# The right way to bank

2009 Annual Report

*"Figure out how to be a* **GOOD BANK,** *then do it* **OVER AND OVER**... *Not just every day, but* **EVERY HOUR."**

—Gary S. Olson, President & CEO

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## CONSOLIDATED FINANCIAL HIGHLIGHTS

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 in Form 10-K as filed with the Securities and Exchange Commission.

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands) | | | | |
| **Selected Balance Sheet Data:** | | | | | |
| Total assets | $ 1,042,119 | $ 993,482 | $ 910,415 | $ 725,796 | $ 656,066 |
| Cash and cash equivalents | 18,593 | 12,614 | 16,779 | 12,730 | 20,290 |
| Investment securities: | | | | | |
| Available for sale | 217,566 | 204,078 | 205,267 | 89,122 | 62,506 |
| Held to maturity | 6,709 | 11,857 | 17,130 | 19,715 | 21,505 |
| Loans, net | 733,580 | 706,890 | 619,845 | 556,677 | 508,981 |
| Federal Home Loan Bank stock | 20,727 | 19,188 | 16,453 | 13,675 | 11,916 |
| Premises and equipment | 10,620 | 10,662 | 11,277 | 11,447 | 11,560 |
| Bank-owned life insurance | 15,072 | 14,516 | 13,941 | 13,376 | 12,864 |
| Deposits | 408,855 | 370,529 | 384,716 | 402,153 | 374,759 |
| Borrowed funds | 438,598 | 412,757 | 313,927 | 259,299 | 221,479 |
| Equity | 185,506 | 200,086 | 204,692 | 58,337 | 54,371 |

| | For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands) | | | | |
| **Selected Operations Data:** | | | | | |
| Interest income | $ 52,733 | $ 52,065 | $ 45,510 | $ 36,451 | $ 31,919 |
| Interest expense | 23,739 | 25,642 | 23,805 | 19,217 | 14,323 |
| Net interest income | 28,994 | 26,423 | 21,705 | 17,234 | 17,596 |
| Provision for loan losses | 1,500 | 900 | 360 | 300 | 550 |
| Net interest income after provision for loan losses | 27,494 | 25,523 | 21,345 | 16,934 | 17,046 |
| Non-interest income | 5,728 | 4,803 | 5,496 | 5,518 | 5,281 |
| Non-interest expense | 24,113 | 21,181 | 31,185 | 16,685 | 16,493 |
| Income (loss) before income tax expense | 9,109 | 9,145 | (4,344) | 5,767 | 5,834 |
| Income tax expense | 2,553 | 3,068 | 782 | 1,813 | 1,383 |
| Net income (loss) | $ 6,556 | $ 6,077 | $ (5,126) | $ 3,954 | $ 4,451 |
| Earnings (loss) per share (1): | | | | | |
| Basic | $ 0.47 | $ 0.39 | $ (0.47) | $ N/A | $ N/A |
| Diluted | $ 0.47 | $ 0.38 | $ (0.47) | $ N/A | $ 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.

| | At or For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| **Selected Other Data:** | | | | | |
| Return on average assets | 0.64% | 0.63% | (0.62)% | 0.58% | 0.72% |
| Return on average equity | 3.42% | 2.92% | (3.88)% | 6.96% | 8.42% |
| Interest rate spread (2) | 2.40% | 2.09% | 2.18 % | 2.46% | 2.85% |
| Net interest margin (3) | 2.93% | 2.88% | 2.78 % | 2.70% | 3.04% |
| Non-performing assets as a percent of total assets | 0.74% | 0.40% | 0.06 % | 0.07% | 0.10% |
| Non-performing loans as a percent of total loans | 0.70% | 0.55% | 0.09 % | 0.08% | 0.12% |
| Allowance for loan losses as a percent of total loans | 0.79% | 0.69% | 0.67 % | 0.69% | 0.70% |
| Total risk-based capital (to risk-weighted assets) | 31.00% | 30.30% | 32.84 % | 15.77% | 15.55% |
| Average equity to average total assets | 18.59% | 21.77% | 15.98 % | 8.36% | 8.55% |

(2) 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.
(3) 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.

Diane K. Reimer, Vice President, Delivery Systems Division, and Paul Keyser, Superintendent, Overton and Associates, LLC., review plans for ESSA's new Mountainhome branch.

## Fellow Shareholders:

**Consistency.** The dictionary defines it as "the ability to maintain a particular standard or repeat a particular task with minimal variation."

At ESSA Bancorp, Inc., we define consistency as running a safe, sound, stable bank hour by hour, day after day, year after year with the right people doing the right things each and every time. That timeless formula has spelled success for our shareholders and customers since we first opened our doors for business in 1916.

"We ended 2009 in a strong financial position – **well-capitalized with strong earnings.** As such, we continued to lend and remain the only locally based financial institution in Monroe County."

We ended 2009 in a strong financial position – well-capitalized with strong earnings. As such, we continued to lend and remain the only locally based financial institution in Monroe County. The bank did not need nor accept any federal bail-out money in 2009 due to our significant capital strength. At September 30, 2009, the bank's tangible capital ratio was 15.17 percent.

For the year ended September 30, 2009, the company reported record net income of $6.6 million, compared to net income of $6.1 million in 2008. Total assets increased $48.6 million, or 4.9 percent, to a record $1.04 billion at September 30, 2009, compared to $993.5 million at September 30, 2008. Earnings per share on a diluted basis grew from $0.38 at September 30, 2008, to $0.47 at September 30, 2009.

ESSA Bank & Trust increased its market share by more than one percent to 19.66 percent as of June 30, 2009, compared to 18.59 percent at June 30, 2008, solidifying its position as the number two bank in the Monroe County market. Although the number one and number three banks in the market also retained their market positions, each lost actual market share from 2008 to 2009. We attribute our market share growth to the consistently excellent service our people provide that keeps our customers coming back time after time. Simply put, our customers like doing business with us.

Despite an increase in our non-performing assets, asset quality remains sound. Non-performing assets totaled $7.7 million, or 0.74 percent, of total assets at September 30, 2009, compared to $4.0 million, or 0.40 percent, of total assets at September 30, 2008. The allowance for loan losses was $5.8 million, or 0.79 percent, of loans outstanding at September 30, 2009, compared to $4.9 million, or 0.69 percent, of loans outstanding at September 30, 2008. The allowance for loan losses was 112.82 percent of total non-performing loans at September 30, 2009.

Shareholders benefitted directly from the strength of the company's performance in 2009. On August 26, the company announced an increase in its quarterly cash dividend from $0.04 per share to $0.05 per share of common stock payable on September 30 to shareholders of record as of September 16, 2009.

During 2009, in just our second full year as a publically traded company – the only such company based in Monroe County – ESSA Bancorp, Inc. completed

**Remodeled in 2009, the Stroud Township branch inside Weis Markets now serves as the prototype for future in-store branch locations.**

its first 15 percent stock repurchase program in June and began a second 10 percent program that is currently under way.

As we move forward into 2010, we have targeted three areas for profitable, consistent growth:

**Branch Expansion** Construction of our fourteenth full-service branch is under way in Mountainhome, an area in Monroe County we don't currently serve, but where customers had asked us to consider building a new branch. We will be expanding our market area into the Lehigh Valley with three new branches inside Weis Markets in Allentown and Schnecksville in Lehigh County and Bethlehem in Northampton County. Each of the four new branches will be open for business by the end of March and will be the foundation for immediate growth in our retail business.

**Small Business** We are committed to vigorously serving the small business market and in the process attracting new small business customers. A new business credit card program was introduced in November 2009 to help business owners improve cash flow, easily track business expenses, and simplify purchasing. We plan to roll out a remote deposit capture product during 2010 that will allow small business customers both inside and outside of our branch footprint to conveniently scan checks and deposit them directly into their ESSA accounts via the Internet. The small business market is critically important to the bank's future growth.

**Technology** During 2010, ESSA will continue making user-friendly improvements to our website and iBank, our online banking service. We have already taken a step in that direction with the introduction last fall of an upgraded Bill Pay feature in iBank that adds improved customer access, increased functionality, and enhanced design to the bill payment experience.

New information is continually being added to our website, attracting new visitors and making it a trusted source of banking information. Web sessions increased by 16.8 percent to nearly 620,000 in 2009. Additional online tutorial videos, similar to the one currently featured on the home page, have been added to other key areas of the website to help customers navigate their way around the site. We want our customers to have a consistently excellent experience when they use our website and iBank services. Innovation in technology is key to the growth of the bank.

**Timeless Success**

ESSA Bancorp, Inc. has created a business model based on our five Guiding Principles that is designed to work in any economy. Adhering to these principles has allowed us to achieve new records for profitable growth in 2009. We aspire to continue this pursuit of delivering quality earnings and growth through strong management practices year after year.

Sincerely,

Gary S. Olson

Gary S. Olson
President & CEO

## ESSA Guiding Principles

**We believe** in long-term success, operating as a safe, sound, and stable institution. Long-term success is dependent upon profits, but never will profit seeking compromise our mission.
**We believe** in satisfying the wants and needs of our customers. Satisfaction is dependent upon a continual improvement of our service, products, systems, and operations.
**We believe** our employees are our most valuable assets. Our employees will be provided with a work environment which is "the best in town."
**We believe** our decisions should enhance ESSA's value. Enhanced value is achieved through quality earnings, growth, and strong management practices.
**We believe** in giving back to the community to improve the quality of life. The ESSA Bank & Trust Foundation has been established to support this principle.

## ESSA Mission Statement

ESSA Bank & Trust will be the leading service-oriented community financial institution offering a full range of financial products to greater Pocono area customers. We will ensure our long-term prosperity by providing products and services in a manner consistent with high standards of quality, on a profitable basis, at the fairest price, in order to create the best possible value for our customers. They will be delivered through distribution systems staffed and supported by customer-driven, friendly, productive employees with a high degree of integrity.

## ESSA Code of Ethics and Conflict of Interest Policy

No profession or industry has maintained higher standards of conduct nor provided greater public service than the community banking industry. The ESSA Bancorp, Inc. board of directors has approved an Insider Code of Ethics and Conflict of Interest policy. This policy provides directors and employees with specific guidance promoting honest and ethical conduct and deterring wrongdoing. Our policy may be found on our website at www.essabank.com.

