Construction Loans. At September 30, 2010, $1.3 million, or 0.2%, of our total loan portfolio consisted of first mortgage construction loans. Most of our first mortgage construction loans are for the construction of residential properties. We currently offer fixed and adjustable-rate residential first mortgage construction loans. First mortgage construction loans are generally structured for permanent mortgage financing once the construction is completed. At September 30, 2010, our largest first mortgage construction loan balance was $241,000. The loan was performing in accordance with its terms. First mortgage construction loans, once converted to permanent financing, generally repay over a thirty-year period. First mortgage construction loans require only the payment of interest during the construction period. First mortgage construction loans will generally be made in amounts of up to 80% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on our inspections in accordance with a schedule reflecting the completion of portions of the project.

First mortgage construction loans generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. The risk of loss on a construction loan depends, in part, upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost of construction.

For all such loans, we utilize outside independent appraisers approved by the Board of Directors. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance on properties.

Other Loans. We offer a variety of loans that are either unsecured or secured by property other than real estate. These loans include loans secured by deposits, personal loans and automobile loans. At September 30, 2010, these other loans totaled $2.5 million, or 0.3% of the total loan portfolio.

Loan Approval Procedures and Authority. The loan approval process is intended to assess the borrower s ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower s ability to repay, we review each borrower s employment and credit history and information on the historical and projected income and expenses of mortgagors. All residential mortgage loans in excess of the conforming loan limit but not more than $500,000 must be approved by one of the following: President or Chief Lending Officer. All loans in excess of $500,000 but not more than $750,000 must be approved by any two of the following: President, Chief Lending Officer and the Vice President, Branch Administration. All loans in excess of $750,000 to $1.25 million must be approved by the Management Loan Committee. The Management Loan Committee consists of the President, Chief Lending Officer, Vice President, Branch Administration and Vice President, Commercial Lending. All loans in excess of $1.25 million must be approved by the Board of Directors.

Non-Performing Loans and Problem Assets

After a real estate secured loan becomes 15 days late, we deliver a computer generated late charge notice to the borrower and will attempt to contact the borrower by telephone. When a loan becomes 30 days delinquent, we send a delinquency letter to the borrower. We then attempt to make satisfactory arrangements to bring the account current, including interviewing the borrower, until the mortgage is brought current or a determination is made to recommend foreclosure, deed-in-lieu of foreclosure or other appropriate action. After 60 days, we will generally refer the matter to the Board of Directors who may authorize legal counsel to commence foreclosure proceedings.

Mortgage loans are reviewed on a regular basis and such loans 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 when the loan is no longer a non-accrual loan.

Non-performing Loans. At September 30, 2010, $10.9 million (or 1.47% of our total loans) were non-performing loans. The majority of these loans, or $8.7 million, were residential first mortgage loans that were 90 days or more past due or troubled debt restructured loans that were considered non-performing at September 30, 2010.

Real Estate Owned. At September 30, 2010, the Company had $2.0 million of real estate owned consisting of eight properties. The majority of the Company s real estate owned consisted of one real estate development project valued at $1.0 million at September 30, 2010. The Company realized a $1.2 million write-down on this development project in December 2009. The write-down was taken to reflect the project s value after an updated appraisal. All these properties are being actively marketed and additional losses may occur.

Table of Contents

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At September 30,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Non-accrual loans:					
Residential first mortgage loans:					
One- to four-family	$ 8,360	$ 3,524	$ 1,379	$ 380	$ 436
Construction					
Commercial	199	122			
Commercial real estate	1,411	580	2,531	122	
Home equity loans and lines of credit	200	180	28	53	40
Other	346	159			
Total	10,516	4,565	3,938	555	476
Accruing loans 90 days or more past due:					
Residential first mortgage loans:					
One- to four-family					
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other					
Total loans 90 days or more past due					
Troubled debt restructurings	361	589			
Total non-performing loans	10,877	5,154	3,938	555	476
Real estate owned	2,034	2,579	31		
Total non-performing assets	$ 12,911	$ 7,733	$ 3,969	$ 555	$ 476
Troubled debt restructurings: *					
Residential first mortgage loans:					
One- to four-family	$ 5,054	$ 2,981	$ 149	$ 482	$ 53
Construction					
Commercial	3				
Commercial real estate	1,865	180			
Home equity loans and lines of credit	21	7			
Other	59				
Total	$ 7,002	$ 3,168	$ 149	$ 482	$ 53
Ratios:					
Total non-performing loans to total loans	1.47%	0.70%	0.55%	0.09%	0.08%
Total non-performing loans to total assets	1.01%	0.49%	0.40%	0.06%	0.07%
Total non-performing assets to total assets	1.20%	0.74%	0.40%	0.06%	0.07%

* Non-performing troubled debt restructurings of $361,000 are included in total troubled debt restructures.

For the year ended September 30, 2010, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $509,000.

Table of Contents

Delinquencies. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent for 90 days or more are generally classified as nonaccrual loans.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At September 30, 2010						
Residential first mortgage loans:						
One- to four-family	6	$ 558	50	$ 8,360	56	$ 8,918
Construction						
Commercial	1	151	2	199	3	350
Commercial real estate	1	107	8	1,411	9	1,518
Home equity loans and lines of credit	5	146	6	200	11	346
Other			3	346	3	346
Total	13	$ 962	69	$ 10,516	82	$ 11,478
At September 30, 2009						
Residential first mortgage loans:						
One- to four-family	11	$ 1,795	19	$ 3,524	30	$ 5,319
Construction						
Commercial			2	122	2	122
Commercial real estate	4	537	4	580	8	1,117
Home equity loans and lines of credit			5	180	5	180
Other	1	6	3	159	4	165
Total	16	$ 2,338	33	$ 4,565	49	$ 6,903
At September 30, 2008						
Residential first mortgage loans:						
One- to four-family	1	$ 118	9	$ 1,379	10	$ 1,497
Construction						
Commercial						
Commercial real estate			4	2,531	4	2,531
Home equity loans and lines of credit	1	37	1	28	2	65
Other						
Total	2	$ 155	14	$ 3,938	16	$ 4,093
At September 30, 2007						
Residential first mortgage loans:						
One- to four-family	2	$ 405	4	$ 380	6	$ 785
Construction						
Commercial						
Commercial real estate	1	25			1	25
Home equity loans and lines of credit			1	53	1	53
Other						
Total	3	$ 430	5	$ 433	8	$ 863
At September 30, 2006						
Residential first mortgage loans:						

One- to four-family		$	5	$ 436	5	$ 436
Construction						
Commercial						
Commercial real estate	1	49			1	49
Home equity loans and lines of credit			1	40	1	40
Other						
Total	1	$ 49	6	$ 476	7	$ 525

Classified Assets. Banking regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions,

Table of Contents

and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, thereby adversely affecting the repayment of the asset.

On the basis of management s review of its assets, at September 30, 2010, we classified approximately $11.0 million of our assets as special mention, $29.5 million as substandard, $165,000 as doubtful, and none as loss. At September 30, 2009, the Company classified approximately $12.8 million of our assets as special mention, $12.9 million as substandard, $104,000 as doubtful and none as loss.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

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 unallocated 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. 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. Loan impairment is measured based on the fair value of collateral method, taking into account the appraised value, any valuation assumptions used, estimated costs to sell and trends in the market since the appraisal date. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. The allowance for loan losses as of September 30, 2010 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

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

Table of Contents

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or For the Years Ended September 30,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Balance at beginning of year	$ 5,815	$ 4,915	$ 4,206	$ 3,855	$ 3,563
Charge-offs:					
Residential first mortgage loans:					
One- to four-family	(190)	(117)	(60)	(7)	
Construction					
Commercial	(53)	(9)	(87)		
Commercial real estate	(186)	(457)			
Home equity loans and lines of credit	(107)	(20)	(19)	(2)	(7)
Other	(36)		(27)	(1)	(2)
Total charge-offs	$ (572)	$ (603)	$ (193)	$ (10)	$ (9)
Recoveries:					
Residential first mortgage loans:					
One- to four-family	$	$	$	$	$
Construction					
Commercial					
Commercial real estate	4				
Home equity loans and lines of credit					
Other	26	3	2	1	1
Total recoveries	$ 30	$ 3	$ 2	$ 1	$ 1
Net charge-offs	$ (542)	$ (600)	$ (191)	$ (9)	$ (8)
Provision for loan losses	2,175	1,500	900	360	300
Balance at end of year	$ 7,448	$ 5,815	$ 4,915	$ 4,206	$ 3,855
Ratios:					
Net charge-offs to average loans outstanding	0.07%	0.08%	0.03%	%	%
Allowance for loan losses to non-performing loans at end of year	68.48%	112.82%	124.81%	757.84%	809.87%
Allowance for loan losses to total loans at end of year	1.01%	0.79%	0.69%	0.67%	0.69%

See Non-Performing Loans and Problem Assets. There can be no assurance that we will not experience a deterioration of our loan portfolio, including increases in non-performing loans, problem assets and charge-offs, in the future.

Table of Contents

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the percent of the allowance to the total allowance and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2010			2009			2008		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential first mortgage loans:									
One- to four-family	$ 4,462	59.91%	80.80%	$ 3,796	65.28%	81.70%	$ 2,862	58.23%	80.30%
Construction	15	0.20	0.20	11	0.19	0.20	41	0.83	1.16
Commercial	204	2.74	2.20	248	4.27	2.20	182	3.70	1.68
Commercial real estate	1,556	20.89	10.60	1,116	19.19	9.20	1,222	24.86	9.76
Home equity loans and lines of credit	569	7.64	5.90	510	8.77	6.30	475	9.67	6.67
Other	22	0.29	0.30	33	0.56	0.40	30	0.61	0.43
Total allocated allowance	6,828	91.67	100.00	5,714	98.26	100.00	4,812	97.90	100.00
Unallocated allowance	620	8.33		101	1.74		103	2.10	
Total allowance for loan losses	$ 7,448	100.00%	100.00%	$ 5,815	100.00%	100.00%	$ 4,915	100.00%	100.00%

	2007			2006		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential first mortgage loans:						
One- to four-family	$ 2,241	53.28%	79.96%	$ 2,026	52.56%	80.36%
Construction	36	0.86	1.25	86	2.23	1.06
Commercial	177	4.21	1.23	133	3.45	1.09
Commercial real estate	986	23.44	9.34	773	20.05	8.43
Home equity loans and lines of credit	610	14.50	7.60	746	19.35	8.31
Other	49	1.17	0.62	46	1.19	0.75
Total allocated allowance	4,099	97.46	100.00	3,810	98.83	100.00
Unallocated allowance	107	2.54		45	1.17	
Total allowance for loan losses	$ 4,206	100.00%	100.00%	$ 3,855	100.00%	100.00%

We use the accrual method of accounting for all performing loans. The accrual of interest income is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. When a loan is placed on nonaccrual status, unpaid interest previously credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectibility of principal. Generally, residential and consumer loans are restored to accrual status when the obligation is brought current in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest is no longer in doubt. Commercial loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest no longer is in doubt.

In our collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on nonaccrual status, it will be subject to transfer to the real estate owned (REO) portfolio (properties acquired by or in lieu of foreclosure), upon which our loan servicing department will pursue the sale of the real estate. Prior to this transfer, the loan balance will be reduced, if necessary, to reflect its current market value less estimated costs to sell. Write downs of REO that occur after the initial transfer from the loan portfolio and costs of holding the property are recorded as other operating expenses, except for significant improvements which are capitalized to the extent that the carrying value does not exceed estimated net realizable value.

Fair values for determining the value of collateral are estimated from various sources, such as real estate appraisals, financial statements and from any other reliable sources of available information. For those loans deemed to be impaired, collateral value is reduced for the estimated costs to sell. Reductions of collateral value are based on historical loss experience, current market data, and any other source of reliable information specific to the collateral.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

Securities Activities

Our securities investment policy is established by our Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy. Our investment policy is reviewed annually by our ALCO/Investment management committee. All policy changes recommended by this management committee must be approved by the Board of Directors. The Committee is comprised of the Chief Executive Officer, Chief Financial Officer, Controller, Lending Services Division Manager, Retail Services Division Manager and the Delivery Systems Division Manager. Authority to make investments under the approved guidelines is delegated by the Committee to appropriate officers. While general investment strategies are developed and authorized by the ALCO/Investment management committee, the execution of specific actions rests with the Chief Financial Officer.

The approved investment officers are authorized to execute investment transactions up to $5.0 million per transaction without the prior approval of the ALCO/Investment management committee and within the scope of the established investment policy. These officers are also authorized to execute investment transactions between $5.0 million and $10.0 million with the additional approval from the Chief Executive Officer. Each transaction in excess of $10.0 million must receive prior approval of the ALCO/Investment Committee.

Our current investment policy generally permits investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in the FHLBank Pittsburgh (federal agency securities) and, to a much lesser extent, other equity securities. Securities in these categories are classified as investment securities for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Government National Mortgage Association (GNMA) as well as commercial paper, corporate debt and municipal securities. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk.

At the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available-for-sale are reported at fair value, while securities held to maturity are reported at amortized cost.

Mortgage-Backed Securities. We purchase mortgage-backed securities in order to generate positive interest rate spreads with minimal administrative expense, lower credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and GNMA and increased liquidity. We invest primarily in mortgage-backed securities issued or sponsored by Fannie Mae, Freddie Mac, and GNMA. At September 30, 2010, our mortgage-backed securities portfolio had a fair value of $187.3 million, consisting of Freddie Mac, Fannie Mae and GNMA mortgage-backed securities.

Mortgage-backed securities are created by pooling mortgages and issuing a security collateralized by the pool of mortgages with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although most of our mortgage-backed securities are collateralized by single-family mortgages. The issuers of such securities (generally U.S. government agencies and U.S. government sponsored enterprises, including Fannie Mae, Freddie Mac and GNMA) pool and resell the participation interests in the form of securities to investors, such as ESSA Bank & Trust, and guarantee the payment of principal and interest to these investors. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby affecting the net yield on such securities. We review prepayment estimates for our mortgage-backed securities at the time of purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates, and to determine the yield and estimated maturity of the mortgage-backed securities portfolio. Periodic reviews of current prepayment speeds are performed in order to ascertain whether prepayment estimates require modification that would cause amortization or accretion adjustments.