# Consistency Defines Success

At ESSA Bancorp, Inc., we believe the consistency of our efforts, time after time, year after year, has defined the success of our organization since it was founded in 1916. We especially recognize the strategic importance of consistency in four key objectives within our company: creating value; rendering exceptional service; producing growth; and remaining independent. Driven by our Guiding Principles, Mission Statement, and Code of Ethics, each of these objectives is significant in its own right and interfaces with the others as well.

## Employees: Our Number One Asset

From the board of directors which makes policy, to senior management which converts policy into day-to-day operations, to the staff which implements management directives, people are the core of our company.

"We believe our employees are our most valuable asset. And that's not just something we say, either; it's something we work at every day," says Human Resources Vice President Thomas J. Grayuski, a 14-year veteran of the bank. The staff is provided with a comfortable working environment and the training, education, and tools they need to consistently perform at their very best.

Employees are constantly being trained in all facets of their jobs and are encouraged to participate in and are reimbursed for additional outside training, such as college or online courses offered by the American Institute of Banking. Ongoing training and reinforcement of learned skills enables our people to provide

"We believe **our employees** are our most valuable asset. And that's not just something we say, either; **it's something we work at every day."**

**Thomas J. Grayuski**
Vice President, Human Resource Services Division

better service, not only from a technical standpoint, but also from a social standpoint because they feel comfortable talking in front of others, getting their point across, and making people feel at ease.

## Service: Our Number One Product

After an ESSA staff member helped a customer untangle a problem with their account that involved a vendor, the customer sent a letter to Retail Services Senior Vice President V. Gail Warner about the service the staff member provided.

"She made it feel as though a friend were helping a friend," the customer wrote. "It was not an interruption of her work day. She was a guardian angel put there in a position to help. I'm sure I'm not the only customer receiving her assistance, but she sure made me feel like I was. She has the ability to make me feel secure while dealing with your company. I trust ESSA very much as a result of her efforts."

"The number one responsibility of each employee within this bank is giving outstanding service," says Warner, a 16-year veteran of the bank, adding, "I just love getting those letters." ESSA bankers consistently provide friendly, helpful customer service. Combined with the products and services that we offer, we have a distinct advantage over our competition.

Excellent working conditions, competitive wages and benefits, and comprehensive training opportunities have resulted in valued, highly experienced, loyal employees. Of the 166 full-time and 31 part-time employees, 60 percent have been with the bank ten or more years. Based on their years of experience and training, our employees take the initiative every day to develop relationships with our customers – the kinds of relationships that result in regular repeat purchases, purchases across product and service lines, referrals for new business, and a sense of loyalty to ESSA. We further strengthen these relationships through our efforts to become a trusted and consistent source for financial education and information.

"The number one responsibility of each employee within this bank is **giving outstanding service."**

**V. Gail Warner**
Senior Vice President, Retail Services Division

"**Capital** and **credit quality** remain important elements of our financial picture, and **the company is in excellent condition in both areas."**

**Allan A. Muto**
Executive Vice President & CFO

## Growth: We Need to Grow and Make a Profit

"If we're not making a profit, we're not relevant," observes Executive Vice President and CFO Allan A. Muto, an eight-year veteran of the bank, "and if we're not relevant, we're not going to be able to succeed. We need to make a profit."

Capital and credit quality remain important elements of our financial picture, and the company is in excellent condition in both areas. Consistency in applying our time-tested lending policies has kept the bank largely free of problems within the loan portfolio during the current economic crisis.

Consistent growth is important to the continued success and independence of the bank in an era when consumers and businesses are both reducing debt and reluctant to take on new debt. The housing industry has been extremely hard hit, and although ESSA is a thrift on the way to becoming a full-service commercial bank, and has made great strides doing that in the past several years, the core of the bank's loan portfolio is still residential one- to four-family homes. We need to continue to make those types of loans, along with small business loans and, to a lesser extent, home equity loans, if we're going to continue to grow.

"Year in and year out, by far the biggest growth in our balance sheet has been the loan portfolio," agrees Senior Vice President of Lending Services Robert S. Howes, Jr., a 24-year bank veteran. "Mortgages have been our bread and butter for 90-some years." The bank is the number three lender in Monroe County behind two national lenders and is the largest local or regional bank in the mortgage business.

We've consistently made traditional residential loans as opposed to sub-prime loans, while at the same time, adhering steadfastly to our lending policies. The result has been sound credit quality within our loan portfolio. The bank has continued to service its borrowers faithfully through the years, producing a very high degree of customer loyalty. Nearly 99 percent of our residential mortgage customers say they would recommend us to others who are purchasing or refinancing a home.

"The bank has continued to service its borrowers faithfully through the years, producing a **very high degree of customer loyalty."**

ESSA wants the small businesses in our market to feel just as strongly about the bank and to make us their first choice for meeting their business banking and lending needs. Expanding the number of small business customers served is critical to the bank's growth. We also recognize that the dynamics of the business relationship go beyond the business accounts. Some 59 percent of our commercial customers also maintain personal accounts, so we will be working hard to increase the number of those relationships as well.

Growth on the retail side of the bank is also critical to our success, and our plans include the opening of four new branches during 2010. Three of these will be in-store supermarket branches in a new market, the

"We've consistently made traditional residential loans as opposed to sub-prime loans, while at the same time, adhering steadfastly to our lending policies. **The result has been sound credit quality within our loan portfolio."**

**Robert S. Howes, Jr.**
Senior Vice President , Lending Services Division

Lehigh Valley. ESSA has had tremendous success with this type of branch and has benefitted from greatly reduced start-up costs compared to brick and mortar, free-standing branches. Currently six of the bank's 13 branches are inside Weis Markets. We believe the convenience of these branches combined with the value of the ESSA name will continue attracting new and established customers in our existing and future locations.

## Independence: We Want to be Around for the Long Term

At ESSA, we decided a long time ago that the best way to serve our customers financially and the community as a good corporate citizen is to remain independent. We recognize that we can't serve our community if we aren't here; therefore, we strive to be independent and be around for the long term.

The community looks to ESSA, the largest local independent bank, as being not only a financial leader but a community leader as well. Through its active participation in and financial support of community events and causes, the bank provides value as a good corporate citizen to the entire market – for customers and non-customers alike. ESSA is often the first company that local organizations turn to, and we respond willingly.

"Having the ESSA Bank & Trust Foundation has certainly enabled us to award grants to non-profit organizations every year," says Human Resources Vice President Thomas J. Grayuski. "In addition to the

"The community looks to ESSA... as being not only a financial leader **but a community leader as well."**

bank's financial contributions," Grayuski says, "a vast number of employees – from top management to entry-level personnel – volunteer their time in support of a variety of causes." Ultimately, if we remain independent, we remain in business, and if we remain in business, we'll be here to lend and to lend a helping hand in the community.

## Timeless Banking

Consistently focused on our people. Consistently providing outstanding service. Consistently producing solid financial results. Consistently committed to independence. These are the four focal points of this company. Together they define the day-in, day-out success of ESSA Bancorp, Inc.

## BOARD OF DIRECTORS AND GENERAL COUNSEL

**Gary S. Olson**
President & CEO, ESSA Bank & Trust

**William P. Douglass**
President, Douglass Enterprises, Inc.

**Daniel J. Henning**
President, A.C. Henning Enterprises, Inc.

**Robert C. Selig, Jr.**
President, Selig Construction Company

**William A. Viechnicki, DDS**
Orthodontist

## OFFICERS

**Gary S. Olson,** President & CEO
**Allan A. Muto,** Executive Vice President & CFO
**Robert S. Howes, Jr.,** Senior Vice President
**V. Gail Warner,** Senior Vice President
**Diane K. Reimer,** Vice President
**Thomas J. Grayuski,** Vice President
**Cathy J. Callahan,** Vice President
**William J. Lewis,** Vice President
**Robert L. Selitto,** Vice President & Controller
**Suzie T. Farley,** Corporate Secretary

**Frederick E. Kutteroff**
President, Keystone Savings Bank (retired)

**John S. Schoonover, Jr.**
Partner, Schoonover & Vanderhoof Architects, LLC

**John E. Burrus**
Chairman of the Board
Landscape Consultant, John E. Burrus Landscaping (retired)

**Elizabeth Bensinger Weekes, Esq.**
Partner, Bensinger & Weekes, PA

**Todd R. Williams, Esq.**
General Counsel

## CORPORATE INFORMATION

**Corporate Headquarters**
ESSA Bancorp, Inc.
200 Palmer Street
Stroudsburg, PA 18360

**Mailing Address:**
PO Box L
Stroudsburg, PA 18360-0160

**Stock Listing** ESSA Bancorp, Inc. common stock is listed on the NASDAQ Global Market[SM] under the symbol "ESSA."

**Internet Information** ESSA Bancorp, Inc. financial reports and information about the products and services of its wholly owned subsidiary, ESSA Bank & Trust, are available on the Internet at www.essabank.com.

**Financial Information** We are subject to the informational requirements of the Securities Exchange Act of 1934. Therefore, we file annual, quarterly and current reports as well as proxy materials with the Securities and Exchange Commission (SEC). You can obtain copies of these and other filings, including exhibits, electronically at the SEC's website at www.sec.gov or through the ESSA website at www.essabank.com by clicking on the Investor Relations link. Copies of the annual report and Form 10-K may also be obtained by contacting Investor Relations at (570) 422-0182 or via e-mail at sfarley@essabank.com.

**Corporate Governance** Information about our Board and its committees and about corporate governance at ESSA is available in the Governance Documents section of the Investor Relations link on the ESSA website at www.essabank.com. Shareholders who would like to request printed copies of the Code of Ethics or the charters of our Board's Nominating and Corporate Governance, Audit and Compensation committees (all of which are posted on the ESSA website through the Investor Relations link) may do so by sending their requests in writing to Suzie T. Farley, Corporate Secretary, at corporate headquarters at the above mailing address.

**Inquiries** For financial services offered through ESSA Bank & Trust, call (570) 421-0531. Individual investors should contact Investor Relations at (570) 422-0182.

Analysts and institutional investors should contact Allan A. Muto, Executive Vice President & CFO, at (570) 422-0181 or via e-mail at amuto@essabank.com.

News media representatives and others seeking general information should contact Nancy S. Cross, Director of Marketing Services, at (570) 422-0188 or via e-mail at ncross@essabank.com.

**Annual Shareholders Meeting** All shareholders are invited to attend the ESSA Bancorp, Inc. annual meeting on Thursday, February 11, 2010 at 11:00 am, Eastern Time, at:
Lawnhaven
Stroudsmoor Country Inn
Stroudsmoor Road
Stroudsburg, PA 18360

**Registrar and Transfer Agent**
Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
(800) 368-5948

**Auditors**
S.R. Snodgrass, A.C.
2100 Corporate Drive, Suite 400
Wexford, PA 15090-7647
(724) 934-0344

**General Counsel**
Newman, Williams, Mishkin, Corveleyn, Wolfe & Fareri, P.C.
712 Monroe Street
Stroudsburg, PA 18360

**Special Counsel**
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, N.W., Suite 400
Washington, DC 20015

## ESSA LOCATIONS

**Blakeslee**
Route 940, Blakeslee Corners
Blakeslee, PA 18610

**Brodheadsville**
Route 209 & Lake Mineola Road
Brodheadsville, PA 18322

**Brodheadsville – Weis Markets**
Route 209
Brodheadsville, PA 18322

**Bushkill**
Route 209, 7001 Milford Road
East Stroudsburg, PA 18302

**Eagle Valley – Weis Markets**
Routes 209 & 447
East Stroudsburg, PA 18301

**East Stroudsburg**
75 Washington Street
East Stroudsburg, PA 18301

**Marshalls Creek**
Route 209
Marshalls Creek, PA 18335

**Mount Pocono – Weis Markets**
Mount Pocono Plaza
601 Route 940, Suite 23
Mount Pocono, PA 18344

**Pen Argyl – Weis Markets**
1309 Blue Valley Drive
Pen Argyl, PA 18077

**Stroudsburg**
744 Main Street
Stroudsburg, PA 18360

**Stroud Township – Weis Markets**
1070 North Ninth Street, Route 611
Stroudsburg, PA 18360

**Tannersville**
Tannersville Plaza, Route 611
Tannersville, PA 18372

**Tannersville – Weis Markets**
Route 611
Tannersville, PA 18372

**Coming in March 2010:**
**Mountainhome**
2332 Route 390
Cresco, PA 18326

**Asset Management & Trust Services**
744 Main Street
PO Box L
Stroudsburg, PA 18360-0160

**ESSA Investment Services**
744 Main Street
Stroudsburg, PA 18360

75 Washington Street
East Stroudsburg, PA 18301

701 West Broad Street
Bethlehem, PA 18018

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION / ESSA BANCORP, INC.

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses and/or other matters regarding or affecting ESSA Bancorp, Inc. that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project" and other similar words and expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding these factors in our Form 10-K for the year ended September 30, 2009, including the Risk Factors section. Our forward-looking statements may also be subject to other risks and uncertainties including those discussed elsewhere in this Report or in our filings with the SEC accessible on the SEC's website at www.sec.gov or through the Investor Relations link on our corporate website at www.essabank.com.

- Our business and operating results are affected by business and economic conditions generally or specifically in the principal markets in which we do business. We are affected by changes in our customers' financial performance, as well as changes in customer preferences and behaviors, including those resulting from changing economic conditions.
- The value of our assets and liabilities, as well as our overall financial performance, are affected by changes in interest rates or in valuations in the debt and equity markets. Actions by government agencies, including those that impact money supply and market interest rates, can affect our activities and financial results.
- Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.
- Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Impact on our reputation, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity and funding. These developments could include: (a) the resolution of legal proceedings or regulatory and other governmental inquiries; (b) increased litigation risk from recent regulatory and other governmental developments; (c) the results of the regulatory examination process, our failure to satisfy the requirements of agreements with governmental agencies, and regulators' future use of supervisory and enforcement tools; (d) legislative and regulatory reforms including changes to laws and regulations involving tax, pension, and the protection of confidential customer information; and (e) changes in accounting policies and principles.
- Our business and operating results are affected by the ability to identify and effectively manage risks inherent in our business lines.
- Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands. The adequacy of our intellectual property protection, and the extent of any costs associated with obtaining rights in intellectual property claimed by others, can also impact our business and operating results.

# ESSA 10-K 9/30/2009

# Section 1: 10-K (FORM 10-K)

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## SECURITIES AND EXCHANGE COMMISSION

**100 F Street NE**
**Washington, D.C. 20549**

## FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Fiscal Year Ended September 30, 2009**

**or**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from ______ to ______**

**Commission File No. 001-33384**

# ESSA Bancorp, Inc.

**(Exact name of registrant as specified in its charter)**

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

**(570) 421-0531**
**(Registrant's telephone number)**

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 ☒

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 ☒

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 ☒ 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. ☐ .

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 | ☒ |
| 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 ☒

As of December 8, 2009, there were 16,980,900 shares issued and 14,595,320 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 December 8, 2009, was $153,839,716.

**DOCUMENTS INCORPORATED BY REFERENCE**

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

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# 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, 2009, ESSA Bancorp, Inc. had consolidated assets of $1.04 billion, consolidated deposits of $408.9 million and consolidated stockholders' equity of $185.5 million. Its consolidated net income for the fiscal year ended September 30, 2009 was $6.6 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 thirteen full-service banking offices, located in Monroe and Northampton 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, 2009, our thirteen full-service banking offices consisted of twelve offices in Monroe County and one office 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. Monroe County is the second-fastest growing county in Pennsylvania. Major industries include tourism, construction and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. As of June 30, 2009, we had a deposit market share of approximately 19.7% in Monroe County, which represented the second largest deposit market share in Monroe County and less than 1.0% in Northampton County.

**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 7.2% of our total loan portfolio at September 30, 2005 to $68.0 million, or 9.2% of our total loan portfolio at September 30, 2009. One- to four-family residential real estate mortgage loans represented $603.8 million, or 81.7%, of our loan portfolio at September 30, 2009. Home equity loans and lines of credit totaled $46.8 million, or 6.3% of our loan portfolio at September 30, 2009. Commercial loans totaled $16.5 million, or 2.2% of our loan portfolio at September 30, 2009 and construction first mortgage loans totaled $1.7 million, or 0.2% of the total loan portfolio at September 30, 2009. We originate other consumer loans on a limited basis.

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***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, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | | 2006 | | 2005 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | | | | | |
| Residential first mortgage loans: | | | | | | | | | | |
| One- to four-family | $603,830 | 81.7% | $572,038 | 80.3% | $500,104 | 80.0% | $452,406 | 80.4% | $421,169 | 81.7% |
| Construction | 1,707 | 0.2 | 8,254 | 1.1 | 7,800 | 1.3 | 5,943 | 1.1 | 7,597 | 1.5 |
| Commercial | 16,452 | 2.2 | 11,987 | 1.7 | 7,699 | 1.2 | 6,159 | 1.1 | 5,310 | 1.0 |
| Commercial real estate | 68,040 | 9.2 | 69,505 | 9.8 | 58,447 | 9.3 | 47,479 | 8.4 | 36,984 | 7.2 |
| Home equity loans and lines of credit | 46,792 | 6.3 | 47,508 | 6.7 | 47,544 | 7.6 | 46,796 | 8.3 | 40,342 | 7.8 |
| Other | 2,526 | 0.4 | 3,059 | 0.4 | 3,875 | 0.6 | 4,247 | 0.7 | 4,204 | 0.8 |
| Total loans receivable | $739,347 | 100.0% | $712,351 | 100.0% | $625,469 | 100.0% | $563,030 | 100.0% | $515,606 | 100.0% |
| Deferred loan costs (fees) | 48 | | (546) | | (1,418) | | (2,498) | | (3,062) | |
| Allowance for loan losses | (5,815) | | (4,915) | | (4,206) | | (3,855) | | (3,563) | |
| Total loans receivable, net | $733,580 | | $706,890 | | $619,845 | | $556,677 | | $508,981 | |

***Loan Portfolio Maturities and Yields.*** The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2009. 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, | | | | | | | | |
| 2010 | $ 94 | 6.85% | $ — | — | $ 3,607 | 4.29% | $ 5,220 | 6.36% |
| 2011 | 680 | 5.88% | — | — | 215 | 7.45% | 1,602 | 6.51% |
| 2012 | 651 | 6.52% | — | — | 943 | 7.19% | 1,638 | 6.42% |
| 2013 to 2014 | 8,290 | 5.11% | — | — | 1,000 | 6.89% | 7,503 | 6.46% |
| 2015 to 2019 | 85,399 | 5.08% | — | — | 3,421 | 4.52% | 34,919 | 6.40% |
| 2020 to 2024 | 130,326 | 5.22% | — | — | 2,266 | 5.23% | 3,455 | 6.27% |
| 2024 and beyond | 378,390 | 5.92% | 1,707 | 5.22% | 5,000 | 4.55% | 13,703 | 5.77% |
| Total | $603,830 | 5.64% | $ 1,707 | 5.22% | $16,452 | 4.91% | $68,040 | 6.27% |

| | 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, | | | | | | |
| 2010 | $ 524 | 6.62% | $ 833 | 6.83% | $ 10,278 | 5.69% |
| 2011 | 273 | 6.58% | 229 | 8.90% | 2,999 | 6.63% |
| 2012 | 578 | 6.69% | 328 | 9.01% | 4,138 | 6.85% |
| 2013 to 2014 | 2,101 | 5.79% | 1,014 | 7.66% | 19,908 | 5.91% |
| 2015 to 2019 | 8,657 | 6.31% | 122 | 7.98% | 132,518 | 5.50% |
| 2020 to 2024 | 19,899 | 5.55% | — | — | 155,946 | 5.29% |
| 2024 and beyond | 14,760 | 3.30% | — | — | 413,560 | 5.80% |
| Total | $46,792 | 5.02% | $ 2,526 | 7.69% | $739,347 | 5.65% |

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2009 that are contractually due after September 30, 2010.

| | Due After September 30, 2010 | | |
|---|---|---|---|
| | Fixed | Adjustable | Total |
| | (In thousands) | | |
| Residential first mortgage loans: | | | |
| One- to four-family | $539,849 | $ 63,887 | $603,736 |
| Construction | 1,694 | 13 | 1,707 |
| Commercial | 11,292 | 1,553 | 12,845 |
| Commercial real estate | 29,569 | 33,251 | 62,820 |
| Home equity loans and lines of credit | 25,778 | 20,490 | 46,268 |
| Other | 1,693 | — | 1,693 |
| Total | $609,875 | $ 119,194 | $729,069 |

***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 and Northampton 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, 2009, approximately $603.8 million, or 81.7% of our loan portfolio, consisted of one- to four-family residential loans. Our origination of one- to four-family loans increased in fiscal year 2009 compared to fiscal years 2008 and 2007. Originations in fiscal year 2009 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, 2009, our largest loan secured by one- to four-family real estate had a principal balance of approximately $804,000 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 ten-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated $5.0 million of adjustable rate one- to four-family residential loans during the year ended September 30, 2009 and $12.3 million during the year ended September 30, 2008. 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, 2009, $63.9 million, or 10.6%, 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 bank 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, 2009, home equity loans and lines totaled about $46.8 million, or 6.3% 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 $200,000. 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.