Equity Securities. At September 30, 2010, our equity securities were minimal.

In addition, we hold FHLBank Pittsburgh (FHLB) common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB advance program. There is no market for the common stock.

The aggregate fair value of our FHLB common stock as of September 30, 2010 was $20.7 million based on its par value. No unrealized gains or losses have been recorded because we have determined that the par value of the common stock represents its fair value. We owned shares of FHLB common stock at September 30, 2010 with a par value that was $5.9 million more than we were required to own to maintain our membership in the Federal Home Loan Bank System and to be eligible to obtain advances. We are required to purchase additional stock as our outstanding advances increase. Any excess stock we own was redeemed monthly by the FHLB. On December 23, 2008, the FHLB notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice.

We review equity and debt securities with significant declines in fair value on a periodic basis to determine whether they should be considered temporarily or other than temporarily impaired. If a decline in the fair value of a security is determined to be other than temporary, we are required to reduce the carrying value of the security to its fair value and record a non-cash, credit related impairment charge in the amount of the decline, net of tax effect, against our current income.

Table of Contents

Our 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 United States government, and debt obligations of a State or political subdivision.

Our policy is to recognize an other-than-temporary impairment of equity securities where the fair value has been significantly below cost for four consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before its anticipated recovery in market value, declines in value below cost are not assumed to be other than temporary. We review our position quarterly and concluded that at September 30, 2010, declines included in the table below represent temporary declines due to interest rate change, and we do not intend to sell those securities and it more likely than not that we will not have to sell those securities before their anticipated recovery in market value.

The following table sets forth the composition of our securities portfolio (excluding FHLBank Pittsburgh common stock) at the dates indicated.

	At September 30,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Investment securities available for sale:						
Mortgage-backed securities	$ 182,046	$ 187,288	$ 182,448	$ 188,264	$ 148,199	$ 147,945
Obligations of state and political subdivisions	10,637	10,904	7,168	7,483	7,171	7,146
U.S. Government agency obligations	52,177	52,434	21,458	21,746	48,887	48,891
Corporate obligations	1,654	1,677				
Total debt securities	246,514	252,303	211,074	217,493	204,257	203,982
Equity securities	12	38	12	73	79	96
Total investment securities available-for-sale	$ 246,526	$ 252,341	$ 211,086	$ 217,566	$ 204,336	$ 204,078
Investment securities held-to-maturity:						
U.S. Government Agency obligations	$	$	$	$	$ 2,000	$ 2,023
Mortgage-backed securities	12,795	13,254	6,709	6,923	9,857	9,901
Total securities held to maturity	$ 12,795	$ 13,254	$ 6,709	$ 6,923	$ 11,857	$ 11,924

Table of Contents

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at September 30, 2010 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Investment securities available for sale:											
U.S. Government agency obligations	$ 5,974	4.33%	$ 36,184	2.42%	$ 10,018	2.50%	$	%	$ 52,176	$ 52,433	2.65%
Obligations of state and political subdivisions		%	3,971	2.41%	1,717	4.07%	4,950	4.88%	10,638	10,904	3.83%
Mortgage-backed securities	837	5.03%	16	5.50%	26,654	4.18%	154,539	4.18%	182,046	187,289	4.17%
Corporate obligations		%	1,654	5.15%		%		%	1,654	1,677	5.15%
Total debt securities	6,811	4.34%	41,825	2.52%	38,389	3.73%	159,489	4.21%	246,514	252,303	3.84%
Equity securities	12	%		%		%		%	12	38	%
Total investment securities available for-sale	$ 6,823	4.33%	$ 41,825	2.52%	$ 38,389	3.73%	$ 159,489	4.21%	$ 246,526	$ 252,341	3.84%
Investment securities held-to-maturity:											
Mortgage-backed securities	$ 471	4.50%	$ 498	4.50%	$ 1,796	4.70%	$ 10,030	3.92%	$ 12,795	$ 13,254	4.07%
Total securities held to maturity	$ 471	4.50%	$ 498	4.50%	$ 1,796	4.70%	$ 10,030	3.92%	$ 12,795	$ 13,254	4.07%

Table of Contents

Sources of Funds

General. Deposits, borrowings, repayments and prepayments of loans and securities, proceeds from maturing securities and cash flows from operations are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, NOW accounts, checking accounts, money market accounts, club accounts, certificates of deposit and IRAs and other qualified plan accounts. We provide commercial checking accounts for businesses.

At September 30, 2010, our deposits totaled $540.4 million. Interest-bearing NOW, savings and club and money market deposits totaled $248.9 million at September 30, 2010. At September 30, 2010, we had a total of $261.1 million in certificates of deposit. Noninterest-bearing demand deposits totaled $30.4 million. Although we have a significant portion of our deposits in shorter-term certificates of deposit, we monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely on our favorable locations, customer service and competitive pricing to attract and retain these deposits. While we accept certificates of deposit in excess of $100,000 for which we may provide preferential rates, we generally do not solicit such deposits as they are more difficult to retain than core deposits. At September 30, 2010, we had a total of $70.6 million of brokered certificates of deposits, an increase of $48.7 million from the prior fiscal year end. Our brokered certificates of deposits range from one- to six-year terms, and are purchased only through pre-approved brokers.

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	For the Years Ended September 30,								
	2010			2009			2008		
	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid
	(Dollars in thousands)								
Deposit type:									
Noninterest bearing demand accounts	$ 27,703	5.98%	%	$ 24,711	6.31%	%	$ 24,211	6.57%	%
Interest bearing NOW	55,796	12.03	0.08	54,262	13.86	0.08	55,073	14.91	0.07
Money market	115,545	24.93	1.07	94,835	24.21	1.68	58,034	15.72	2.90
Savings and club	67,549	14.58	0.32	63,500	16.21	0.43	62,982	17.07	0.44
Certificates of deposit	196,863	42.48	2.49	154,365	39.41	3.26	168,763	45.73	4.19
Total deposits	$ 463,456	100.00%	1.88%	$ 391,673	100.00%	1.77%	$ 369,063	100.00%	2.46%

As of September 30, 2010, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $182.1 million. The following table sets forth the maturity of those certificates as of September 30, 2010.

	At September 30, 2010 (In thousands)
Three months or less	$ 21,235
Over three months through six months	16,647
Over six months through one year	14,729
Over one year	129,474

Total	$	182,085

Table of Contents

At September 30, 2010, $93.9 million of our certificates of deposit had maturities of one year or less. We monitor activity on these accounts and, based on historical experience and our current pricing strategy, we believe we will retain a significant portion of these accounts upon maturity.

Borrowings. Our short-term borrowings consist of Federal Home Loan Bank and Federal Reserve Bank advances. The following table sets forth information concerning balances and interest rates on all of our short-term borrowings at the dates and for the years indicated.

	At or For the Years Ended September 30,		
	2010	2009	2008
	(Dollars in thousands)		
Balance at end of year	$ 14,719	$ 48,091	$ 39,510
Maximum outstanding at any month end	$ 61,013	$ 73,162	$ 56,183
Average balance during year	$ 22,947	$ 48,171	$ 36,150
Weighted average interest rate at end of year	0.65%	0.43%	2.41%
Average interest rate during year	0.38%	0.82%	3.94%

At September 30, 2010, we had the ability to borrow approximately $496 million under our credit facilities with the FHLBank Pittsburgh.

Competition

We face significant competition in both originating loans and attracting deposits. The counties in which we operate have a significant concentration of financial institutions, many of which are significantly larger institutions and have greater financial resources than we, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, leasing companies, insurance companies and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from nondepository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by the convenience of our branch locations, emphasizing personalized banking and the advantage of local decision-making in our banking business. Specifically, we promote and maintain relationships and build customer loyalty within local communities by focusing our marketing and community involvement on the specific needs of individual neighborhoods. As of June 30, 2010, ESSA Bank & Trust had the largest deposit market share in Monroe County, Pennsylvania. We do not rely on any individual, group, or entity for a material portion of our deposits.

Employees

As of September 30, 2010, we had 187 full-time employees and 37 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

Subsidiary Activities

ESSA Bank & Trust has two wholly owned subsidiaries, ESSACOR, Inc. and Pocono Investment Company. 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 of ESSA Bank & Trust, including certain intellectual property.

Table of Contents

SUPERVISION AND REGULATION

General

ESSA Bancorp, Inc. is a Pennsylvania corporation. As a savings and loan holding company, we are required to file certain reports with, and otherwise comply with the rules and regulations of the Office of Thrift Supervision.

ESSA Bank & Trust is a Pennsylvania-chartered savings association and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation under the Deposit Insurance Fund (DIF). We are subject to extensive regulation by the Pennsylvania Department of Banking, our chartering agency, and by the Office of Thrift Supervision, our primary federal regulator. We must file reports with the Pennsylvania Department of Banking and the Office of Thrift Supervision concerning our activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions including, but not limited to, mergers with or acquisitions of other savings institutions. There are periodic examinations by the Pennsylvania Department of Banking and the Office of Thrift Supervision to test our compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Pennsylvania Department of Banking or the Office of Thrift Supervision could have a material adverse impact on us and our operations.

Regulation by the Pennsylvania Department of Banking

The Pennsylvania Savings Association Code of 1967, as amended (the Savings Association Code) contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, employees, and depositors, as well as corporate powers, savings and investment operations and other aspects of ESSA Bank & Trust and its affairs. The Savings Association Code delegates extensive rulemaking power and administrative discretion to the Pennsylvania Department of Banking so that the supervision and regulation of state-chartered savings associations may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

One of the purposes of the Savings Association Code is to provide savings associations with the opportunity to be competitive with each other and with other financial institutions existing under other Pennsylvania laws as well as other state, federal and foreign laws. A Pennsylvania savings association may locate or change the location of its principal place of business and establish an office anywhere in Pennsylvania, with the prior approval of the Pennsylvania Department of Banking.

The Pennsylvania Department of Banking generally examines each savings association not less frequently than once every two years. Although the Department may accept the examinations and reports of the Office of Thrift Supervision in lieu of the Department s examination, the current practice is for the Department to conduct individual examinations. The Department may order any savings association to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings association engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Department why such person should not be removed.

Regulation by the Office of Thrift Supervision

ESSA Bank & Trust is also subject to extensive regulation, examination and supervision by the Office of Thrift Supervision, as its primary federal regulator. Such regulation and supervision:

- establishes a comprehensive framework of activities in which ESSA Bank & Trust can engage;

Table of Contents

- limits the ability of ESSA Bank & Trust to extend credit to any given borrower;

- significantly limits the transactions in which ESSA Bank & Trust may engage with its affiliates;

- requires ESSA Bank & Trust to meet a qualified thrift lender test which requires ESSA Bank & Trust to invest in qualified thrift investments, which include primarily residential mortgage loans and related investments;

- places limitations on capital distributions by savings associations, such as ESSA Bank & Trust, including cash dividends;

- imposes assessments to the Office of Thrift Supervision to fund its operations;

- establishes a continuing and affirmative obligation, consistent with ESSA Bank & Trust s safe and sound operation, to help meet the credit needs of its community, including low and moderate income neighborhoods;

- establishes various capital categories resulting in various levels of regulatory scrutiny applied to the institutions in a particular category; and

- establishes standards for safety and soundness.

The Office of Thrift Supervision generally examines each savings association not less frequently than once every two years. The Office of Thrift Supervision has the authority to order any savings association or its directors, trustees, officers, attorneys or employees to discontinue any violation of law or unsafe or unsound banking practice.

Transactions with Affiliates

Sections 23A and 23B of the Federal Reserve Act and its implementing regulations govern transactions between depository institutions and their affiliates. These provisions are made applicable to savings associations, such as ESSA Bank & Trust, by the Home Owners Loan Act and Office of Thrift Supervision regulation. In a holding company context, the parent holding company of a savings association and any companies that are controlled by the parent holding company are affiliates of the savings association.

Section 23A limits the extent to which a savings association or its subsidiaries may engage in certain transactions with its affiliates. These transactions include, among other things, the making of loans or other extensions of credit to an affiliate and the purchase of assets from an affiliate. Generally, these transactions between the savings association and any one affiliate cannot exceed 10% of the savings association s capital stock and surplus, and these transactions between the savings institution and all of its affiliates cannot, in the aggregate, exceed 20% of the savings institution s capital stock and surplus. Section 23A also establishes specific collateral requirements for loans or extensions of credit to an affiliate, and for guarantees or acceptances on letters of credit issued on behalf of an affiliate. Applicable regulations prohibit a savings association from lending to any affiliate engaged in activities not permissible for a bank holding company or for the purpose of acquiring the securities of most affiliates.

Section 23B requires that transactions covered by Section 23A and a broad list of other specified transactions be on terms and under circumstances substantially the same, or no less favorable to the savings association or its subsidiary, as similar transactions with non-affiliates. In addition to the restrictions on transactions with affiliates that Sections 23A and 23B of the Federal Reserve Act impose on depository institutions, the regulations of the Office of Thrift Supervision also generally prohibit a savings association from purchasing or investing in securities issued by an affiliate.

Table of Contents

Insurance of Accounts and Regulation by the Federal Deposit Insurance Corporation

Deposit accounts in ESSA Bank & Trust are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. ESSA Bank & Trust s deposits, therefore, are subject to FDIC deposit insurance assessments.

The FDIC has adopted a temporary Transaction Account Guarantee (TAG) Program that provides unlimited insurance coverage for all non-interest bearing transaction accounts, including NOW accounts and IOLTA accounts. This temporary TAG program is scheduled to expire on December 31, 2010. In connection with the passage of the Dodd-Frank Act, the FDIC has adopted a new rule that provides full insurance coverage for all non-interest bearing transaction accounts, except NOW accounts and IOLTA accounts. The new rule becomes effective December 31, 2010 for a two-year period. As a result of this new rule, the FDIC has decided not to extend the coverage of its TAG program.