***Commercial Real Estate Loans.*** At September 30, 2009, $68.0 million, or 9.2% 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, 2009, we had 269 commercial real estate loans with an outstanding balance of $68.0 million. At September 30, 2009, our largest commercial real estate loan balance was $2.6 million, which was performing in accordance with its terms. At September 30, 2009, four of our loans secured by commercial real estate totaling $580,000 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, 2009, $1.7 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, 2009, our largest first mortgage construction loan balance was $391,000. 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 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 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, 2009, these other loans totaled $2.5 million, or 0.4% 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 to the extent received.

***Non-performing Loans.*** At September 30, 2009, $5.2 million (or less than 1.0% of our total loans) were non-performing loans. The majority of these loans, or $3.8 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, 2009.

***Real Estate Owned.*** At September 30, 2009, the Company had $2.6 million of real estate owned consisting of four properties. The majority of the Company's real estate owned consisted of one real estate development project valued at $2.1 million at September 30, 2009. All these properties are being actively marketed and additional losses may occur.

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

| | At September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | | | |
| Non-accrual loans: | | | | | |
| Residential first mortgage loans: | | | | | |
| One- to four-family | $3,524 | $1,379 | $ 380 | $ 436 | $ 554 |
| Construction | — | — | — | — | — |
| Commercial | 122 | — | — | — | — |
| Commercial real estate | 580 | 2,531 | 122 | — | — |
| Home equity loans and lines of credit | 180 | 28 | 53 | 40 | 50 |
| Other | 159 | — | — | — | 1 |
| Total | 4,565 | 3,938 | 555 | 476 | 605 |
| 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 | 589 | — | — | — | — |
| Total non-performing loans | 5,154 | 3,938 | 555 | 476 | 605 |
| Real estate owned | 2,579 | 31 | — | — | 19 |
| Total non-performing assets | $7,733 | $3,969 | $ 555 | $ 476 | $ 624 |
| Troubled debt restructurings: * | | | | | |
| Residential first mortgage loans: | | | | | |
| One- to four-family | $2,981 | $ 149 | $ 482 | $ 53 | $ 94 |
| Construction | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Commercial real estate | 180 | — | — | — | — |
| Home equity loans and lines of credit | 7 | — | — | — | — |
| Other | — | — | — | — | — |
| Total | $3,168 | $ 149 | $ 482 | $ 53 | $ 94 |
| Ratios: | | | | | |
| Total non-performing loans to total loans | 0.70% | 0.55% | 0.09% | 0.08% | 0.12% |
| Total non-performing loans to total assets | 0.49% | 0.40% | 0.06% | 0.07% | 0.09% |
| Total non-performing assets to total assets | 0.74% | 0.40% | 0.06% | 0.07% | 0.10% |

For the year ended September 30, 2009, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $422,000.

* Non-performing troubled debt restructurings of $589,000 are included in total trouble debt restructures.

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***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, 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 |
| At September 30, 2005 | | | | | | |
| Residential first mortgage loans: | | | | | | |
| One- to four-family | 4 | $ 590 | 8 | $ 554 | 12 | $ 1,144 |
| Construction | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Commercial real estate | — | — | — | — | — | — |
| Home equity loans and lines of credit | 1 | 16 | 3 | 50 | 4 | 66 |
| Other | — | — | 1 | 1 | 1 | 1 |
| Total | 5 | $ 606 | 12 | $ 605 | 17 | $ 1,211 |

***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,

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, 2009, we classified approximately $12.8 million of our assets as special mention, $12.9 million as substandard, $194,000 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 judgement as to the collectability of principal. The allowance for loan losses as of September 30, 2009 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.

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

| | At or For the Years Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of year | $ 4,915 | $ 4,206 | $ 3,855 | $ 3,563 | $ 3,027 |
| Charge-offs: | | | | | |
| Residential first mortgage loans: | | | | | |
| One- to four-family | (117) | (60) | (7) | — | (10) |
| Construction | — | — | — | — | — |
| Commercial | (9) | (87) | — | — | — |
| Commercial real estate | (457) | — | — | — | — |
| Home equity loans and lines of credit | (20) | (19) | (2) | (7) | — |
| Other | — | (27) | (1) | (2) | (5) |
| Total charge-offs | $ (603) | $ (193) | $ (10) | $ (9) | $ (15) |
| Recoveries: | | | | | |
| Residential first mortgage loans: | | | | | |
| One- to four-family | $ — | $ — | $ — | $ — | $ — |
| Construction | — | — | — | — | — |
| Commercial | — | — | — | — | — |
| Commercial real estate | — | — | — | — | — |
| Home equity loans and lines of credit | — | — | — | — | — |
| Other | 3 | 2 | 1 | 1 | 1 |
| Total recoveries | $ 3 | $ 2 | $ 1 | $ 1 | $ 1 |
| Net charge-offs | $ (600) | $ (191) | $ (9) | $ (8) | $ (14) |
| Provision for loan losses | 1,500 | 900 | 360 | 300 | 550 |
| Balance at end of year | $ 5,815 | $ 4,915 | $ 4,206 | $ 3,855 | $ 3,563 |
| Ratios: | | | | | |
| Net charge-offs to average loans outstanding | 0.08% | 0.03% | — % | — % | — % |
| Allowance for loan losses to non-performing loans at end of year | 112.82% | 124.81% | 757.84% | 809.87% | 588.93% |
| Allowance for loan losses to total loans at end of year | 0.79% | 0.69% | 0.67% | 0.69% | 0.70% |

As indicated in the table above, we charged off a de minimus amount of loans since fiscal year 2005, due, in part, to conservative underwriting of loans and aggressive monitoring of the loan portfolio to identify and address non-performing loans and potential problem assets at an early date. The amount of foreclosures we incurred in the last five years was not material to our financial statements taken as a whole and ESSA Bank & Trust suffered no material losses on foreclosed assets during that period. 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.

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***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.

| | 2009 | | | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Residential first mortgage loans: | | | | | | | | | |
| One- to four-family | $ 3,796 | 65.28% | 81.70% | $ 2,862 | 58.23% | 80.30% | $ 2,241 | 53.28% | 79.96% |
| Construction | 11 | 0.19 | 0.20 | 41 | 0.83 | 1.16 | 36 | 0.86 | 1.25 |
| Commercial | 248 | 4.27 | 2.20 | 182 | 3.70 | 1.68 | 177 | 4.21 | 1.23 |
| Commercial real estate | 1,116 | 19.19 | 9.20 | 1,222 | 24.86 | 9.76 | 986 | 23.44 | 9.34 |
| Home equity loans and lines of credit | 510 | 8.77 | 6.30 | 475 | 9.67 | 6.67 | 610 | 14.50 | 7.60 |
| Other | 33 | 0.56 | 0.40 | 30 | 0.61 | 0.43 | 49 | 1.17 | 0.62 |
| Total allocated allowance | 5,714 | 98.26 | 100.00 | 4,812 | 97.90 | 100.00 | 4,099 | 97.46 | 100.00 |
| Unallocated allowance | 101 | 1.74 | — | 103 | 2.10 | — | 107 | 2.54 | — |
| Total allowance for loan losses | $ 5,815 | 100.00% | 100.00% | $ 4,915 | 100.00% | 100.00% | $ 4,206 | 100.00% | 100.00% |

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 2,026 | 52.56% | 80.36% | $ 1,887 | 52.96% | 81.68% |
| Construction | 86 | 2.23 | 1.06 | 104 | 2.92 | 1.47 |
| Commercial | 133 | 3.45 | 1.09 | 114 | 3.20 | 1.03 |
| Commercial real estate | 773 | 20.05 | 8.43 | 471 | 13.22 | 7.17 |
| Home equity loans and lines of credit | 746 | 19.35 | 8.31 | 661 | 18.55 | 7.82 |
| Other | 46 | 1.19 | 0.75 | 39 | 1.09 | 0.83 |
| Total allocated allowance | 3,810 | 98.83 | 100.00 | 3,276 | 91.94 | 100.00 |
| Unallocated allowance | 45 | 1.17 | — | 287 | 8.06 | — |
| Total allowance for loan losses | $ 3,855 | 100.00% | 100.00% | $ 3,563 | 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 Marketing Services 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 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.

Generally accepted accounting principles require that, 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 Government National Mortgage Association (GNMA), and increased liquidity. We invest primarily in mortgage-backed securities issued or sponsored by Fannie Mae, Freddie Mac, and GNMA. At September 30, 2009, our mortgage-backed securities portfolio had a fair value of $195.2 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, 2009, our equity securities were minimal.

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

The aggregate fair value of our FHLBank Pittsburgh common stock as of September 30, 2009 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 FHLBank Pittsburgh common stock at September 30, 2009 with a par value that was $2.7 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 FHLBank Pittsburgh. On December 23, 2008, the FHLBank Pittsburgh notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice.

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.

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, 2009, 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. However, during the year ended September 30, 2009, the Company recognized a loss of $68,000 on equity securities that it deemed, through analysis of the security, to be other than a temporary loss. This loss was 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.