The Federal Deposit Insurance Corporation regulations assess insurance premiums based on an institution s risk. Under this assessment system, the Federal Deposit Insurance Corporation evaluates the risk of each financial institution based on its supervisory rating, financial ratios, and long-term debt issuer rating. The rates for nearly all of the financial institutions industry vary between five and seven cents for every $100 of domestic deposits. Federal law requires the Federal Deposit Insurance Corporation to establish a deposit reserve ratio for the deposit insurance fund of between 1.15% and 1.50% of estimated deposits.

On November 9, 2010, the Federal Deposit Insurance Corporation published a notice of a proposed rulemaking under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to reform the deposit insurance assessment system. The proposal would redefine the assessment base used for calculating deposit insurance assessments. Specifically, the rule would base assessments on an institution s total assets as opposed to total deposits. The proposal is expected to benefit smaller financial institutions, which typically rely more on deposits for funding, and shift more of the burden for supporting the insurance fund to larger institutions, which have greater access to non-deposit sources of funding. There are no assurances when the Federal Deposit Insurance Corporation will issue a final rule reforming the deposit insurance assessment system and what that final rule may ultimately provide. In addition to the Federal Deposit Insurance Corporation assessments, the Financing Corporation (FICO) is authorized to impose and collect, with the approval of the Federal Deposit Insurance Corporation, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended June 30, 2010, the annualized FICO assessment was equal to 1.04 basis points for each $100 in domestic deposits maintained at an institution.

Recent failures have significantly increased the Deposit Insurance Fund s (the DIF or the fund) loss provisions, resulting in a decline in the reserve ratio. Because the fund reserve ratio has fallen below 1.15% and is expected to remain below 1.15%, the FDIC is required to establish and implement a restoration plan to restore the reserve ratio to 1.15%. Absent extraordinary circumstances, the reserve ratio must be returned to at least 1.15% no later than five years after establishment of the plan. On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was payable on September 30, 2009. We recorded an expense of $400,000 during the quarter ended June 30, 2009 to reflect the special assessment. On September 20, 2009, the FDIC increased assessment rates on deposit insurance premiums by three basis points effective January 1, 2011.

In addition, on November 12, 2009, the FDIC issued a final rule requiring all insured depository institutions to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012, on December 30, 2009. Under the terms of the new rule, we made a payment of $1.7 million to the FDIC on December 30, 2009. We recorded the payment as a prepaid expense, which will be amortized to expense over three years.

Capital Requirements

Any savings institution that fails any of the capital requirements is subject to possible enforcement actions by the Office of Thrift Supervision. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on an institution s operations, termination of federal deposit insurance, and the appointment of a conservator or receiver. Certain actions are required by law. The Office of Thrift Supervision s capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions.

We are also subject to more stringent capital guidelines of the Pennsylvania Department of Banking. Although not adopted in regulation form, the Pennsylvania Department of Banking utilizes capital standards of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the Office of Thrift Supervision.

Loans-to-One-Borrower Limitation

Under federal regulations, with certain limited exceptions, a Pennsylvania chartered savings association may lend to a single or related group of borrowers on an unsecured basis an amount equal to 15% of its unimpaired capital and surplus. An additional amount, equal to 10% of unimpaired capital and surplus, may be lent if such loan is secured by readily marketable collateral, which is defined to include certain securities, but generally does not include real estate. Our internal policy, however, is to not make a commercial loan in excess of $5.0 million, nor to allow more than $7.5 million in total loan relationships with any one borrower, including the borrower s residential mortgage and consumer loans. However, in special circumstances this limit may be exceeded subject to the approval of the Management Loan Committee in addition to a majority of the members of the Board of Directors.

Prompt Corrective Action

Under federal regulations, a savings association is deemed to be (i) well capitalized if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized ; (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based capital ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%; and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the Office of Thrift Supervision may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of September 30, 2010, the Bank was a well-capitalized institution for this purpose.

The USA PATRIOT Act

The USA PATRIOT Act of 2001 gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Holding Company Regulation

ESSA Bancorp, Inc. is a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision will have enforcement authority over ESSA Bancorp, Inc. and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to ESSA Bank & Trust.

Under prior law, a unitary savings and loan holding company generally had no regulatory restrictions on the types of business activities in which it could engage, provided that its subsidiary savings association was a qualified thrift lender. The Gramm-Leach-Bliley Act of 1999, however, restricts unitary savings and loan holding companies not existing on, or applied for before, May 4, 1999 to those activities permissible for financial holding companies or for multiple savings and loan holding companies. The Company is not a grandfathered unitary savings and loan holding company and, therefore, is limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community, the effectiveness of each parties anti-money laundering program, and competitive factors.

Federal Securities Laws

Shares of ESSA Bancorp, Inc. s common stock are registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). ESSA Bancorp, Inc. is also subject to the proxy rules, tender offer rules, insider trading restrictions, annual and periodic reporting, and other requirements of the Exchange Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes specific additional disclosure requirements, requires the Securities and Exchange Commission and national securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the Securities and Exchange Commission. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Although we have and will continue to incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

Regulatory Enforcement Authority

Federal law provides federal banking regulators with substantial enforcement powers. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders, and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Dividends

Our ability to pay dividends depends, to a large extent, upon ESSA Bank & Trust s ability to pay dividends to ESSA Bancorp. The Savings Association Code states, in part, that dividends may be declared and paid by the Bank only out of net earnings for the then current year. A dividend may not be declared or paid if it would impair the general reserves of ESSA Bank & Trust required to be maintained under the Savings Association Code. In addition, we are required to notify the Office of Thrift Supervision prior to declaring a dividend to the Company, and receive the nonobjection of the Office of Thrift Supervision to any such dividend.

Dodd-Frank Act

Profound legislative and regulatory changes in banking, and the regulation of banks, savings associations, and other financial institutions as well as bank holding companies and thrift holding companies powers are likely as a result of the passage and signing into law, in July 2010, of the Dodd-Frank Act. This new legislation calls for sweeping regulatory and supervisory reforms for the entire financial sector and seeks to advance the following five key objectives: (i) promote robust supervision and regulation of financial firms, (ii) establish comprehensive supervision of financial markets, (iii) protect consumers and investors from financial abuse, (iv) provide the government with additional powers to monitor systemic risks, supervise and regulate financial products and markets, and to resolve firms that threaten financial stability, and (v) raise international regulatory standards and improve international cooperation.

The Dodd-Frank Act also includes the creation of a new federal bureau within the Federal Reserve designed to enforce consumer protection laws. The Consumer Financial Protection Bureau (CFPB) will have authority to protect consumers of financial products and services and to regulate all providers (bank and non-bank) of such services. The CFPB will be authorized to adopt rules for all providers of consumer financial services, supervise and examine such institutions for compliance, and enforce compliance through orders, fines, and penalties. The rules of the CFPB will serve as a floor and individual states would be permitted to adopt and enforce stronger consumer protection laws. As a result of this new legislation, we may become subject to multiple laws affecting our provision of loans and other credit services to consumers, which may substantially increase the cost of providing such services.

Additionally, the Dodd-Frank Act establishes the Financial Stability Oversight Council, which will focus on identifying, monitoring and addressing systemic risks in the financial system and reorganize bank supervision by identifying clear lines of regulatory responsibility for the FDIC, the OCC and the Federal Reserve. The effect of this legislation is likely to include a requirement for increased capital and liquidity undertakings on the part of regulated financial institutions, as well as greater oversight over market and business practices that we and these firms may implement.

Finally, the Dodd-Frank Act eliminated the Office of Thrift Supervision and requires it to be merged into the Office of the Comptroller of the Currency, the regulator of the national bank system. As a result of the elimination of the Office of Thrift Supervision, which is not expected to occur before July 2011, ESSA Bancorp, Inc. will be regulated by the Federal Reserve Board and ESSA Bank & Trust will be regulated by the Office of the FDIC, as its primary federal banking regulator, and the Pennsylvania Department of Banking.

Table of Contents

FEDERAL AND STATE TAXATION

Federal Taxation

General. ESSA Bancorp, Inc. and ESSA Bank & Trust are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to ESSA Bancorp, Inc. and ESSA Bank & Trust.

Method of Accounting. For federal income tax purposes, ESSA Bancorp, Inc. currently reports its income and expenses on the accrual method of accounting and uses a tax year ending September 30th for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996, ESSA Bank & Trust was permitted to establish a reserve for bad debts for tax purposes and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at ESSA Bank & Trust s taxable income. As a result of the Small Business Protection Act of 1996, ESSA Bank & Trust must use the specific charge off method in computing its bad debt deduction for tax purposes.

Taxable Distributions and Recapture. Prior to the Small Business Protection Act of 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if ESSA Bank & Trust failed to meet certain thrift asset and definition tests. The Small Business Protection Act of 1996 eliminated these thrift-related recapture rules. However, under current law, pre-1988 reserves remain subject to tax recapture should ESSA Bank & Trust make certain distributions from its tax bad debt reserve or cease to maintain a financial institution charter. At September 30, 2010, ESSA Bank & Trust s total federal pre-1988 reserve was approximately $4.3 million. This reserve reflects the cumulative effects of federal tax deductions by ESSA Bank & Trust for which no federal income tax provision has been made.

Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, referred to as alternative minimum taxable income. The alternative minimum tax is payable to the extent alternative minimum tax income is in excess of the regular income tax. Net operating losses can, in general, offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. At September 30, 2010, ESSA Bank & Trust had no minimum tax credit carryforward.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years (five years for losses incurred in 2001, 2002 and 2009) and forward to the succeeding 20 taxable years. At September 30, 2010, ESSA Bank & Trust had no net operating loss carryforward for federal income tax purposes.

Corporate Dividends. We may exclude from our income 100% of dividends received from ESSA Bank & Trust as a member of the same affiliated group of corporations.

Audit of Tax Returns. ESSA Bank & Trust s federal income tax returns have not been audited in the most recent five-year period. The 2006, 2007, 2008 and 2009 tax years remain open.

State Taxation

Pennsylvania State Taxation. ESSA Bancorp, Inc. is subject to the Pennsylvania Corporate Net Income Tax, Capital Stock and Franchise Tax. The Corporation Net Income Tax rate for fiscal year 2010 is 9.9% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. In general, the Capital Stock and Franchise Tax is a property tax imposed on a corporation s capital stock value at a statutorily defined rate, such value being determined in accordance with a fixed formula based upon average net income and net worth. ESSA Bank & Trust is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.5%. The Mutual Thrift Institutions Tax exempts ESSA Bank & Trust from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings, determined in accordance with generally accepted accounting principles with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to generally accepted accounting principles, allows for the deduction of interest earned on state and federal obligations, while disallowing a percentage of thrift s interest expense deduction in the proportion of interest income on those securities to the overall interest income of ESSA Bank & Trust. Net operating losses, if any, thereafter can be carried forward three years for Mutual Thrift Institutions Tax purposes.

Item 1A. Risk Factors

Financial reform legislation recently enacted will, among other things, change our holding company and bank regulators, create a new Consumer Financial Protection Bureau, tighten capital standards and result in new laws and regulations that are expected to increase our costs of operations.

On July 21, 2010 the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impacts of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term effect on us. For example, the new law provides that the Office of Thrift Supervision, which is the current primary federal regulator for ESSA Bancorp, will cease to exist one year from the date of the new law s enactment. The Board of Governors of the Federal Reserve System will supervise and regulate all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including ESSA Bancorp. The Office of the Comptroller of the Currency, which is currently the primary federal regulator for national banks, will become the primary federal regulator for federal thrifts.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than $10 billion in assets. Banks with $10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities.

Table of Contents

Effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than $10 billion in assets.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Increases to the Allowance for Credit Losses May Cause Our Earnings to Decrease.

Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. In addition, the estimates used to determine the fair value of such loans as of the acquisition date may be inconsistent with the actual performance of the acquired loans. Hence, we may experience significant credit losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for credit losses, we rely on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease our net income.

Our emphasis on the origination of commercial real estate and business loans is one of the more significant factors in evaluating our allowance for credit losses. As we continue to increase the amount of these loans, additional or increased provisions for credit losses may be necessary and as a result would decrease our earnings.

Bank regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or loan charge-offs. Any increase in our allowance for credit losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and/or financial condition.

Future Changes in Interest Rates Could Reduce Our Profits.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

1. the interest income we earn on our interest-earning assets, such as loans and securities; and

2. the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

Table of Contents

From September, 2007 through December, 2008, the Federal Reserve Board of Governors decreased its target for the federal funds rate from 5.25% to 0.25%. The federal funds rate has remained at 0.25% since December 2008 and is expected to remain at or around that level for an extended period of time. While these short term market interest rates (which we use as a guide to price our deposits) decreased, longer term market interest rates (which we use as a guide to price our longer term loans) have also decreased but not to the same degree. With the decline in shorter term market interest rates the Company s cost of funds declined. This decline in our cost of funds was initially beneficial to our net interest spread. However, as short term market rates have remained low and longer term interest rates have also declined, the Company s net interest spread decreased from 2.40% for the year ended September 30, 2009 to 2.34% for the year ended September 30, 2010. If market rates remain at these historic lows, there could be further negative pressure exerted on our net interest spread.

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

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2010, the fair value of our debt securities available for sale totaled $252.3 million. Unrealized net gains on these available for sale securities totaled approximately $5.8 million at September 30, 2010 and are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders equity.

We evaluate interest rate sensitivity by estimating the change in ESSA Bank & Trust s net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At September 30, 2010, in the event of an immediate 200 basis point increase in interest rates, the Office of Thrift Supervision model projects that we would experience a $25.6 million, or 15%, decrease in net portfolio value. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

Concentration of loans in our primary market area, which has experienced an economic downturn, may increase the risk of increased nonperforming assets.

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

Continued and sustained deterioration in the housing sector and related markets and prolonged elevated unemployment levels may adversely affect our business and financial results.