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

| | At September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | | | |
| **Investment securities available for sale:** | | | | | | |
| U.S. Government agency obligations | $ 21,458 | $ 21,746 | $ 48,887 | $ 48,891 | $ 82,297 | $ 82,392 |
| Obligations of state and political subdivisions | 7,168 | 7,483 | 7,171 | 7,146 | 7,172 | 7,332 |
| Mortgage-backed securities | 182,448 | 188,264 | 148,199 | 147,945 | 114,840 | 114,613 |
| Total debt securities | 211,074 | 217,493 | 204,257 | 203,982 | 204,309 | 204,337 |
| Equity securities | 12 | 73 | 79 | 96 | 882 | 930 |
| Total investment securities available-for-sale | $ 211,086 | $ 217,566 | $ 204,336 | $ 204,078 | $ 205,191 | $ 205,267 |
| **Investment securities held-to-maturity:** | | | | | | |
| U.S. Government agency obligations | $ — | $ — | $ 2,000 | $ 2,023 | $ 4,731 | $ 4,734 |
| Mortgage-backed securities | 6,709 | 6,923 | 9,857 | 9,901 | 12,399 | 12,142 |
| Total securities held to maturity | $ 6,709 | $ 6,923 | $ 11,857 | $ 11,924 | $ 17,130 | $ 16,876 |

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***Portfolio Maturities and Yields.*** The composition and maturities of the investment securities portfolio at September 30, 2009 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 | $ 503 | 4.62% | $ 20,955 | 3.38% | $ — | 0.00% | $ — | 0.00% | $ 21,458 | $ 21,746 | 3.41% |
| Obligations of state and political subdivisions | — | 0.00% | — | 0.00% | 996 | 4.00% | 6,172 | 4.73% | 7,168 | 7,483 | 4.63% |
| Mortgage-backed securities | 824 | 4.33% | 224 | 5.12% | 26,124 | 4.21% | 155,276 | 5.00% | 182,448 | 188,264 | 4.88% |
| Total debt securities | $ 1,327 | 4.44% | $ 21,179 | 3.40% | $ 27,120 | 4.20% | $161,448 | 4.99% | $211,074 | $217,493 | 4.73% |
| Equity securities | 12 | 0.00% | — | 0.00% | — | 0.00% | — | 0.00% | 12 | 73 | 0.00% |
| Total investment securities available for-sale | $ 1,339 | 4.40% | $ 21,179 | 3.40% | $ 27,120 | 4.20% | $161,448 | 4.99% | $211,086 | $217,566 | 4.72% |
| **Investment securities held-to-maturity:** | | | | | | | | | | | |
| Mortgage-backed securities | $ 1,580 | 4.53% | $ 1,085 | 4.50% | $ 2,346 | 4.72% | $ 1,698 | 3.89% | $ 6,709 | $ 6,923 | 4.43% |
| Total securities held to maturity | $ 1,580 | 4.53% | $ 1,085 | 4.50% | $ 2,346 | 4.72% | $ 1,698 | 3.89% | $ 6,709 | $ 6,923 | 4.43% |

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**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, 2009, our deposits totaled $408.9 million. Interest-bearing NOW, savings and club and money market deposits totaled $230.2 million at September 30, 2009. At September 30, 2009, we had a total of $153.2 million in certificates of deposit. Noninterest-bearing demand deposits totaled $25.4 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, 2009, we had a total of $21.9 million of brokered certificates of deposits, an increase of $11.0 million from the prior fiscal year end. Our brokered certificates of deposits range from one- to five-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, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | | |
| | Average Balance | Percent | Average Rate Paid | Average Balance | Percent | Average Rate Paid | Average Balance | Percent | Average Rate Paid |
| **Deposit type:** | | | | | | | | | |
| Noninterest bearing demand accounts | $ 24,711 | 6.31% | — % | $ 24,211 | 6.57% | — % | $ 34,934 | 8.49% | — % |
| Interest bearing NOW | 54,262 | 13.86 | 0.08 | 55,073 | 14.91 | 0.07 | 60,826 | 14.79 | 0.07 |
| Money market | 94,835 | 24.21 | 1.68 | 58,034 | 15.72 | 2.90 | 35,351 | 8.60 | 3.12 |
| Savings and club | 63,500 | 16.21 | 0.43 | 62,982 | 17.07 | 0.44 | 75,354 | 18.32 | 0.42 |
| Certificates of deposit | 154,365 | 39.41 | 3.26 | 168,763 | 45.73 | 4.19 | 204,802 | 49.80 | 4.48 |
| Total deposits | $391,673 | 100.00% | 1.77% | $369,063 | 100.00% | 2.46% | $411,267 | 100.0% | 2.28% |

As of September 30, 2009, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $66.4 million. The following table sets forth the maturity of those certificates as of September 30, 2009.

| | At September 30, 2009 (In thousands) |
|---|---|
| Three months or less | $ 16,913 |
| Over three months through six months | 7,422 |
| Over six months through one year | 4,869 |
| Over one year | 37,214 |
| Total | $ 66,418 |

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At September 30, 2009, $82.2 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, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (Dollars in thousands) | | |
| Balance at end of year | $ 48,091 | $ 39,510 | $ 34,230 |
| Maximum outstanding at any month end | $ 73,162 | $ 56,183 | $ 46,409 |
| Average balance during year | $ 48,171 | $ 36,150 | $ 33,975 |
| Weighted average interest rate at end of year | 0.43% | 2.41% | 5.17% |
| Average interest rate during year | 0.82% | 3.94% | 5.21% |

At September 30, 2009, we had the ability to borrow approximately $481.0 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, 2009, ESSA Bank & Trust had the second 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, 2009, we had 163 full-time employees and 30 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.

## 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;
- 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.

**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 $100,000 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 Emergency Economic Stabilization Act which became law on October 3, 2008 raised the amount of federal deposit insurance coverage for all deposit accounts to $250,000. This provision of the Act is scheduled to expire on December 31, 2013. In addition, on October 14, 2008 the FDIC announced a new program – the Temporary Liquidity Guarantee Program, which provides FDIC coverage on non-interest bearing deposit transaction accounts and certain other accounts regardless of dollar amount. This new program is scheduled to expire June 30, 2010.

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.

Effective March 31, 2006, the Federal Deposit Insurance Corporation merged the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF") into a single fund called the Deposit Insurance Fund. 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, 2009, the annualized FICO assessment was equal to 1.14 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. As of June 30, 2009, the reserve ratio stood at 0.22%, Staff expects a higher rate of insured institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. 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 will be required to make a payment of approximately $1.9 million to the FDIC on December 30, 2009. We will record 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, 2009, 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.

## 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, 2009, 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, 2009, 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, 2009, 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 and 2008 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 2009 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 a 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

### 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 collectibility 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.

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 remained at 0.25% through November, 2009 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) did not decrease to the same degree. As a result of this "steepening" of the market yield curve the Company's net interest spread has increased from 2.28% for the quarter ended December 31, 2008 to 2.42% for the quarter ended September 30, 2009. If this steepening were to continue the initial increase in our interest rate spread would be reduced as our assets continue to re-price downward.

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, 2009, the fair value of our debt securities available for sale totaled $217.5 million. Unrealized net gains on these available for sale securities totaled approximately $6.4 million at September 30, 2009 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, 2009, 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 $21.2 million, or 12.0%, decrease in net portfolio value. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

**A Downturn in the Local Economy or a Decline in Real Estate Values Could Reduce Our Profits.**

Nearly all of our real estate loans are secured by real estate in Monroe and Northampton Counties, Pennsylvania. As a result of this concentration, a prolonged downturn in this market area could cause significant increases in nonperforming loans, which would reduce our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. For a discussion of our market area, see "Item 1. Business—Market Area."

**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 2009 in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing into 2010. 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, 2009, $68.0 million, or 9.2%, 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, 2009, our largest commercial real estate lending relationship was $4.1 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."

**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.

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

We own common stock of the FHLBank Pittsburgh ("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 market value of our FHLB common stock was $20.7 million as of September 30, 2009.

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.

**Item 1B. Unresolved Staff Comments**

Not applicable.

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**Item 2. Properties**

The following table provides certain information as of September 30, 2009 with respect to our main office located in Stroudsburg, Pennsylvania, and our thirteen full service branch offices.

| Location | Leased or Owned | Year Acquired or Leased | Square Footage |
|---|---|---|---|
| **Main Office:** | | | |
| 200 Palmer Street<br>Stroudsburg, PA 18360 | Owned | 2003 | 36,000 |
| **Full Service Branches:** | | | |
| Route 940<br>HC 1 Box 1192<br>Blakeslee, PA 18610 | Owned | 2002 | 2,688 |
| Route 209 & Lake Mineola Road<br>P.O. Box 35<br>Brodheadsville, PA 18301 | Owned | 1983 | 4,100 |
| Route 209<br>7001 Milford Road<br>East Stroudsburg, PA 18324 | Leased | 1997 | 1,700 |
| Routes 209 & 447<br>695 North Courtland Street<br>East Stroudsburg, PA 18301 | Leased | 1999 | 420 |
| 75 Washington Street<br>East Stroudsburg, PA 18301 | Owned | 1966 | 3,300 |
| Route 209<br>P.O. Box 1009<br>Marshalls Creek, PA 18335 | Leased | 1991 | 2,627 |
| Mount Pocono Plaza<br>601 Route 940<br>Mt. Pocono, PA 18344 | Leased | 1999 | 536 |
| 1309 Blue Valley Drive<br>Pen Argyl, PA 18072 | Leased | 2001 | 444 |
| 744 Main Street<br>P.O. Box L<br>Stroudsburg, PA 18360 | Owned | 1985 | 12,000 |
| Route 611<br>1070 North Ninth Street<br>Stroudsburg, PA 18360 | Leased | 2000 | 488 |

| | | | |
|---|---|---|---|
| Route 611<br>RR1 Box 402<br>Tannersville, PA 18372 | Leased | 1993 | 611 |
| Route 209 & Weir Lake Road<br>P.O. Box 271<br>Brodheadsville, PA 18322 | Leased | 1997 | 576 |
| Route 611<br>Tannersville Plaza<br>Tannersville, PA 18372 | Leased | 2007 | 2,500 |
| **Other Properties** | | | |
| 746-752 Main Street<br>Stroudsburg, PA 18360 | Owned | 2005 | 4,650 |

The net book value of our premises, land and equipment was $10.6 million at September 30, 2009.

**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. Submission of Matters to a Vote of Security Holders**

During the fourth quarter of the fiscal year covered by this report, the Company did not submit any matters to the vote of security holders.

## 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, 2009 was 2532. 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, 2008 and September 30, 2009. The following information was provided by the Nasdaq Stock Market.

| Fiscal 2009 | High | Low | Dividends |
|---|---|---|---|
| Quarter ended September 30, 2009 | $13.90 | $12.53 | $694,000 |
| Quarter ended June 30, 2009 | 14.07 | 12.82 | 551,000 |
| Quarter ended March 31, 2009 | 14.25 | 11.40 | 558,000 |
| Quarter ended December 31, 2008 | 14.13 | 11.13 | 594,000 |

| Fiscal 2008 | High | Low | Dividends |
|---|---|---|---|
| Quarter ended September 30, 2008 | $14.10 | $12.90 | $625,000 |
| Quarter ended June 30, 2008 | 12.95 | 11.50 | 625,000 |
| Quarter ended March 31, 2008 | 12.17 | 10.50 | — |
| Quarter ended December 31, 2007 | 11.90 | 9.56 | — |

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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.