During 2009 and the beginning of 2010**,** general economic conditions continued to worsen nationally as well as in our market area. While we did not invest in sub-prime mortgages and related investments, our lending business is tied significantly to the housing market. Declines in home prices, and increases in foreclosures and unemployment levels, have adversely impacted the credit performance of real estate loans, resulting in the write-down of asset values. The continuing housing slump has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on construction, residential and commercial mortgage loans. The ongoing concern about the economy in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely affect our prospects for growth, asset and goodwill valuations and could result in a decrease in our interest income and a material increase in our provision for loan losses.

Recent Negative Developments in the Financial Industry and the Domestic and International Credit Markets may Adversely Affect our Operations and Results.

Negative developments in the latter half of 2007, during 2008 and continuing through 2010 in the global credit and securitization markets resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing into 2011. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, the potential exists for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

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

Our business strategy centers on continuing our emphasis on commercial real estate lending. We have grown our loan portfolio in recent years with respect to this type of loan and intend to continue to emphasize this type of lending. At September 30, 2010, $78.1 million, or 10.6%, of our total loan portfolio consisted of commercial real estate loans. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the commercial real estate loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property s collateral value, net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit-related losses.

At September 30, 2010, our largest commercial real estate lending relationship was $7.1 million of loans located in Monroe County, Pennsylvania and secured by real estate. See Item 1. Business Lending Activities Commercial Real Estate Loans.

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

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

Table of Contents

Economic Conditions May Adversely Affect Our Liquidity and Financial Condition.

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

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

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

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

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

Any Future FDIC Insurance Premiums or Required Prepayments of Assessments Will Adversely Impact Our Earnings.

On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The special assessment was payable on September 30, 2009. We recorded an expense of $400,000 during the quarter ended June 30, 2009 to reflect the special assessment. In lieu of another special assessment, on September 27, 2009, the FDIC board proposed a requirement that insured institutions prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, as well as for all of 2010, 2011 and 2012, and, in addition, increased assessment rates on deposit insurance premiums by three basis points effective January 1, 2011.

FDIC guidance provides that as of December 31, 2009, and each quarter thereafter, each insured institution will be required to record an expense for its regular quarterly assessment and an offsetting credit to the prepaid assessment until the asset is exhausted. Once the asset is exhausted, the institution would resume paying and accounting for quarterly deposit insurance assessments as it currently does. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period. The prepayment of the future premiums, coupled with any future assessments, could have a material adverse effect on our results of operations and/or financial condition.

Table of Contents

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

We own common stock of the FHLB in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair value of our FHLB common stock was $20.7 million as of September 30, 2010.

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Table of Contents

Item 2. Properties

The following table provides certain information as of September 30, 2010 with respect to our main office located in Stroudsburg, Pennsylvania, and our seventeen full service branch offices. During the year ended September 30, 2010, the Company opened four new branches. The branches included one free standing branch in Mountainhome, Pennsylvania (Monroe County), two supermarket branches, one in Allentown, Pennsylvania and another in Schnecksville, Pennsylvania (both in Lehigh County) and a supermarket branch in Bethlehem, Pennsylvania (Northampton County).

Location	Leased or Owned	Year Acquired or Leased	Square Footage
Main Office:			
200 Palmer Street			
Stroudsburg, PA 18360	Owned	2003	36,000
Full Service Branches:			
Route 940			
HC 1 Box 1192			
Blakeslee, PA 18610	Owned	2002	2,688
Route 209 & Lake Mineola Road			
P.O. Box 35			
Brodheadsville, PA 18301	Owned	1983	4,100
Route 209			
7001 Milford Road			
East Stroudsburg, PA 18324	Leased	1997	1,700
Routes 209 & 447			
695 North Courtland Street			
East Stroudsburg, PA 18301	Leased	1999	420
75 Washington Street			
East Stroudsburg, PA 18301	Owned	1966	3,300
Route 209			
P.O. Box 1009			
Marshalls Creek, PA 18335	Leased	1991	2,627
Mount Pocono Plaza	Leased	1999	536
601 Route 940			

Mt. Pocono, PA 18344			
1309 Blue Valley Drive			
Pen Argyl, PA 18072	Leased	2001	444
744 Main Street			
P.O. Box L			
Stroudsburg, PA 18360	Owned	1985	12,000
Route 611			
1070 North Ninth Street			
Stroudsburg, PA 18360	Leased	2000	488

Location	Leased or Owned	Year Acquired or Leased	Square Footage
Route 611 RR1 Box 402 Tannersville, PA 18372	Leased	1993	611
Route 209 & Weir Lake Road P.O. Box 271 Brodheadsville, PA 18322	Leased	1997	576
Route 611 Tannersville Plaza Tannersville, PA 18372	Leased	2007	2,500
975 Route 390 Mountainhome, PA 18326	Owned	2010	2,912
1500 N. Cedar Crest Blvd Unit 2 Allentown, PA 18104	Leased	2010	530
5580 Crawford Drive Bethlehem, PA 18017	Leased	2010	468
5020 Route 873 Schnecksville, PA 18078	Leased	2010	460
Other Properties			
746-752 Main Street Stroudsburg, PA 18360	Owned	2005	4,650

The net book value of our premises, land and equipment was $12.2 million at September 30, 2010.

Item 3. Legal Proceedings

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

Item 4. [Removed and Reserved]

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock are traded on the Nasdaq Global Market under the symbol ESSA. The approximate number of holders of record of ESSA Bancorp, Inc. s common stock as of September 30, 2010 was 2,439. Certain shares of ESSA Bancorp, Inc. are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following tables present quarterly market information for ESSA Bancorp, Inc. s common stock for the periods ended September 30, 2009 and September 30, 2010. The following information was provided by the Nasdaq Stock Market.

Fiscal 2010	High	Low	Dividends
Quarter ended September 30, 2010	$ 12.87	$ 10.75	$ 0.05
Quarter ended June 30, 2010	13.38	11.65	0.05
Quarter ended March 31, 2010	13.21	11.55	0.05
Quarter ended December 31, 2009	13.54	11.70	0.05

Fiscal 2009	High	Low	Dividends
Quarter ended September 30, 2009	$ 13.90	$ 12.53	$ 0.05
Quarter ended June 30, 2009	14.07	12.82	0.04
Quarter ended March 31, 2009	14.25	11.40	0.04
Quarter ended December 31, 2008	14.13	11.13	0.04

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

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

Stock Performance Graph

Set forth hereunder is a stock performance graph comparing (a) the cumulative total return on the common stock between April 4, 2007 and September 30, 2010, (b) the cumulative total return on stock included in the SNL Thrift Index over such period, and (c) the cumulative total return on stocks included in the Russell 2000 Index over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of $100.

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

Table of Contents

ESSA BANCORP, INC.

	Period Ending							
Index	04/04/07	09/30/07	03/31/08	09/30/08	03/31/09	09/30/09	03/31/10	09/30/10
ESSA Bancorp, Inc.	100.00	94.65	99.75	118.72	114.38	114.32	109.38	104.14
SNL Thrift Index	100.00	91.79	61.45	47.28	34.37	36.21	41.18	36.16
Russell 2000	100.00	99.91	85.90	85.44	53.69	77.29	87.39	87.60

Source: SNL Financial LC, Charlottesville, NC

On May 27, 2008, the Board of Directors approved a stock repurchase program and authorized the repurchase of up to 15% of the Company s outstanding shares of common stock. In June 2009 the Company announced the completion of its 15% repurchase program, having purchased 2,547,135 shares at a weighted average cost of $13.14. In June 2009 the Company announced a second repurchase program to purchase up to an additional 10% of its outstanding stock. In October 2010 the Company announced the completion of the second repurchase program, having purchased 1,499,100 shares at a weighted average cost of $12.36. In October 2010, the Company announced a third repurchase program to purchase up to an additional 5% of its outstanding stock. Stock repurchases will be made from time to time and may be effected through open market purchases, block trades and in privately negotiated transactions. Repurchased stock will be held as treasury stock and will be available for general corporate purposes. No time limit was placed on the duration of the share repurchase program. As of September 30, 2010, 394,000 shares have been repurchased as described in the following table:

Company Purchases of Common Stock

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1, 2010 through July 31, 2010	113,900	$ 12.53	113,900	303,762
August 1, 2010 through August 31, 2010	94,600	11.07	94,600	209,162
September 1, 2010 through September 30, 2010	185,500	11.43	185,500	23,662
Total	394,000	$ 11.66	394,000	

Item 6. Selected Financial Data

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

	At September 30,				
	2010	2009	2008	2007	2006
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 1,071,997	$ 1,042,119	$ 993,482	$ 910,415	$ 725,796
Cash and cash equivalents	10,890	18,593	12,614	16,779	12,730
Investment securities:					
Available for sale	252,341	217,566	204,078	205,267	89,122
Held to maturity	12,795	6,709	11,857	17,130	19,715
Loans, net	730,842	733,580	706,890	619,845	556,677
Federal Home Loan Bank stock	20,727	20,727	19,188	16,453	13,675
Premises and equipment	12,189	10,620	10,662	11,277	11,447
Bank owned life insurance	15,618	15,072	14,516	13,941	13,376
Deposits	540,410	408,855	370,529	384,716	402,153
Borrowed funds	350,076	438,598	412,757	313,927	259,299
Equity	171,623	185,506	200,086	204,692	58,337

Table of Contents

	For the Years Ended September 30,				
	2010	2009	2008 (In thousands)	2007	2006
Selected Data:					
Interest income	$ 49,257	$ 52,733	$ 52,065	$ 45,510	$ 36,451
Interest expense	21,306	23,739	25,642	23,805	19,217
Net interest income	27,951	28,994	26,423	21,705	17,234
Provision for loan losses	2,175	1,500	900	360	300
Net interest income after provision for loan losses	25,776	27,494	25,523	21,345	16,934
Non-interest income	6,708	5,728	4,803	5,496	5,518
Non-interest expense	26,128	24,113	21,181	31,185	16,685
Income (loss) before income tax expense	6,356	9,109	9,145	(4,344)	5,767
Income tax expense	1,844	2,553	3,068	782	1,813
Net income (loss)	$ 4,512	$ 6,556	$ 6,077	$ (5,126)	$ 3,954
Earnings (loss) per share [1]					
Basic	$ 0.36	$ 0.47	$ 0.39	$ (0.47)	$ N/A
Diluted	$ 0.36	$ 0.47	$ 0.38	$ (0.47)	$ N/A

(1) Earnings per share for 2007 are calculated for the period beginning with the Company s date of conversion of April 3, 2007 and are based on a net loss of $(7,289).

	At or For the Years Ended September 30,				
	2010	2009	2008	2007	2006
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.43%	0.64%	0.63%	(0.62)%	0.58%
Return on average equity	2.49%	3.42%	2.92%	(3.88)%	6.96%
Interest rate spread (1)	2.34%	2.40%	2.09%	2.18%	2.46%
Net interest margin (2)	2.78%	2.93%	2.88%	2.78%	2.70%
Efficiency ratio (3)	75.39%	69.45%	67.83%	116.18%	73.33%
Noninterest expense to average total assets	2.49%	2.34%	2.21%	3.78%	2.45%
Average interest-earning assets to average interest-bearing liabilities	121.11%	123.00%	128.60%	120.21%	108.00%
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	1.20%	0.74%	0.40%	0.06%	0.07%
Non-performing loans as a percent of total loans	1.47%	0.70%	0.55%	0.09%	0.08%
Allowance for loan losses as a percent of non-performing loans	68.48%	112.82%	124.81%	757.83%	809.87%
Allowance for loan losses as a percent of total loans	1.01%	0.79%	0.69%	0.67%	0.69%
Capital Ratios:					
Total risk-based capital (to risk weighted assets)	32.60%	31.00%	30.30%	32.84%	15.77%
Tier 1 risk-based capital (to risk weighted assets)	31.35%	29.86%	29.42%	31.88%	14.79%
Tangible capital (to tangible assets)	15.07%	15.17%	15.50%	16.61%	8.06%
Tier 1 leverage (core) capital (to adjusted tangible assets)	15.07%	15.17%	15.50%	16.61%	8.06%
Average equity to average total assets	17.26%	18.59%	21.77%	15.98%	8.36%
Other Data:					
Number of full service offices	17	13	13	13	12

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

Table of Contents

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

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

- Increasing customer relationships through the offering of excellent service and the distribution of that service through effective delivery systems;
- Continuing to transform into a full service community bank by meeting the financial services needs of our customers;
- Continuing to develop into a high performing financial institution, in part by increasing interest revenue and fee income;
- Remaining within our risk management parameters; and
- Employing affordable technology to increase profitability and improve customer service.

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

- ***Increasing customer relationships through a continued commitment to service and enhancing products and delivery systems.*** We will continue to increase customer relationships by focusing on customer satisfaction with regard to service, products, systems and operations. We have upgraded and expanded certain of our facilities, including our corporate center and added additional branches to provide additional capacity to manage future growth and expand our delivery systems.
- ***Continuing to transform into a full-service community bank.*** We continue to transform from a traditional savings association into a full-service community bank. During the last several years, we have begun to offer a wide variety of commercial loans and deposits, as well as trust and brokerage services.
- ***Continuing to develop into a high performing financial institution.*** We will continue to enhance profitability by focusing on increasing non-interest income as well as increasing commercial products, including commercial real estate lending, which often have a higher profit margin than more traditional products. We also will pursue lower-cost commercial deposits as part of this strategy.
- ***Remaining within our risk management parameters.*** We place significant emphasis on risk management and compliance training for all of our directors, officers and employees. We focus on establishing regulatory compliance programs to determine the degree of such compliance and to maintain the trust of our customers and community.
- ***Employing cost-effective technology to increase profitability and improve customer service.*** We will continue to upgrade our technology in an efficient manner. We have implemented new software for marketing purposes and have upgraded both our internal and external communication systems.

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

Expanding our banking franchise through branching and acquisitions. We will attempt to use the net proceeds from the 2007 offering, as well as our new stock holding company structure, to expand our market footprint through *de novo* branching as well as through acquisitions of banks, savings institutions and other financial service providers in our primary market area. We will also consider establishing *de novo* branches or acquiring financial institutions in contiguous counties. During our second quarter, we completed construction on a new branch in Monroe County. During our third quarter, we entered into leases for two supermarket branches in Lehigh County and one supermarket branch in Northampton County. We will continue to review and assess locations for new branches both within Monroe County and the contiguous counties around Monroe. There can be no assurance that we will be able to consummate any acquisitions or establish any additional new branches. We may explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise, as a means of supplementing internal growth, filling gaps in our current geographic market area and expanding our customer base, product lines and internal capabilities, although we have no current plans, arrangements or understandings to make any acquisitions.

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

Critical Accounting Policies

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

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

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

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

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

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

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results.

Comparison of Financial Condition at September 30, 2010 and September 30, 2009

Total Assets. Total assets increased $29.9 million, or 2.9%, to $1.07 billion at September 30, 2010, compared to $1.04 billion at September 30, 2009. This increase was primarily due to increases in investment securities available for sale and investment securities held to maturity, offset in part by decreases in interest bearing deposits with institutions and certificates of deposit.

Cash and Due from Banks. Cash and due from banks increased $351,000 or 4.9% to $7.5 million at September 30, 2010 from $7.1 million at September 30, 2009. The primary reason for this increase was an increase in the Company s cash balance at the Federal Reserve Bank of Philadelphia and increases in the Company s cash on hand at the Bank s branch locations. Both of these cash balances fluctuate based on the customer trends and demands within our branch network.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions decreased $8.1 million, or 70.1%, to $3.4 million at September 30, 2010 from $11.5 million at September 30, 2009. The primary reason for the decrease was a decrease in the Company s interest bearing demand deposit account at the FHLBank Pittsburgh of $8.1 million. The decrease was primarily due to the use of funds to repurchase Company common stock and pay dividends.

Investment Securities Available for Sale. Investment securities available for sale increased $34.8 million, or 16.0% to $252.3 million at September 30, 2010 from $217.6 million at September 30, 2009. The increase was due primarily to an increase of $30.7 million in the Company s portfolio of United States government agency securities. The growth in the United States government agency securities was due to an investment strategy focused on shorter duration securities.

Investment Securities Held to Maturity. Investment securities held to maturity increased $6.1 million or 90.7% to $12.8 million at September 30, 2010 from $6.7 million at September 30, 2009. The primary reason for this increase was the purchase, during the second quarter, of $10.2 million of mortgage-backed securities issued by United States government sponsored agencies or entities as part of a leverage strategy to take advantage of a steep yield curve.

Net Loans. Net loans decreased $2.7 million, or 0.37%, to $730.8 million at September 30, 2010 from $733.6 million at September 30, 2009. The primary reason for the decrease in net loans has been the significant decrease in demand for loans by qualified borrowers. One to four family residential mortgages decreased by $7.7 million to $596.2 million at September 30, 2010 from $603.8 million at September 30, 2009. For the same period, commercial real estate loans increased by $10.0 million to $78.1 million at September 30, 2010 from $68.0 million at September 30, 2009, construction loans outstanding decreased by $405,000 to $1.3 million at September 30, 2010 from $1.7 million at September 30, 2009, and commercial loans increased by $117,000 to $16.6 million at September 30, 2010 from $16.5 million at September 30, 2009.

Federal Home Loan Bank Stock. Federal Home Loan Bank stock was unchanged at $20.7 million at September 30, 2010 from September 30, 2009. The Bank is a member of the Federal Home Loan Bank System. As a member, the Bank maintains an investment in the capital stock of the FHLB in an amount not less than 35 basis points of the outstanding member asset value plus 4.6% of its outstanding FHLB borrowings, as calculated throughout the year. FHLB borrowings outstanding at September 30, 2010 were $285.1 million compared to borrowings of $343.6 million at September 30, 2009.

Deposits. Deposits increased by $131.6 million, or 32.2%, to $540.4 million at September 30, 2010 from $408.9 million at September 30, 2009. The increase in deposits was primarily due to increases in money market accounts of $10.0 million, savings and club accounts of $1.5 million, brokered certificates of deposit of $48.7 million, non-interest bearing demand accounts of $5.0 million, and retail certificates of deposit of $59.3 million. The increase in brokered certificates was the result of the Company s decision to purchase certificates based on the cost of those certificates compared to other available funding sources. Included in the retail certificates of deposit at September 30, 2010 was an increase of $72.8 million in corporate jumbo certificates. Money market accounts increased in part in response to rate promotions for that product along with customers reinvesting proceeds of certificate of deposit maturities. At September 30, 2010, the Company had $70.6 million of brokered certificates of deposit outstanding.

Borrowed Funds. Borrowed funds, short term and other, decreased $88.5 million or 20.2% to $350.1 million at September 30, 2010 from $438.6 million at September 30, 2009. Included in borrowed funds at September 30, 2010 were $65.0 million of repurchase agreements with various financial institution third parties. Except for these borrowings all borrowed funds are from the FHLB. The decrease in borrowed funds was primarily due to the use of cheaper funding sources to replace maturing FHLB borrowings.

Stockholders Equity. Stockholders equity decreased by $13.9 million, or 7.5% to $171.6 million at September 30, 2010 from $185.5 million at September 30, 2009. This decrease was primarily the result of stock repurchases of $17.2 million funded by proceeds of investment maturities and the payment of cash dividends of $2.6 million which were partially offset by net income of $4.5 million for the year ending September 30, 2010.

Comparison of Operating Results for the Years Ended September 30, 2010 and September 30, 2009

Net Income. Net income decreased $2.0 million to $4.5 million for the fiscal year ended September 30, 2010 from $6.6 million for the fiscal year ended September 30, 2009. The decrease was primarily the result of decreases in net interest income and increases in provision for loan losses and non-interest expense. These decreases were partially offset by increases in non-interest income.

Net Interest Income. Net interest income decreased by $1.0 million, or 3.6%, to $28.0 million for fiscal year 2010 from $29.0 million for fiscal year 2009. The decrease was primarily attributable to a decrease of six basis points in the interest rate spread to 2.34% for fiscal year 2010 from 2.40% for fiscal year 2009, and a decrease in net average interest-earning assets of $9.5 million.

Interest Income. Interest income decreased $3.5 million or 6.6% to $49.3 million for fiscal year 2010 from $52.7 million for fiscal year 2009. The decrease resulted from a 44 basis point decrease in the overall yield on interest earning assets to 4.91% for fiscal year 2010 from 5.35% for fiscal year 2009 which decreased interest income by $4.2 million. This decrease was partially offset by a $17.4 million increase in average interest earning assets which had the effect of increasing interest income by $725,000. The average balance of loans during 2010 increased $2.1 million over the average balance during 2009, along with increases in the average balance of investment securities of $8.7 million and in mortgage-backed securities of $1.6 million. In addition, average Federal Home Loan Bank stock increased $292,000 and the average balance of other interest earning assets increased $4.6 million. The primary reason for the increase in investment securities was the investment of deposit and loan proceeds in excess of those needed to fund loan growth. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLB in an amount not less than 45 basis points of the outstanding FHLB member asset value plus 4.6% of its outstanding FHLB borrowings, as calculated throughout the year. On December 23, 2008, the FHLB notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice. The increase in average other interest earning assets was the result of an increase in the average balance of interest earning deposits held by the Company in its FHLB demand account of $4.6 million. The average yield on loans decreased to 5.51% for the fiscal year 2010, from 5.76% for the fiscal year 2009. The average yields on investment securities decreased to 2.72% from 3.89% and the average yields on mortgage backed securities decreased to 3.97% from 4.77% for the 2010 and 2009 periods, respectively.

Interest Expense. Interest expense decreased $2.4 million, or 10.3% to $21.3 million for fiscal year 2010 from $23.7 million for fiscal year 2009. The decrease resulted from a 38 basis point decrease in the overall cost of interest-bearing liabilities to 2.57% for fiscal 2010 from 2.95% for fiscal 2009 which decreased interest expense by $2.4 million. A $26.9 million increase in average interest-bearing liabilities had the effect of decreasing interest expense by $56,000 as borrowed funds matured and were replaced by lower cost alternatives. Average savings and club accounts increased by $4.0 million, average NOW accounts increased $1.5 million, average money market accounts increased $20.7 million and average certificates of deposit increased $42.5 million. For fiscal 2010, average borrowed funds decreased $41.9 million over 2009. The cost of money market accounts decreased to 1.07% for fiscal year 2010 from 1.68% for fiscal year 2009. The cost of certificates of deposit decreased to 2.49% from 3.26% and the cost of borrowed funds decreased to 3.78% from 3.85% for fiscal 2010 and 2009, respectively.

Provision for Loan Losses. ESSA Bancorp, Inc. establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision of $2.2 million for fiscal year 2010 compared to a $1.5 million provision for the 2009 fiscal year. At September 30, 2010, the Company had 12 commercial loan relationships whose loans were judged by management to be impaired. Of these twelve relationships, ten commercial real estate relationships with combined outstanding loans of $2.9 million had an allocation of the allowance for loan loss amounting to $86,000. Two commercial business relationships with combined loans of $52,000 had an allocation of the allowance for loan loss amounting to $47,000. These specific allowance allocations were also considered in the Company s evaluation for its provision for loan losses for the fiscal year ended September 30, 2010. The allowance for loan losses was $7.4 million or 1.01% of loans outstanding at September 30, 2010, compared to $5.8 million, or 0.79% of loans outstanding at September 30, 2009.

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

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

Non-Interest Income. Non-interest income increased $980,000 or 17.1%, to $6.7 million for the year ended September 30, 2010, from $5.7 million for the comparable 2009 period. This increase was primarily due to increases in gain on sale of investments, net of $1.0 million for fiscal 2010 compared to fiscal 2009.

Non-Interest Expense. Non-interest expense increased $2.0 million, or 8.4%, to $26.1 million for fiscal year 2010 from $24.1 million for the comparable period in 2009. The primary reasons for the increase were increases in compensation and employee benefits of $404,000, FDIC premiums of $139,000 and loss on foreclosed real estate of $1.2 million. Compensation and employee benefits increased primarily as a result of hiring additional employees to staff the Company s branch expansion. FDIC premiums increased as a result of increases in the assessment rates of FDIC insurance as well as deposit growth. Loss on foreclosed real estate increased because the Company incurred a $1.2 million write down in the first fiscal quarter in 2010 related to a single property in the Bank s foreclosed real estate portfolio.

Income Taxes. Income tax expense of $1.8 million was recognized for fiscal year 2010 compared to an income tax expense of $2.6 million recognized for fiscal year 2009. The decrease was primarily the result of a decrease of $2.8 million in income before taxes for the year ended September 30, 2010 compared to 2009.

Comparison of Operating Results for the Years Ended September 30, 2009 and September 30, 2008

Net Income. Net income increased $479,000 to $6.6 million for the fiscal year ended September 30, 2009 from $6.1 million for the fiscal year ended September 30, 2008. The increase was primarily the result of increases in net interest income and non-interest income, and a one-time tax benefit related to the write down of Fannie Mae preferred stock. These increases were partially offset by increases in non-interest expense.

Net Interest Income. Net interest income increased by $2.6 million, or 9.7%, to $29.0 million for fiscal year 2009 from $26.4 million for fiscal year 2008. The increase was primarily attributable to an increase of 31 basis points in the interest rate spread to 2.40% for fiscal year 2009 from 2.09% for fiscal year 2008, which was partially offset by a decrease in net average interest-earning assets of $19.5 million.

Interest Income. Interest income increased $668,000 or 1.3% to $52.7 million for fiscal year 2009 from $52.1 million for fiscal year 2008. The increase resulted from a $69.6 million increase in average interest-earning assets which had the effect of increasing interest income by $4.3 million. This increase was partially offset by a 33 basis point decrease in the overall yield on interest earning assets to 5.35% for fiscal year 2009, from 5.68% for fiscal year 2008 which decreased interest income by $3.6 million. The average balance of loans during 2009 increased $68.1 million over the average balance during 2008, along with a decrease in the average balance of investment securities of $37.2 million and an increase in mortgage-backed securities of $38.4 million. In addition, average Federal Home Loan Bank stock increased $2.6 million along with a decrease in the average balance of other interest earning assets of $2.4 million. The primary reason for the decrease in investment securities was the partial reinvestment of maturities into mortgage-backed securities along with the use of maturities to repurchase Company stock. The primary reason for the increase in mortgage backed securities was the partial reinvestment of loan sale proceeds, borrowing proceeds and maturing investment proceeds into these assets. Average FHLB stock increased as a result of the Bank s increase in borrowings from the FHLB. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLB in an amount not less than 70 basis points of the outstanding unused FHLB borrowing capacity or 1/20 of its outstanding FHLB borrowings, whichever is greater, as calculated throughout the year. On December 23, 2008, the FHLB notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice. The decrease in average other interest earning assets was the result of a decrease in the average balance of interest earning deposits held by the Company in its FHLB demand account of $2.4 million. The average yield on loans decreased to 5.76% for the fiscal year 2009, from 6.03% for the fiscal year 2008. The average yields on investment securities decreased to 3.89% from 4.77% and the average yields on mortgage backed securities decreased to 4.77% from 4.93% for the 2009 and 2008 periods, respectively.

Interest Expense. Interest expense decreased $1.9 million, or 7.4% to $23.7 million for fiscal year 2009 from $25.6 million for fiscal year 2008. The decrease resulted from an $89.1 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $1.0 million. This increase was more than offset by a 64 basis point decrease in the overall cost of interest-bearing liabilities to 2.95% for fiscal 2009 from 3.59% for fiscal 2008, which decreased interest expense by $2.9 million. Average savings and club accounts increased by $518,000, average NOW accounts decreased $811,000, average money market accounts increased $36.8 million and average certificates of deposit decreased $14.4 million. For fiscal 2009, average borrowed funds increased $67.0 million over 2008. The cost of money market accounts decreased to 1.68% for fiscal year 2009 from 2.90% for fiscal year 2008. The cost of certificates of deposit decreased to 3.26% from 4.19% and the cost of borrowed funds decreased to 3.85% from 4.48% for fiscal 2009 and 2008, respectively.