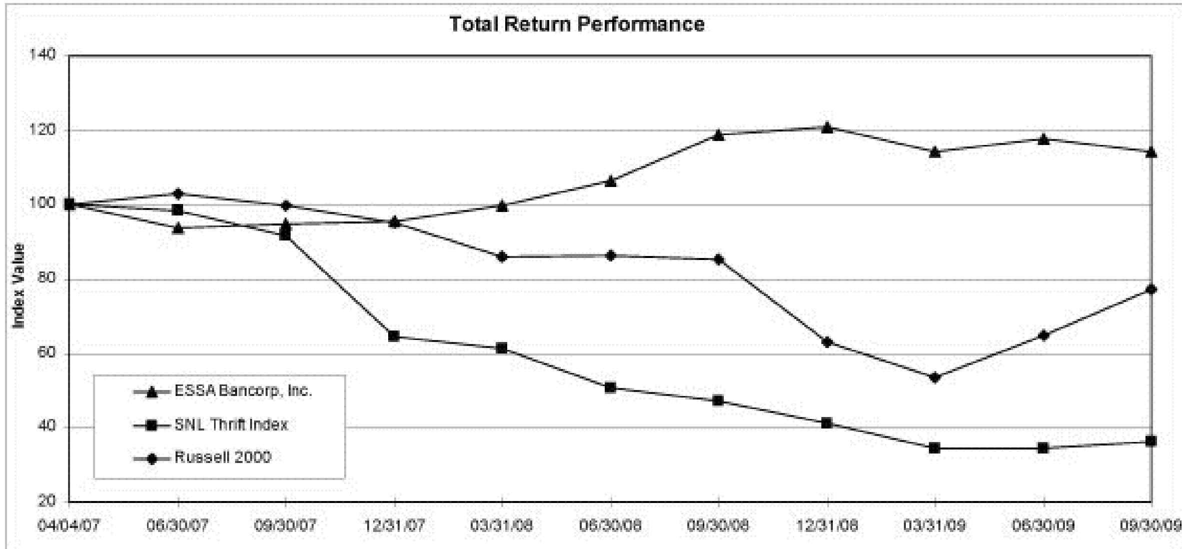
The sources of funds for the payment of a cash dividend are the retained proceeds form the initial sale of shares of common stock and earnings on those proceeds, interest and principal payments with respect to ESSA Bancorp, Inc.'s loan to the Employee Stock Ownership Plan, and dividends from ESSA Bank & Trust. For a discussion of the limitations applicable to ESSA Bank & Trust's ability to pay dividends, see "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, 2009, (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.

**ESSA BANCORP, INC.**




| | Period Ending | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Index* | 04/04/07 | 06/30/07 | 09/30/07 | 12/31/07 | 03/31/08 | 06/30/08 | 09/30/08 | 12/31/08 | 03/31/09 | 06/30/09 | 09/30/09 |
| ESSA Bancorp, Inc. | 100.00 | 93.80 | 94.65 | 95.50 | 99.75 | 106.62 | 118.72 | 121.03 | 114.38 | 117.83 | 114.32 |
| SNL Thrift Index | 100.00 | 98.24 | 91.79 | 64.44 | 61.45 | 50.83 | 47.28 | 41.01 | 34.37 | 34.44 | 36.21 |
| Russell 2000 | 100.00 | 103.10 | 99.91 | 95.34 | 85.90 | 86.41 | 85.44 | 63.13 | 53.69 | 64.79 | 77.29 |

Source : SNL Financial LC, Charlottesville, NC

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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 after having purchased 2,547,135 shares at a weighted average cost of $13.14. Also in June, 2009 the Company announced a second repurchase program to purchase up to an additional 10% 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, 2009, 112,000 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, 2009 through July 31, 2009 | — | — | — | 1,499,062 |
| August 1, 2009 through August 31, 2009 | 53,300 | 13.40 | 53,300 | 1,445,762 |
| September 1, 2009 through September 30, 2009 | 58,700 | 12.73 | 58,700 | 1,387,062 |
| Total | 112,000 | 13.05 | 112,000 | |

## 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, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands) | | | | |
| **Selected Financial Condition Data:** | | | | | |
| Total assets | $ 1,042,119 | $993,482 | $910,415 | $725,796 | $656,066 |
| Cash and cash equivalents | 18,593 | 12,614 | 16,779 | 12,730 | 20,290 |
| Investment securities: | | | | | |
| Available for sale | 217,566 | 204,078 | 205,267 | 89,122 | 62,506 |
| Held to maturity | 6,709 | 11,857 | 17,130 | 19,715 | 21,505 |
| Loans, net | 733,580 | 706,890 | 619,845 | 556,677 | 508,981 |
| Federal Home Loan Bank stock | 20,727 | 19,188 | 16,453 | 13,675 | 11,916 |
| Premises and equipment | 10,620 | 10,662 | 11,277 | 11,447 | 11,560 |
| Bank owned life insurance | 15,072 | 14,516 | 13,941 | 13,376 | 12,864 |
| Deposits | 408,855 | 370,529 | 384,716 | 402,153 | 374,759 |
| Borrowed funds | 438,598 | 412,757 | 313,927 | 259,299 | 221,479 |
| Equity | 185,506 | 200,086 | 204,692 | 58,337 | 54,371 |

| | For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (In thousands) | | | | |
| **Selected Data:** | | | | | |
| Interest income | $52,733 | $52,065 | $45,510 | $36,451 | $31,919 |
| Interest expense | 23,739 | 25,642 | 23,805 | 19,217 | 14,323 |
| Net interest income | 28,994 | 26,423 | 21,705 | 17,234 | 17,596 |
| Provision for loan losses | 1,500 | 900 | 360 | 300 | 550 |
| Net interest income after provision for loan losses | 27,494 | 25,523 | 21,345 | 16,934 | 17,046 |
| Non-interest income | 5,728 | 4,803 | 5,496 | 5,518 | 5,281 |
| Non-interest expense | 24,113 | 21,181 | 31,185 | 16,685 | 16,493 |
| Income (loss) before income tax expense | 9,109 | 9,145 | (4,344) | 5,767 | 5,834 |
| Income tax expense | 2,553 | 3,068 | 782 | 1,813 | 1,383 |
| Net income (loss) | $ 6,556 | $ 6,077 | $ (5,126) | $ 3,954 | $ 4,451 |
| Earnings (loss) per share [1] | | | | | |
| Basic | $ 0.47 | $ 0.39 | $ (0.47) | $ N/A | $ N/A |
| Diluted | $ 0.47 | $ 0.38 | $ (0.47) | $ N/A | $ 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.

| | At or For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| **Selected Financial Ratios and Other Data:** | | | | | |
| **Performance Ratios:** | | | | | |
| Return on average assets | 0.64% | 0.63% | (0.62)% | 0.58% | 0.72% |
| Return on average equity | 3.42% | 2.92% | (3.88)% | 6.96% | 8.42% |
| Interest rate spread (1) | 2.40% | 2.09% | 2.18% | 2.46% | 2.85% |
| Net interest margin (2) | 2.93% | 2.88% | 2.78% | 2.70% | 3.04% |
| Efficiency ratio (3) | 69.45% | 67.83% | 116.18% | 73.33% | 72.09% |
| Noninterest expense to average total assets | 2.34% | 2.21% | 3.78% | 2.45% | 2.67% |
| Average interest-earning assets to average interest-bearing liabilities | 123.00% | 128.60% | 120.21% | 108.00% | 107.69% |
| **Asset Quality Ratios:** | | | | | |
| Non-performing assets as a percent of total assets | 0.74% | 0.40% | 0.06% | 0.07% | 0.10% |
| Non-performing loans as a percent of total loans | 0.70% | 0.55% | 0.09% | 0.08% | 0.12% |
| Allowance for loan losses as a percent of non-performing loans | 112.82% | 124.81% | 757.83% | 809.87% | 588.93% |
| Allowance for loan losses as a percent of total loans | 0.79% | 0.69% | 0.67% | 0.69% | 0.70% |
| **Capital Ratios:** | | | | | |
| Total risk-based capital (to risk weighted assets) | 31.00% | 30.30% | 32.84% | 15.77% | 15.55% |
| Tier 1 risk-based capital (to risk weighted assets) | 29.86% | 29.42% | 31.88% | 14.79% | 14.59% |
| Tangible capital (to tangible assets) | 15.17% | 15.50% | 16.61% | 8.06% | 8.30% |
| Tier 1 leverage (core) capital (to adjusted tangible assets) | 15.17% | 15.50% | 16.61% | 8.06% | 8.30% |
| Average equity to average total assets | 18.59% | 21.77% | 15.98% | 8.36% | 8.55% |
| **Other Data:** | | | | | |
| Number of full service offices | 13 | 13 | 13 | 12 | 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.

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## 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, 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 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. We have begun construction on a new branch in Monroe County. We expect this branch to open in February, 2010. We have also signed leases to establish two supermarket branches in Northampton County and one supermarket branch in Lehigh County. We expect these branches to open during our third fiscal quarter. 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, 2009 and September 30, 2008**

***Total Assets.*** Total assets increased $48.6 million, or 4.9%, to $1.04 billion at September 30, 2009, compared to $993.5 million at September 30, 2008. This increase was primarily due to increases in net loans receivable, interest-bearing deposits with other banks and investment securities available for sale offset in part by decreases in cash and due from banks and investment securities held to maturity.

***Cash and Due from Banks.*** Cash and due from banks decreased $1.3 million or 15.3% to $7.1 million at September 30, 2009 from $8.4 million at September 30, 2008. The primary reason for this decrease was a decrease in the Company's cash balance at the Federal Reserve Bank of Philadelphia which was partially offset by 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 increased $7.3 million, or 171.5%, to $11.5 million at September 30, 2009 from $4.2 million at September 30, 2008. The primary reason for the increase was an increase in the Company's interest bearing demand deposit account at the FHLBank Pittsburgh of $7.3 million.