Provision for Loan Losses. ESSA Bancorp, Inc. establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision of $1.5 million for fiscal year 2009 compared to a $900,000 provision for the 2008 fiscal year. At September 30, 2009 the Company had six commercial loan relationships whose loans were judged by management to be impaired. Four commercial real estate relationships with combined outstanding loans of $760,000 were allocated a specific loan loss allowance of $104,000. Two commercial business relationships with combined loans of $122,000 were allocated a specific loan loss allowance of $44,000. These specific allowance allocations were also considered in the Company s evaluation for its provision for loan losses for the fiscal year ended September 30, 2009. The allowance for loan losses was $5.8 million or 0.79% of loans outstanding at September 30, 2009, compared to $4.9 million, or 0.69% of loans outstanding at September 30, 2008.

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

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

Table of Contents

Non-Interest Income. Non-interest income increased $925,000 or 19.3%, to $5.7 million for the year ended September 30, 2009, from $4.8 million for the comparable 2008 period. The increase was primarily attributable to an other-than temporary-impairment (OTTI) pretax charge taken in September 2008 of $802 related to Fannie Mae preferred stock the Company owns compared to a $68,000 OTTI charge taken in fiscal 2009. Excluding the one time charges, noninterest income increased $191,000, or 3.4% for the year ended September 30, 2009, compared to the year ended September 30, 2008. This increase was primarily due to increases in gain on sale of loans, net of $430,000 and gain on sale of investments, net of $178,000 which were partially offset by decreases in service fees on deposit accounts of $299,000 for fiscal 2009 compared to fiscal 2008.

Non-Interest Expense. Non-interest expense increased $2.9 million, or 13.8%, to $24.1 million for fiscal year 2009 from $21.2 million for the comparable period in 2008. The primary reasons for the increase were increases in compensation and employee benefits of $1.9 million, FDIC premiums of $634,000 and other noninterest expense of $288,000. Compensation and employee benefits increased primarily as a result of an increase of $1.4 million for the year ended September 30, 2009, related to the Company s equity incentive plan. FDIC premiums increased as a result of a special assessment of $400,000 along with increases in the quarterly regular FDIC assessment. Other noninterest expense increased primarily as a result of an increase in foreclosed real estate related expenses of $232,000.

Income Taxes. Income tax expense of $2.6 million was recognized for fiscal year 2009 compared to an income tax expense of $3.1 million recognized for fiscal year 2008. The decrease was primarily the result of a one-time tax benefit of $317,000 related to the Company s other than temporary impairment (OTTI) charge taken in the previous year. The OTTI charge related to Fannie Mae perpetual preferred stock held in the Company s available for sale portfolio.

Table of Contents

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

	For the Years Ended September 30,								
	2010			2009			2008		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans[1][2]	$ 736,540	$ 40,598	5.51%	$ 734,421	$ 42,290	5.76%	$ 666,284	$ 40,180	6.03%
Investment securities									
Taxable[3]	44,148	916	2.07%	35,231	1,150	3.26%	72,287	3,301	4.75%
Exempt from federal income tax[3][4]	7,025	315	6.79%	7,211	331	6.95%	7,347	331	6.81%
Total investment securities	51,173	1,231	2.72%	42,442	1,481	3.89%	79,634	3,632	4.77%
Mortgage-backed securities	186,748	7,421	3.97%	185,147	8,840	4.77%	146,723	7,235	4.93%
Federal Home Loan Bank stock	20,727		0.00%	20,435	112	0.55%	17,820	766	4.30%
Other	10,633	7	0.07%	6,024	10	0.17%	8,454	252	2.98%
Total interest-earning assets	1,005,821	49,257	4.91%	988,469	52,733	5.35%	918,915	52,065	5.68%
Allowance for loan losses	(6,547)			(5,167)			(4,406)		
Noninterest-earning assets	50,609			47,133			42,675		
Total assets	$ 1,049,883			$ 1,030,435			$ 957,184		
Interest-bearing liabilities:									
NOW accounts	$ 55,796	42	0.08%	$ 54,262	45	0.08%	$ 55,073	42	0.07%
Money market accounts	115,545	1,235	1.07%	94,835	1,591	1.68%	58,034	1,684	2.90%
Savings and club accounts	67,549	213	0.32%	63,500	271	0.43%	62,982	277	0.44%
Certificates of deposit	196,863	4,896	2.49%	154,365	5,035	3.26%	168,763	7,063	4.19%
Borrowed funds	394,772	14,920	3.78%	436,671	16,797	3.85%	369,719	16,576	4.48%
Total interest-bearing liabilities	830,525	21,306	2.57%	803,633	23,739	2.95%	714,571	25,642	3.59%
Non-interest bearing demand accounts	27,703			24,711			24,211		
Noninterest-bearing liabilities	10,473			10,546			10,013		
Total liabilities	868,701			838,890			748,795		
Equity	181,182			191,545			208,389		
Total liabilities and equity	$ 1,049,883			$ 1,030,435			$ 957,184		
Net interest income		$ 27,951			$ 28,994			$ 26,423	
Interest rate spread			2.34%			2.40%			2.09%
Net interest-earning assets	$ 175,296			$ 184,836			$ 204,344		
Net interest margin[5]			2.78%			2.93%			2.88%
		121.11%			123.00%			128.60%	

Average interest-earning
assets to average
interest-bearing liabilities

(1) Non-accruing loans are included in the outstanding loan balances.
(2) Interest income on loans includes net amortized revenues (costs) on loans totaling $95,000 in 2010, $141,000 for 2009, and $287,000 for 2008.
(3) Held to maturity securities are reported as amortized cost. Available for sale securities are reported at fair value.
(4) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.
(5) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Table of Contents

Rate/Volume Analysis

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

	For the Years Ended September 30, 2010 vs. 2009			For the Years Ended September 30, 2009 vs. 2008		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest-earning assets:						
Loans	$ 120	$ (1,812)	$ (1,692)	$ 3,753	$ (1,643)	$ 2,110
Investment securities	521	(771)	(250)	(1,389)	(762)	(2,151)
Mortgage-backed securities	77	(1,496)	(1,419)	1,832	(227)	1,605
Federal Home Loan Bank stock	2	(114)	(112)	132	(786)	(654)
Other	5	(8)	(3)	(57)	(185)	(242)
Total interest-earning assets	725	(4,201)	(3,476)	4,271	(3,603)	668
Interest-bearing liabilities:						
NOW accounts	(3)		(3)		4	4
Money market accounts	301	(657)	(356)	581	(674)	(93)
Savings and club accounts	19	(77)	(58)	3	(9)	(6)
Certificates of deposit	1,205	(1,344)	(139)	(563)	(1,465)	(2,028)
Borrowed funds	(1,578)	(299)	(1,877)	985	(765)	220
Total interest-bearing liabilities	(56)	(2,377)	(2,433)	1,006	(2,909)	(1,903)
Net change in interest income	$ 781	$ (1,824)	$ (1,043)	$ 3,265	$ (694)	$ 2,571

Management of Market Risk

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

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. The net proceeds from the offering has increased our capital and provided management with greater flexibility to manage our interest rate risk.

Net Portfolio Value. The Office of Thrift Supervision requires the computation of amounts by which the net present value of an institution s cash flow from assets, liabilities and off balance sheet items (the institution s net portfolio value or NPV) would change in the event of a range of assumed changes in market interest rates. The Office of Thrift Supervision provides all institutions that file a Consolidated Maturity/Rate Schedule as a part of their quarterly Thrift Financial Report with an interest rate sensitivity report of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to

Table of Contents

measuring the interest rate sensitivity of net portfolio value. Historically, the Office of Thrift Supervision model estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 50 to 300 basis points (100 basis points in the event of an interest rate decrease) in 50 and 100 basis point increments. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below. The Office of Thrift Supervision provides us the results of the interest rate sensitivity model, which is based on information we provide to the Office of Thrift Supervision to estimate the sensitivity of our net portfolio value.

The table below sets forth, as of September 30, 2010, the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NPV Ratio (4)	Increase (Decrease) (basis points)
	(Dollars in thousands)				
+300	$ 123,334	$ (47,704)	(28%)	12.07%	(340)
+200	145,486	(25,552)	(15%)	13.80%	(167)
+100	162,565	(8,473)	(5%)	15.00%	(47)
+50	167,432	(3,606)	(2%)	15.29%	(18)
	171,038			15.47%	
-50	172,214	1,176	1%	15.46%	
-100	171,652	614	0%	15.36%	(11)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at September 30, 2010, in the event of an immediate 100 basis point decrease in interest rates, we would experience no change in net portfolio value. In the event of an immediate 100 basis point increase in interest rates, we would experience a 5% decrease in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Liquidity and Capital Resources

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

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities and other short-term investments, and earnings and funds provided from operations, as well as access to Federal Home Loan Bank advances and other borrowings. While scheduled

Table of Contents

principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits.

A portion of our liquidity consists of cash and cash equivalents and borrowings, which are a product of our operating, investing and financing activities. At September 30, 2010, $10.9 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 $7.3 million at September 30, 2010. As of September 30, 2010, we had $285.1 million in borrowings outstanding from the FHLBank Pittsburgh and $65.0 million in repurchase agreements. We have access to Federal Home Loan Bank advances of up to approximately $496 million.

At September 30, 2010, we had $45.1 million in loan commitments outstanding, which included $5.1 million in undisbursed construction loans, $20.9 million in unused home equity lines of credit and $3.8 million in commercial lines of credit. Certificates of deposit due within one year of September 30, 2010 totaled $93.9 million, or 36.0% of certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2011. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was $7.4 million, $9.6 million and $10.7 million for the years ended September 30, 2010, 2009 and 2008, 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 in investing activities was $38.7 million, $38.8 million and $89.5 million in fiscal years 2010, 2009 and 2008, respectively, principally reflecting our loan and investment security activities in the respective periods. Investment security cash flows had the most significant effect, as net cash utilized in purchases amounted to $143.0 million, $126.2 million and $119.5 million in the years ended September 30, 2010, 2009 and 2008, respectively. Cash proceeds from principal repayments, maturities and sales of investment securities amounted to $112.0 million, $124.4 million and $124.8 million in the years ended September 30, 2010, 2009 and 2008, respectively. Deposit and borrowing cash flows have traditionally comprised most of our financing activities which resulted in net cash provided of $23.6 million in fiscal year 2010, $35.2 million in fiscal year 2009 and $74.6 million in fiscal year 2008. In addition, during fiscal 2010 we used $17.0 million and in fiscal 2009 we used $25.9 million to repurchase our stock as part of previously disclosed stock repurchase plans.

The following table summarizes our significant fixed and determinable contractual principal obligations and other funding needs by payment date at September 30, 2010. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
			(In thousands)		
Long-term debt	$ 89,247	$ 166,100	$ 60,010	$ 20,000	$ 335,357
Operating leases	563	833	639	1,757	3,792
Certificates of deposit	93,883	81,034	73,511	12,655	261,083
Total	$ 183,693	$ 247,967	$ 134,160	$ 34,412	$ 600,232
Commitments to extend credit	$ 24,993	$	$	$ 20,101	$ 45,094

We also have obligations under our post retirement plan as described in note 14 to the Consolidated Financial Statements. The post retirement benefit payments represent actuarially determined future payments to eligible plan participants. We expect to contribute $500,000 to our post retirement plan in 2011.

Table of Contents

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

For fiscal year 2010, we did not engage in any off-balance-sheet transactions other than loan origination commitments and standby letters of credit in the normal course of our lending activities.

Impact of Inflation and Changing Prices

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

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

Not Applicable.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

50

Table of Contents

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

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

ESSA Bancorp s management assessed the effectiveness of the Company s internal control over financial reporting as of September 30, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of September 30, 2010, the Company s internal control over financial reporting is effective based on those criteria.

ESSA Bancorp s independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on the effectiveness of the Company s internal control over financial reporting as of September 30, 2010. See the Consolidated Financial Statements of ESSA Bancorp, Inc. and related notes included elsewhere in this Annual Report.

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

Item 9B. Other Information

Not Applicable.

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors, executive officers and corporate governance of the Company is presented under the headings Proposal 1 Election of Directors-General, Nominees for Directors, Continuing Directors, Board Meetings and Committees, Executive Officers of Bank Who Are Not Also Directors, Corporate Governance, Code of Ethics and Business conduct and Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be held on March 3, 2011 (the Proxy Statement) and is incorporated herein by reference.

Item 11. Executive Compensation

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

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

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

Table of Contents

Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information, as of September 30, 2010 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

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

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

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

Item 14. Principal Accounting Fees and Services

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

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

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

(A) Report of Independent Registered Public Accounting Firm

(B) Consolidated Balance Sheet - at September 30, 2010 and 2009

(C) Consolidated Statement of Income - Years ended September 30, 2010, 2009 and 2008

(D) Consolidated Statement of Changes In Stockholders Equity - Years ended September 30, 2010, 2009 and 2008

(E) Consolidated Statement of Cash Flows - Years ended September 30, 2010, 2009 and 2008

(F) Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

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

* 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.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

Table of Contents

REPORT ON MANAGEMENT S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

REPORT ON MANAGEMENT S ASSESSMENT OF

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the Company s system of internal control over financial reporting as of September 30, 2010, in relation to criteria for effective internal control over financial reporting as described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of September 30, 2010, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control Integrated Framework . S.R. Snodgrass A.C., independent registered public accounting firm, has issued an attestation report on management s assessment of the Company s internal control over financial reporting.

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

/s/ Allan A. Muto
Allan A. Muto
Executive Vice President and Chief Financial Officer
December 14, 2010

Table of Contents

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

We have audited ESSA Bancorp, Inc. s internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ESSA Bancorp, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on Management s Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, ESSA Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ESSA Bancorp, Inc. as of September 30, 2010 and 2009, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the three years in the period ended September 30, 2010, and our report dated December 14, 2010, expressed an unqualified opinion.