***Investment Securities Available for Sale.*** Investment securities available for sale increased $13.5 million, or 6.6% to $217.6 million at September 30, 2009 from $204.1 million at September 30, 2008. The increase was due primarily to an increase of $40.3 million in the Company's portfolio of mortgage-backed securities issued by United States sponsored agencies or entities offset in part by a $27.1 million decrease in the Company's portfolio of United States government agency securities. The growth in the mortgage-backed securities was due to the reinvestment of the proceeds from United States government agency security maturities, the investment of approximately $20.0 million in mortgage-backed securities issued by United States government sponsored agencies or entities as part of a leverage strategy to take advantage of the steepening yield curve, and the partial reinvestment of the proceeds from the sale of $26.4 million of thirty year, fixed rate mortgage loans.

***Investment Securities Held to Maturity.*** Investment securities held to maturity decreased $5.1 million or 43.4% to $6.7 million at September 30, 2009 from $11.9 million at September 30, 2008. The primary reasons for this decrease were the maturities of U.S. Government Agency Securities and repayments received on mortgage-backed securities issued by U.S. Government Agencies.

***Net Loans.*** Net loans increased $26.7 million, or 3.8%, to $733.6 million at September 30, 2009 from $706.9 million at September 30, 2008. Loan growth was primarily attributable to growth in several product categories as a result of our continued marketing efforts and a decrease in the number of non-financial institution competitors. One-to four-family residential mortgages increased by $31.8 million to $603.8 million at September 30, 2009 from $572.0 million at September 30, 2008. For the same period, commercial real estate loans decreased by $1.5 million to $68.0 million at September 30, 2009 from $69.5 million at September 30, 2008, construction loans outstanding decreased by $6.5 to $1.7 million at September 30, 2009 from $8.3 million at September 30, 2008, and commercial loans increased by $4.5 million to $16.5 million at September 30, 2009 from $12.0 million at September 30, 2008.

***Federal Home Loan Bank Stock.*** Federal Home Loan Bank stock increased $1.5 million, or 3.8%, to $20.7 million at September 30, 2009 from $19.2 million at September 30, 2008. 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 FHLBank Pittsburgh 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. FHLBank Pittsburgh borrowings outstanding at September 30, 2009 were $343.6 million compared to borrowings of $367.8 million at September 30, 2008.

***Deposits.*** Deposits increased by $38.3 million, or 10.3%, to $408.9 million at September 30, 2009 from $370.5 million at September 30, 2008. The increase in deposits was primarily due to increases in money market accounts of $34.5 million, savings and club accounts of $4.9 million and brokered certificates of deposit of $11.0 million offset in part by a decrease in retail certificates of deposit of $11.3 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. 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, 2009, the Company had $22.0 million of brokered certificates of deposit outstanding.

***Borrowed Funds.*** Borrowed funds, short term and other, increased $25.8 million or 6.3% to $438.6 million at September 30, 2009 from $412.8 million at September 30, 2008. Included in borrowed funds at September 30, 2009 were $65.0 million of repurchase agreements with various financial institution third parties. Except for these borrowings all borrowed funds are from the FHLBank Pittsburgh or the Federal Reserve Bank of Philadelphia. The increase in borrowed funds was primarily due to the need to fund additional loan growth and to purchase investment securities and certificates of deposit.

***Stockholders’ Equity.*** Stockholders’ equity decreased by $14.6 million, or 7.3% to $185.5 million at September 30, 2009 from $200.1 million at September 30, 2008. This decrease was primarily the result of stock repurchases of $24.9 million funded by proceeds of investment maturities and the payment of cash dividends of $2.4 million which were partially offset by net income of $6.6 million for the year ending September 30, 2009 and an increase in the unrealized gains, net of taxes on available for sale securities of $4.4 million at September 30, 2009 compared to September 30, 2008.

**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 writedown 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 FHLBank Pittsburgh. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLBank Pittsburgh 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 FHLBank Pittsburgh notified its members, including the Company, that it was suspending the payment of dividends on its capital stock and the repurchase of excess capital stock until further notice. The decrease in 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 FHLBank Pittsburgh 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.

***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.

**Comparison of Operating Results for the Years Ended September 30, 2008 and September 30, 2007**

***Net Income.*** Net income increased $11.2 million to $6.1 million for the fiscal year ended September 30, 2008 from a net loss of $5.1 million for the fiscal year ended September 30, 2007. The increase was primarily the result of a $12.7 million pre-tax charitable contribution to the ESSA Bank & Trust Foundation. The contribution was made in conjunction with the Company's initial public stock offering, which was consummated on April 3, 2007, and was detailed in the Company's prospectus.

***Net Interest Income.*** Net interest income increased by $4.7 million, or 21.7%, to $26.4 million for fiscal year 2008 from $21.7 million for fiscal year 2007. The increase was primarily attributable to an increase in net average interest-earning assets of $72.9 million offset, in part, by a decrease of 9 basis points in the interest rate spread to 2.09% for fiscal year 2008 from 2.18% for fiscal year 2007.

***Interest Income.*** Interest income increased $6.6 million, or 14.4% to $52.1 million for fiscal year 2008 from $45.5 for fiscal year 2007. The increase resulted from a $137.5 million increase in average interest-earning assets which had the effect of increasing interest income by $7.7 million. In addition, there was a 16 basis point increase in the overall yield on interest earning assets to 5.68% for fiscal year 2008, from 5.84% for fiscal year 2007 which increased interest income by $1.1 million. Loans increased on average $78.7 million between the two periods, along with increases in the average balances of investment securities of $7.7 million and mortgage-backed securities of $53.0 million. In addition, average Federal Home Loan Bank stock increased $3.2 million along with an increase in the average balance of other interest earning assets of $5.2 million. The primary reasons for the increase in investment securities and mortgage-backed securities was the partial reinvestment of borrowing proceeds into these assets along with the investment of the majority of the net proceeds from the stock offering into short-term, investment grade debt and mortgage-backed securities issued by United States government sponsored agencies or entities. Average FHLB stock increased as a result of the Bank's increase in borrowings from the FHLBank Pittsburgh. As a member of the FHLB system, the Bank maintains an investment in the capital stock of the FHLBank Pittsburgh 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. 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 FHLBank Pittsburgh demand account of $2.0 million. Funds received during the Company's stock offering contributed to an increase in the Bank's FHLBank Pittsburgh average demand deposit account balance for the year ended September 30, 2007. The average yield on loans decreased to 6.03% for the fiscal year 2008, from 6.10% for the fiscal year 2007. The average yields on investment securities decreased to 4.77% from 5.11% and the average yields on mortgage backed securities increased to 4.93% from 4.92% for the 2008 and 2007 periods, respectively.

***Interest Expense.*** Interest expense increased $1.8 million, or 7.7% to $25.6 million for fiscal year 2008 from $23.8 million for fiscal year 2007. The increase resulted from a $64.6 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $3.4 million. In addition, there was a 7 basis point decrease in the overall cost of interest-bearing liabilities to 3.59% for fiscal 2008 from 3.66% for fiscal 2007, which decreased interest expense by $1.6 million. Average savings and club accounts decreased by $12.4 million, average NOW accounts decreased $5.8 million, average money market accounts increased $22.7 million and average certificates of deposit decreased $36.0 million. For the same comparative periods, average borrowed funds increased $96.1 million over 2007. The cost of money market accounts decreased to 2.9% for fiscal year 2008 from 3.12% for fiscal year 2007. The cost of certificates of deposit decreased to 4.19% from 4.48% and the cost of borrowed funds decreased to 4.48% from 4.81% for fiscal 2008 and 2007, 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 $900,000 for fiscal year 2008 compared to a $360,000 provision for 2007 fiscal year. At September 30, 2009 the Company had two commercial loan relationships whose loans were judged by management to be impaired. A commercial real estate relationship with combined outstanding loans of $2.5 million was allocated a specific loan loss allowance of $457,000. A commercial business relationship with combined loans of $201,000 was allocated a specific loan loss allowance of $77,000. 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, 2008. The allowance for loan losses was $4.9 million or 0.69% of loans outstanding at September 30, 2008, compared to $4.2 million, or 0.67% of loans outstanding at September 30, 2007.

***Non-Interest Income.*** Non-interest income decreased $693,000, or 12.6%, to $4.8 million for the year ended September 30, 2008, from $5.5 million for the comparable 2007 period. The decrease was primarily attributable to the one time other-than temporary-impairment pretax charge of $802,000 related to Fannie Mae preferred stock the Company owns. Excluding the one time charge, noninterest income increased $109,000, or 2.0%, for the year ended September 30, 2008, compared to the year ended September 30, 2007. This increase was

primarily due to increases in service charges and fees on loans of $37,000 and trust and investment fees of $100,000 for fiscal 2008 compared to fiscal 2007.

***Non-Interest Expense.*** Non-interest expense decreased $10.0 million, or 32.1%, to $21.2 million for fiscal year 2008 from $31.2 million for the comparable period in 2007. The primary reason for the decrease was the $12.7 million contribution made to the Foundation during the 2007 period. Excluding the contribution, noninterest expense increased $2.7 million or 14.5%. The primary reasons for the increase excluding the contribution were increases in compensation and employee benefits of $1.8 million, occupancy and equipment of $189,000, professional fees of $617,000 and other expenses of $98,000. Compensation and employee benefits increased primarily as a result of normal compensation increases of $677,000, along with an increase in the expense related to the ESOP of $237,000 and the additional expense of $717,000 related to the Company's Equity Incentive Plan. Occupancy and equipment costs increased primarily as a result of increases in rental costs of $54,000, along with increases in depreciation expense of $62,000. Professional fees increased primarily as a result of increased legal, accounting and regulatory fees associated with being a public reporting company, including approximately $270,000 related to the Company's compliance with Section 404 of the Sarbanes-Oxley Act. Other expense increased primarily due to increased loan processing costs related to increased loan volume.

***Income Taxes.*** Income tax expense of $3.1 million was recognized for fiscal year 2008 compared to an income tax expense of $782,000 recognized for fiscal year 2007. The $802,000 impairment loss associated with the Company's Fannie Mae perpetual preferred stock was characterized as a capital loss at September 30, 2008. As such and since the Company had no capital gains to offset this loss during the 2008 fiscal year, there was no tax benefit related to this loss for the fiscal year ended September 30, 2008. The Emergency Economic Stabilization Act which became law on October 3, 2008, among other things, re-characterized such losses as operating.