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

Wexford, PA

December 14, 2010

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

Board of Directors and Stockholders

ESSA Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of ESSA Bancorp, Inc. and subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the three years in the period ended September 30, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ESSA Bancorp, Inc. and subsidiaries as of September 30, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2010, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ESSA Bancorp, Inc. and subsidiaries internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 14, 2010, expressed an unqualified opinion on the effectiveness of ESSA Bancorp, Inc. s internal control over financial reporting.

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

Wexford, PA

December 14, 2010

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	September 30, 2010	September 30, 2009
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 7,454	$ 7,103
Interest-bearing deposits with other institutions	3,436	11,490
Total cash and cash equivalents	10,890	18,593
Certificates of deposit		5,355
Investment securities available for sale	252,341	217,566
Investment securities held to maturity (fair value of $13,254 and $6,923)	12,795	6,709
Loans receivable (net of allowance for loan losses of $7,448 and $5,815)	730,842	733,580
Federal Home Loan Bank stock	20,727	20,727
Premises and equipment	12,189	10,620
Bank-owned life insurance	15,618	15,072
Foreclosed real estate	2,034	2,579
Other assets	14,561	11,318
TOTAL ASSETS	$ 1,071,997	$ 1,042,119
LIABILITIES		
Deposits	$ 540,410	$ 408,855
Short-term borrowings	14,719	48,091
Other borrowings	335,357	390,507
Advances by borrowers for taxes and insurance	1,465	1,377
Other liabilities	8,423	7,783
TOTAL LIABILITIES	900,374	856,613
Commitment and contingencies (Notes 12 and 13)		
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; 13,482,612 and 14,878,620 outstanding at September 30, 2010 and 2009, respectively)	170	170
Additional paid-in capital	164,494	162,243
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,891)	(12,339)
Retained earnings	64,272	62,337
Treasury stock, at cost; 3,498,288 and 2,102,280 shares outstanding at September 30, 2010 and 2009, respectively	(44,870)	(27,695)
Accumulated other comprehensive income (loss)	(552)	790
TOTAL STOCKHOLDERS EQUITY	171,623	185,506
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,071,997	$ 1,042,119

See accompanying notes to the consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

	Years Ended September 30, 2010	2009	2008
	(dollars in thousands)		
INTEREST INCOME			
Loans receivable	$ 40,598	$ 42,290	$ 40,180
Investment securities:			
Taxable	8,337	9,990	10,536
Exempt from federal income tax	315	331	331
Other investment income	7	122	1,018
Total interest income	49,257	52,733	52,065
INTEREST EXPENSE			
Deposits	6,386	6,942	9,066
Short-term borrowings	88	395	1,424
Other borrowings	14,832	16,402	15,152
Total interest expense	21,306	23,739	25,642
NET INTEREST INCOME	27,951	28,994	26,423
Provision for loan losses	2,175	1,500	900
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,776	27,494	25,523
NONINTEREST INCOME			
Service fees on deposit accounts	3,191	3,181	3,480
Services charges and fees on loans	515	567	624
Trust and investment fees	842	847	864
Impairment loss on securities		(68)	(802)
Gain on sale of investments, net	1,220	178	
Gain on sale of loans, net	354	430	
Earnings on bank-owned life insurance	547	556	575
Other	39	37	62
Total noninterest income	6,708	5,728	4,803
NONINTEREST EXPENSE			
Compensation and employee benefits	14,981	14,577	12,650
Occupancy and equipment	2,951	2,916	2,839
Professional fees	1,491	1,376	1,432
Data processing	1,971	1,886	1,866
Advertising	626	672	630
Federal Deposit Insurance Corporation (FDIC) premiums	821	682	48
Loss on foreclosed real estate	1,200	5	
Other	2,087	1,999	1,716
Total noninterest expense	26,128	24,113	21,181
Income before income taxes	6,356	9,109	9,145

Income taxes	1,844	2,553	3,068
NET INCOME	$ 4,512	$ 6,556	$ 6,077
Earnings per share:			
Basic	$ 0.36	$ 0.47	$ 0.39
Diluted	$ 0.36	$ 0.47	$ 0.38
Dividends per share[1]:	$ 0.20	$ 0.17	$ 0.08

1 The Company began paying a quarterly dividend on June 30, 2008

See accompanying notes to the consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

	Common Stock			Unallocated Common Stock Held by the ESOP			Accumulated Other Comprehensive Income (Loss)		
	Number of Shares	Amount	Additional Paid-In Capital		Retained Earnings	Treasury Stock		Total Stockholders Equity	Comprehensive Income (Loss)
				(dollars in thousands)					
Balance, September 30, 2007	16,980,900	$ 170	$ 166,782	$ (13,283)	$ 53,400	$	$ (2,377)	$ 204,692	
Net income					6,077			6,077	$ 6,077
Other comprehensive loss:									
Unrealized loss on securities available for sale, net of income tax benefit of $114							(220)	(220)	(220)
Change in unrecognized pension cost, net of income tax benefit of $45							(88)	(88)	(88)
Comprehensive income									$ 5,769
Cash dividends declared ($.04 per share)					(1,250)			(1,250)	
Stock-based compensation			717					717	
Allocation of ESOP stock			85	491				576	
Treasury shares purchased	(793,553)					(10,418)		(10,418)	
Allocation of treasury shares to incentive plans	590,320		(7,665)			7,665			
Balance, September 30, 2008	16,777,667	$ 170	$ 159,919	$ (12,792)	$ 58,227	$ (2,753)	$ (2,685)	$ 200,086	
Net income					6,556			6,556	$ 6,556
Other comprehensive income (loss):									
Unrealized gain on securities availabe for sale, net of income tax benefit of $2,291							4,447	4,447	4,447
Change in unrecognized pension cost, net of income taxes of $502							(972)	(972)	(972)
Comprehensive income									$ 10,031
Cumulative adjustment of change in accounting for split-dollar life insurance arrangements					(49)			(49)	
Cash dividends declared ($.17 per share)					(2,397)			(2,397)	
Stock-based compensation			2,151					2,151	

Allocation of ESOP stock			161	453				614	
Restricted stock forfeitures	(906)		12			(12)			
Treasury shares purchased	(1,898,141)					(24,930)		(24,930)	
Balance, September 30, 2009	14,878,620	$ 170	$ 162,243	$ (12,339)	$ 62,337	$ (27,695)	$ 790	$ 185,506	
Net income					4,512			4,512	$ 4,512
Other comprehensive loss:									
Unrealized loss on securities availabe for sale, net of income tax benefit of $226							(438)	(438)	(438)
Change in unrecognized pension cost, net of income taxes of $466							(904)	(904)	(904)
Comprehensive income									$ 3,170
Cash dividends declared ($.20 per share)					(2,577)			(2,577)	
Stock-based compensation			2,143					2,143	
Allocation of ESOP stock			108	448				556	
Treasury shares purchased	(1,396,008)					(17,175)		(17,175)	
Balance, September 30, 2010	13,482,612	$ 170	$ 164,494	$ (11,891)	$ 64,272	$ (44,870)	$ (552)	$ 171,623	

	2010	**2009**	**2008**
Components of other comprehensive income (loss):			
Change in net unrealized gain (loss) on investment securities available for sale	$ (1,243)	$ 4,519	$ (749)
Realized gains included in net income, net of tax of $415 in 2010 and $61 in 2009	805	(117)	
Realized impairment loss included in net income, net of income tax benefit of $23 in 2009 and $273 in 2008		45	529
Change in unrealized pension cost, net of tax benefit of $466, $502, and $45 in 2010, 2009, and 2008, respectively	(904)	(972)	(88)
Total	$ (1,342)	$ 3,475	$ (308)

See accompanying notes to the consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended September 30, 2010	2009	2008
	(dollars in thousands)		
OPERATING ACTIVITIES			
Net income	$ 4,512	$ 6,556	$ 6,077
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,175	1,500	900
Provision for depreciation and amortization	1,228	1,197	1,253
Amortization (accretion) of discounts and premiums, net	775	(60)	(397)
Impairment loss on securities		68	802
Net gain on sale of investment securities	(1,220)	(178)	
Gain on sale of loans, net	(354)	(430)	
Origination of mortgage loans sold	(13,478)	(7,036)	
Proceeds from sale of mortgage loans originated for sale	13,832	7,139	
Compensation expense on ESOP	556	614	576
Stock-based compensation	2,143	2,151	717
Decrease in accrued interest receivable	27	307	443
Increase (decrease) in accrued interest payable	(140)	116	(21)
Earnings on bank-owned life insurance	(547)	(556)	(575)
Deferred federal income taxes	(177)	(858)	(394)
Increase in prepaid FDIC insurance premiums	(1,293)	(163)	(28)
Increase in accrued pension liability	575	444	779
Loss on foreclosed real estate	1,200	5	
Other, net	(2,397)	(1,250)	563
Net cash provided by operating activities	7,417	9,566	10,695
INVESTING ACTIVITIES			
Proceeds from repayments of certificates of deposit	5,385	3,497	98
Purchase of certificates of deposit		(4,907)	(3,767)
Investment securities available for sale:			
Proceeds from sale of investment securities	43,471	23,890	
Proceeds from principal repayments and maturities	64,445	95,395	119,541
Purchases	(143,023)	(126,150)	(119,476)
Investment securities held to maturity:			
Proceeds from principal repayments and maturities	4,065	5,125	5,263
Purchases	(10,163)		
Increase in loans receivable, net	(268)	(49,887)	(87,693)
Proceeds from sale of loans		19,592	
Redemption of FHLB stock		509	4,084
Purchase of FHLB stock		(2,048)	(6,819)
Investment in limited partnership		(2,729)	
Proceeds from sale of foreclosed real estate	308	21	
Capital improvements to foreclosed real estate	(71)		
Purchase of premises, equipment, and software	(2,813)	(1,057)	(698)
Net cash used for investing activities	(38,664)	(38,749)	(89,467)
FINANCING ACTIVITIES			
Increase (decrease) in deposits, net	131,555	38,326	(14,187)
Net increase (decrease) in short-term borrowings	(33,372)	8,581	5,280

Proceeds from other borrowings	20,350	127,260	146,050
Repayment of other borrowings	(75,500)	(110,000)	(52,500)
Increase (decrease) in advances by borrowers for taxes and insurance	88	(670)	624
Purchase of treasury stock shares	(17,000)	(25,938)	(9,410)
Dividends on common stock	(2,577)	(2,397)	(1,250)
Net cash provided by financing activities	23,544	35,162	74,607
Increase (decrease) in cash and cash equivalents	(7,703)	5,979	(4,165)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,593	12,614	16,779
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,890	$ 18,593	$ 12,614
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Cash paid:			
Interest	$ 21,447	$ 23,623	$ 25,663
Income taxes	1,869	3,150	2,996
Noncash items:			
Transfers from loans to foreclosed real estate	926	2,573	31
Treasury stock payable	175	(1,008)	1,008

See accompanying notes to the consolidated financial statements.

F-8

ESSA BANCORP, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company) and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank s wholly owned subsidiaries, ESSACOR, Inc. 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 of the Bank, including certain intellectual property. All intercompany transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiary and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the consolidated financial statements, 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.

Securities

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

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company s assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of the related deferred tax effects. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

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

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities (Continued)

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the Company s intent to sell the security or whether its more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) system to hold stock of its district FHLB according to a predetermined formula. This restricted stock is carried at cost.

Loans Receivable

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

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

Loans Held for Sale

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

Allowance for Loan Losses

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

The allowance for loan losses is maintained at a level by management which represents the evaluation of known and inherent risks in the loan portfolio at the consolidated balance sheet date. Management s periodic evaluation of the adequacy of the allowance is based on the Company s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, since it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

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

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

A loan is considered to be a troubled debt restructured (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.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon a third-party appraisal. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. The Company s loan servicing assets at September 30, 2010 and 2009, were not impaired. Total servicing assets included in other assets as of September 30, 2010 and 2009, were $318,000 and $289,000, respectively.

Premises and Equipment

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

Bank-Owned Life Insurance (BOLI)

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The cash surrender value of these policies is included as an asset on the consolidated balance sheet, and any increase in cash surrender

F-11

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank-Owned Life Insurance (BOLI) (Continued)

value is recorded as noninterest income on the consolidated statement of income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit which would be recorded as noninterest income. On October 1, 2008, the Company changed its accounting policy and recognized a cumulative-effect adjustment to retained earnings totaling $49,000 related to accounting for certain endorsement split-dollar life insurance arrangements in connection with the adoption of new accounting standard.

Foreclosed Real Estate

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

Employee Benefit Plans

The Bank maintains a noncontributory, defined benefit pension plan for all employees who have met age and length of service requirements. The Bank s funding policy is to contribute annually up to the maximum amount that can be deducted for federal income tax purposes. The Bank also maintains a defined contribution Section 401(k) plan covering eligible employees. Contributions matching those made by eligible employees and an elective contribution are made annually at the discretion of the Board of Directors. In 2007, 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.

During 2008, the Company implemented 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.

The fair value of the stock option grants was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2008
Expected dividend yield	0.70%
Expected volatility	8.50%
Risk-free interest rate	3.85%
Expected option life in years	6.50

Advertising Costs

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

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

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

Income Taxes

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

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

Cash and Cash Equivalents

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

Earnings Per Share

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

Comprehensive Income (Loss)

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

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss) (Continued)

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

	2010	2009	2008
Net unrealized gain (loss) on securities available for sale	$ 3,839	$ 4,277	$ (170)
Net unrecognized pension cost	(4,391)	(3,487)	(2,515)
Total	$ (552)	$ 790	$ (2,685)

Fair Value Measurements

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

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

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

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

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

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

Reclassification of Comparative Amounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009, and for interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In January 2010, the FASB issued ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash a consensus of the FASB Emerging Issues Task Force*. ASU 2010-01 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

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

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III 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 February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics*. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company s financial position or results of operation.

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging*. ASU 2010-11 provides clarification and related additional examples to improve financial reporting by resolving potential ambiguity about the breadth of the embedded credit derivative scope exception in ASC 815-15-15-8. ASU 2010-11 is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The adoption of this guidance did not have a significant impact on the Company s financial statements.

Table of Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In April 2010, the FASB issued ASU 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan is a Part of a Pool That is Accounted for as a Single Asset a consensus of the FASB Emerging Issues Task Force*. ASU 2010-18 clarifies the treatment for a modified loan that was acquired as part of a pool of assets. Refinancing or restructuring the loan does not make it eligible for removal from the pool, the FASB said. The amendment will be effective for loans that are part of an asset pool and are modified during financial reporting periods that end July 15, 2010, or later and the Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In July 2010, the 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 is currently evaluating the impact the adoption of this guidance will have on the Company s financial position or results of operations.

In August, 2010, the FASB issued ASU 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules*. This ASU amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: *Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies* and is not expected to have a significant impact on the Company s financial statements.

In August, 2010, the FASB issued ASU 2010-22, *Technical Corrections to SEC Paragraphs An announcement made by the staff of the U.S. Securities and Exchange Commission*. This ASU amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics, and is not expected to have a significant impact on the Company s financial statements.

Table of Contents

2. EARNINGS PER SHARE

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ended September 30, 2010, 2009, and 2008.

	2010	2009	2008
Weighted-average common shares outstanding	16,980,900	16,980,900	16,980,900
Average treasury stock shares	(2,736,207)	(1,396,616)	(5,406)
Average unearned ESOP shares	(1,199,548)	(1,254,824)	(1,300,445)
Average unearned nonvested shares	(368,008)	(486,572)	(117,641)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	12,677,137	13,842,888	15,557,408
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share			360,395
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		62,173	59,108
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	12,677,137	13,905,061	15,976,911

At September 30, 2010, there were 313,288 shares of nonvested stock outstanding at a price of $12.35 per share and options to purchase 1,458,379 shares of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2009, there were 432,230 shares of nonvested 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. There were no anti-dilutive options outstanding for September 30, 2009. There were no anti-dilutive options or nonvested stock outstanding for September 30, 2008.

3. INVESTMENT SECURITIES

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

	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

Table of Contents

3. INVESTMENT SECURITIES (Continued)

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 66,709	$ 1,716	$ (2)	$ 68,423
Freddie Mac	83,005	2,864		85,869
Governmental National Mortgage Association	32,734	1,238		33,972
Total mortgage-backed securities	182,448	5,818	(2)	188,264
Obligations of states and political subdivisions	7,168	315		7,483
U.S. government agency securities	21,458	288		21,746
Total debt securities	211,074	6,421	(2)	217,493
Equity securities	12	61		73
Total	$ 211,086	$ 6,482	$ (2)	$ 217,566
Held to Maturity				
Fannie Mae	$ 4,492	$ 150	$	$ 4,642
Freddie Mac	2,217	65	(1)	2,281
Total	$ 6,709	$ 215	$ (1)	$ 6,923

The amortized cost and fair value of debt securities at September 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	AVAILABLE FOR SALE		HELD TO MATURITY	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 6,811	$ 6,818	$ 471	$ 471
Due after one year through five years	41,825	42,057	498	528
Due after five years through ten years	38,389	39,538	1,796	1,918
Due after ten years	159,489	163,890	10,030	10,337
Total	$ 246,514	$ 252,303	$ 12,795	$ 13,254

For the years ended September 30, 2010 and 2009, the Company realized gross gains of $1,220,000 and $184,000, gross losses of $0 and $6,000, and proceeds from the sale of investment securities of $43,471,000 and $23,890,000. The Company had no sales of investment securities for the years ending September 30, 2008.

Investment securities with carrying values of $18,382,000 and $18,468,000 at September 30, 2010 and 2009, respectively, were pledged to secure public deposits and other purposes as required by law.

F-19

Table of Contents

4. UNREALIZED LOSSES ON SECURITIES

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

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 securities	2	5,605	(96)			5,605	(96)
Obligations of states and political subdivisions	1	610	(12)			610	(12)
U.S. government agency securities	4	6,484	(22)			6,484	(22)
Total	8	$ 14,759	$ (139)	$	$	$ 14,759	$ (139)

2009	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	2	$ 5,353	$ (2)	$	$	$ 5,353	$ (2)
Freddie Mac	1			38	(1)	38	(1)
Total	3	$ 5,353	$ (2)	$ 38	$ (1)	$ 5,391	$ (3)

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

The Company reviews its position quarterly and has asserted that at September 30, 2010, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio at September 30, 2010, 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. However, as of September 30, 2009 and 2008, the Company recognized losses of $68,000 and $802,000, respectively, on equity securities that it deemed, through analysis of the security, to be other than a temporary loss. The losses as of September 30, 2009 and 2008, were related to Fannie Mae perpetual preferred stock that the Company owns. Fannie Mae was placed into conservatorship by the U.S. Government on September 7, 2008.

5. LOANS RECEIVABLE

Loans receivable consist of the following (in thousands):

	2010	2009
Real estate loans:		
Residential	$ 596,170	$ 603,830
Construction	1,302	1,707
Commercial	78,056	68,040
Commercial	16,569	16,452
Home equity loans and lines of credit	43,538	46,792
Other	2,486	2,526
	738,121	739,347
Less deferred loan (costs)	(169)	(48)
	738,290	739,395
Less allowance for loan losses	7,448	5,815
Net loans	$ 730,842	$ 733,580

Mortgage loans serviced by the Company for others amounted to $46,800,000, $38,732,000, and $16,665,000, at September 30, 2010, 2009, and 2008, respectively.

At September 30, 2010, 2009, and 2008, the Company had nonaccrual loans of $10,516,000, $4,565,000, and $3,938,000, respectively. Additional interest income that would have been recorded under the original terms of the loan agreements amounted to $509,000, $422,000, and $133,000, for the years ended September 30, 2010, 2009, and 2008, respectively.

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

	2010	2009	2008
Impaired loans with a related allowance	$ 2,965	$ 1,035	$ 2,697
Impaired loans without a related allowance	5,110	2,835	
Related allowance for loan losses	429	176	534
Average recorded balance of impaired loans	7,977	538	225
Interest income recognized			

The Company s primary business activity is with customers located within its local trade area. Commercial, residential, and consumer loans are granted. The Company also funds commercial and residential loans originated outside its immediate trade area provided such loans meet the Company s credit policy guidelines. Although the Company has a diversified loan portfolio at September 30, 2010 and 2009, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

Activity in the allowance for loan losses for the years ended is summarized as follows (in thousands):

	2010	2009	2008
Balance, beginning of period	$ 5,815	$ 4,915	$ 4,206
Add:			
Provision charged to operations	2,175	1,500	900
Loan recoveries	30	3	2

	8,020	6,418	5,108
Less loans charged off	(572)	(603)	(193)
Balance, end of period	$ 7,448	$ 5,815	$ 4,915

Table of Contents

5. LOANS RECEIVABLE (Continued)

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, officers, their immediate families, and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. At September 30, 2010 and 2009, these persons were indebted to the Company for loans totaling $1,211,000 and $1,143,000, respectively. During the year ended September 30, 2010, $207,000 of loan advances were made and repayments totaled $139,000.

6. FEDERAL HOME LOAN BANK STOCK

The Bank is a member of the Federal Home Loan Bank System. As a member, the Bank maintains an investment in the capital stock of the FHLB of Pittsburgh in an amount not less than 35 basis points of the outstanding member asset value plus 4.6 percent of its outstanding FHLB borrowings, as calculated throughout the year.

7. PREMISES AND EQUIPMENT

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

	2010	2009
Land and land improvements	$ 3,932	$ 3,874
Buildings and leasehold improvements	11,063	9,316
Furniture, fixtures, and equipment	8,252	7,350
Construction in process	4	119
	23,251	20,659
Less accumulated depreciation	(11,062)	(10,039)
Total	$ 12,189	$ 10,620

Depreciation expense amounted to $1,037,000, $979,000, and $1,059,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

8. DEPOSITS

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

	2010		2009	
	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount
Non-interest-bearing demand accounts	%	$ 30,448	%	$ 25,415
NOW accounts	0.04	61,878	0.09	54,635
Money market accounts	0.59	119,238	1.25	109,265
Savings and club accounts	0.25	67,763	0.40	66,305
Certificates of deposit	2.18	261,083	2.92	153,235
Total	1.22%	$ 540,410	1.50%	$ 408,855

Table of Contents

8. DEPOSITS (Continued)

	2010		2009	
	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount
Certificates of deposit:				
0.00 - 2.00%	0.89%	$ 108,618	1.18%	$ 47,714
2.01 - 4.00%	2.73	124,044	3.08	63,885
4.01 - 6.00%	4.72	28,421	4.67	41,636
Total	2.18%	$ 261,083	2.92%	$ 153,235

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

2011	$ 93,883
2012	48,730
2013	32,304
2014	37,988
2015	35,523
2016 and thereafter	12,655
Total	$ 261,083

Brokered deposits totaled $70,646,000 and $21,973,000 at September 30, 2010 and 2009, respectively. The aggregate amount of time certificates of deposit with a minimum denomination of $100,000 were $182,085,000 at September 30, 2010.

The scheduled maturities of time certificates of deposit in denominations of $100,000 or more as of September 30, 2010, are as follows (in thousands):

Within three months	$ 21,235
Three through six months	16,647
Six through twelve months	14,729
Over twelve months	129,474
Total	$ 182,085

Table of Contents

8. DEPOSITS (Continued)

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

	2010	2009	2008
NOW accounts	$ 42	$ 45	$ 41
Money market accounts	1,235	1,591	1,684
Savings and club accounts	213	271	278
Certificates of deposits	4,896	5,035	7,063
Total	$ 6,386	$ 6,942	$ 9,066

9. SHORT-TERM BORROWINGS

As of September 30, 2010 and 2009, the Company had $14,719,000 and $48,091,000 of short-term borrowings, respectively, of which $14,719,000 and $7,091,000, respectively, were advances on a $75,000,000 line of credit with the FHLB.

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans that are owned by the Company free and clear of any liens or encumbrances. During 2010, the Company had a borrowing limit of approximately $496 million, with a variable rate of interest, based on the FHLB s cost of funds.

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

	2010	2009	2008
Balance at year-end	$ 14,719	$ 48,091	$ 39,510
Maximum amount outstanding at any month-end	61,013	73,162	56,183
Average balance outstanding during the year	22,947	48,171	36,150
Weighted-average interest rate:			
As of year-end	0.65%	0.43%	2.41%
Paid during the year	0.38%	0.82%	3.94%

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

10. OTHER BORROWINGS

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

	Maturity range		Weighted-average	Stated interest rate ranged			
Description	from	to	interest rate	from	to	2010	2009
Convertible	10/20/2010	12/5/2018	4.77%	3.30%	6.06%	$ 58,000	$ 68,000
Fixed rate	12/6/2010	8/31/2015	3.90	1.39	5.95	160,457	171,607
Mid-term	10/18/2010	8/30/2013	2.94	1.05	4.65	51,900	85,900
Securities sold under agreements to repurchase	1/17/2011	9/3/2018	3.50	2.37	4.01	65,000	65,000
		Total				$ 335,357	$ 390,507

Table of Contents

10. OTHER BORROWINGS (Continued)

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

Year Ending September 30,	Amount	Weighted-average Rate
2011	$ 89,247	4.45%
2012	79,100	3.69
2013	87,000	3.57
2014	36,710	3.41
2015	23,300	3.54
2016 and thereafter	20,000	3.81
Total	$ 335,357	3.83%

Included above are eight convertible notes, which total $58,000,000 and are convertible to variable-rate advances on specific dates at the discretion of the FHLB. Should the FHLB convert these advances, the Bank has the option of accepting the variable rate or repaying the advance without penalty.

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

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

Securities sold under agreements to repurchase and other borrowings are secured by U.S. government agency and mortgage-backed securities with a carrying value of $92,284,000 and $78,163,000 at September 30, 2010 and 2009, respectively.

Table of Contents

11. INCOME TAXES

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

	2010	2009	2008
Current:			
Federal	$ 2,003	$ 3,331	$ 3,357
State	18	80	105
Total current taxes	2,021	3,411	3,462
Deferred income tax benefit	(177)	(858)	(394)
Total income tax provision	$ 1,844	$ 2,553	$ 3,068

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

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 2,523	$ 1,977
Charitable contributions carryover	3,329	3,538
Employee benefit plan	2,262	1,796
Writedown of preferred stock	340	340
Other	1,319	502
Total gross deferred tax assets	9,773	8,153
Valuation allowance	(2,845)	(2,633)
Total net deferred tax assets	6,928	5,520
Deferred tax liabilities:		
Pension plan	1,180	366
Net unrealized gain on securities	1,977	2,203
Mortgage servicing rights	108	98
Premises and equipment	98	240
Other	259	175
Total gross deferred tax liabilities	3,622	3,082
Net deferred tax assets	$ 3,306	$ 2,438

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income. The tax deduction generated by the contribution to the ESSA Bank & Trust Foundation and the writedown for other-than-temporary impairment of the Fannie Mae preferred stock exceeded the allowable federal income tax deduction limitations, resulting in the establishment of a valuation allowance in the amount of $2,845,000 and $2,633,000 at September 30, 2010 and 2009, respectively.

The amount of tax benefit recognized on the other-than-temporary impairment charge in 2008 was based on the tax characteristics of this security. This security is treated as capital for tax purposes, which limits the tax benefits recorded. On October 3, 2008, the Emergency Economic Stabilization Act was enacted, which includes a provision permitting banks to recognize losses relating to Fannie Mae and Freddie

Mac preferred stock as an ordinary loss, thereby allowing the Company to recognize a tax benefit on the losses. Had the legislation been in effect as of September 30, 2008, and had the Company recognized the loss as an ordinary loss for the fiscal year ended September 30, 2008, the positive impact recorded would have been $273,000 or $0.02 per diluted share. The Company recognized the additional tax benefit in the quarter ending December 31, 2008.

Table of Contents

11. INCOME TAXES (Continued)

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

	2010		2009		2008	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 2,161	34.0%	$ 3,097	34.0%	$ 3,109	34.0%
Valuation allowance	212					