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

| | For the Years Ended September 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | | |
| | 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] | $ 734,421 | $42,290 | 5.76% | $666,284 | $40,180 | 6.03% | $587,566 | $35,866 | 6.10% |
| Investment securities | | | | | | | | | |
| Taxable[3] | 35,231 | 1,150 | 3.26% | 72,287 | 3,301 | 4.75% | 65,296 | 3,222 | 4.93% |
| Exempt from federal income tax[3] [4] | 7,211 | 331 | 6.95% | 7,347 | 331 | 6.81% | 6,642 | 302 | 6.89% |
| Total investment securities | 42,442 | 1,481 | 3.89% | 79,634 | 3,632 | 4.77% | 71,938 | 3,524 | 5.11% |
| Mortgage-backed securities | 185,147 | 8,840 | 4.77% | 146,723 | 7,235 | 4.93% | 93,678 | 4,605 | 4.92% |
| Federal Home Loan Bank stock | 20,435 | 112 | 0.55% | 17,820 | 766 | 4.30% | 14,577 | 794 | 5.45% |
| Other | 6,024 | 10 | 0.17% | 8,454 | 252 | 2.98% | 13,642 | 721 | 5.29% |
| Total interest-earning assets | 988,469 | 52,733 | 5.35% | 918,915 | 52,065 | 5.68% | 781,401 | 45,510 | 5.84% |
| Allowance for loan losses | (5,167) | | | (4,406) | | | (4,017) | | |
| Noninterest-earning assets | 47,133 | | | 42,675 | | | 47,271 | | |
| Total assets | $1,030,435 | | | $957,184 | | | $824,655 | | |
| **Interest-bearing liabilities:** | | | | | | | | | |
| NOW accounts | $ 54,262 | 45 | 0.08% | $ 55,073 | 42 | 0.07% | $ 60,826 | 45 | 0.07% |
| Money market accounts | 94,835 | 1,591 | 1.68% | 58,034 | 1,684 | 2.90% | 35,351 | 1,104 | 3.12% |
| Savings and club accounts | 63,500 | 271 | 0.43% | 62,982 | 277 | 0.44% | 75,354 | 320 | 0.42% |
| Certificates of deposit | 154,365 | 5,035 | 3.26% | 168,763 | 7,063 | 4.19% | 204,802 | 9,171 | 4.48% |
| Borrowed funds | 436,671 | 16,797 | 3.85% | 369,719 | 16,576 | 4.48% | 273,669 | 13,165 | 4.81% |
| Total interest-bearing liabilities | 803,633 | 23,739 | 2.95% | 714,571 | 25,642 | 3.59% | 650,002 | 23,805 | 3.66% |
| Non-interest bearing demand accounts | 24,711 | | | 24,211 | | | 34,934 | | |
| Noninterest-bearing liabilities | 10,546 | | | 10,013 | | | 7,882 | | |
| Total liabilities | 838,890 | | | 748,795 | | | 692,818 | | |
| Equity | 191,545 | | | 208,389 | | | 131,837 | | |
| Total liabilities and equity | $1,030,435 | | | $957,184 | | | $824,655 | | |
| Net interest income | | $28,994 | | | $26,423 | | | $21,705 | |
| Interest rate spread | | | 2.40% | | | 2.09% | | | 2.18% |
| Net interest-earning assets | $ 184,836 | | | $204,344 | | | $131,399 | | |
| Net interest margin[5] | | | 2.93% | | | 2.88% | | | 2.78% |
| Average interest-earning assets to average interest-bearing liabilities | | 123.00% | | | 128.60% | | | 120.22% | |

(1) Non-accruing loans are included in the outstanding loan balances.
(2) Interest income on loans includes net amortized revenues (costs) on loans totaling $141,000 for 2009, $287,000 for 2008, and $440,000 for 2007.
(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.

## 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, 2009 vs. 2008 | | | For the Years Ended September 30, 2008 vs. 2007 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to | | | Increase (Decrease) Due to | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| | (In thousands) | | | | | |
| **Interest-earning assets:** | | | | | | |
| Loans | $ 3,753 | $(1,643) | $ 2,110 | $ 4,731 | $ (417) | $ 4,314 |
| Investment securities | (1,389) | (762) | (2,151) | 368 | (260) | 108 |
| Mortgage-backed securities | 1,832 | (227) | 1,605 | 2,621 | 9 | 2,630 |
| Federal Home Loan Bank stock | 132 | (786) | (654) | 158 | (186) | (28) |
| Other | (57) | (185) | (242) | (218) | (251) | (469) |
| Total interest-earning assets | 4,271 | (3,603) | 668 | 7,660 | (1,105) | 6,555 |
| **Interest-bearingliabilities:** | | | | | | |
| NOW accounts | — | 4 | 4 | (3) | — | (3) |
| Money market accounts | 581 | (674) | (93) | 663 | (83) | 580 |
| Savings and club accounts | 3 | (9) | (6) | (57) | 14 | (43) |
| Certificates of deposit | (563) | (1,465) | (2,028) | (1,541) | (567) | (2,108) |
| Borrowed funds | 985 | (765) | 220 | 4,365 | (953) | 3,412 |
| Total interest-bearing liabilities | 1,006 | (2,909) | (1,903) | 3,427 | (1,589) | 1,838 |
| Net change in interest income | $ 3,265 | $ (694) | $ 2,571 | $ 4,233 | $ 484 | $ 4,717 |

## 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 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

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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, 2009, 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.

| | | Estimated Increase (Decrease) in NPV | | NPV as a Percentage of Present Value of Assets (3) | |
|---|---|---|---|---|---|
| Change in Interest Rates (basis points) (1) | Estimated NPV (2) | Amount | Percent | NPV Ratio (4) | Increase (Decrease) (basis points) |
| | (Dollars in thousands) | | | | |
| +300 | $139,998 | $ (39,991) | (22%) | 14.18% | (282) |
| +200 | 158,785 | (21,205) | (12%) | 15.63% | (136) |
| +100 | 172,741 | (7,249) | (4%) | 16.61% | (39) |
| +50 | 176,982 | (3,007) | (2%) | 16.85% | (14) |
| — | 179,989 | — | — | 17.00% | — |
| -50 | 180,682 | 693 | 0% | 16.96% | (4) |
| -100 | 179,035 | (955) | (1%) | 16.74% | (25) |

(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, 2009, in the event of an immediate 100 basis point decrease in interest rates, we would experience a 1.0% decrease in net portfolio value. In the event of an immediate 100 basis point increase in interest rates, we would experience a 4.0% 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 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, 2009, $18.6 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled $2.9 million at September 30, 2009. As of September 30, 2009, we had $343.6 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 $481.0 million.

At September 30, 2009, we had $49.2 million in loan commitments outstanding, which included $12.1 million in undisbursed construction loans, $21.7 million in unused home equity lines of credit and $4.0 million in commercial lines of credit. Certificates of deposit due within one year of September 30, 2009 totaled $82.2 million, or 53.6% 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, 2010. 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 $9.6 million, $10.7 million and $4.6 million for the years ended September 30, 2009, 2008 and 2007, 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. In particular, we made a contribution of common stock to the ESSA Bank & Trust Foundation of $11.1 million during the year ended September 30, 2007. Net cash used in investing activities was $38.8 million, $89.5 million and $179.2 million in fiscal years 2009, 2008 and 2007, 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 $126.2 million, $119.5 million and $174.6 million in the years ended September 30, 2009, 2008 and 2007, respectively. Cash proceeds from principal repayments, maturities and sales of investment securities amounted to $119.3 million, $119.5 million and $58.9 million in the years ended September 30, 2009, 2008 and 2007, respectively. Deposit and borrowing cash flows have traditionally comprised most of our financing activities which resulted in net cash provided of $35.2 million in fiscal year 2009, $74.6 million in fiscal year 2008 and $178.6 million in fiscal year 2007. In addition, during fiscal 2009 we used $25.9 million and in fiscal 2008 we used $9.4 million to repurchase our stock as part of a previously disclosed stock repurchase plan. In 2007, we completed our initial public offering in which we received net proceeds of $155.8 million. This was offset partially by the purchase of common stock in connection with the ESOP of $13.6 million. The net effect of our operating, investing and financing activities was to increase our cash and cash equivalents from $12.7 million at the beginning of fiscal year 2007 to $18.6 million at the end of fiscal year 2009.

The following table summarizes our significant fixed and determinable contractual principal obligations and other funding needs by payment date at September 30, 2009. 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 | $ 71,500 | $ 163,347 | $ 120,660 | $ 35,000 | $390,507 |
| Operating leases | 461 | 916 | 686 | 2,053 | 4,116 |
| Certificates of deposit | 82,208 | 34,405 | 36,622 | — | 153,235 |
| Total | $154,169 | $ 198,668 | $ 157,968 | $ 37,053 | $547,858 |
| Commitments to extend credit | $ 28,064 | $ 15 | $ — | $ 21,156 | $ 49,235 |

We also have obligations under our post retirement plan as described in note 15 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 2010. In addition, as part of the reorganization and stock offering in 2007, the ESOP trust borrowed funds from ESSA Bancorp, Inc. and used those funds to purchase a number of shares equal to 8% of the common stock issued in the offering.

***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 13 of the notes to the Consolidated Financial Statements.

For fiscal year 2009, 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 in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting and we identified no material weaknesses requiring corrective action with respect to those controls.

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

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

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

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

ESSA Bancorp's management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2009. 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, 2009, 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, 2009. 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 the 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 2010 Annual Meeting of Stockholders to be held on February 11, 2010 (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.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Set forth below is information, as of September 30, 2009 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 Accountant 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 and 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, 2009 and 2008

(C) Consolidated Statement of Income (Loss) - Years ended September 30, 2009, 2008 and 2007

(D) Consolidated Statement of Changes In Stockholders' Equity - Years ended September 30, 2009, 2008 and 2007

(E) Consolidated Statement of Cash Flows - Years ended September 30, 2009, 2008 and 2007

(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.

ESSA BANCORP, INC. AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009


| | Page Number |
|---|---|
| Report on Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting | F-1 - F-2 |
| Report of Independent Registered Public Accounting Firm on Financial Statements | F-3 |
| Report on Management’s Assessment of Internal Control Over Financial Reporting | F-5 |
| Financial Statements | |
| Consolidated Balance Sheet | F-6 |
| Consolidated Statement of Income | F-7 |
| Consolidated Statement of Changes in Stockholders’ Equity | F-8 |
| Consolidated Statement of Cash Flows | F-9 |
| Notes to the Consolidated Financial Statements | F-10 - F-43 |

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, 2009, 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, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ESSA Bancorp, Inc. as of September 30, 2009 and 2008, 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, 2009, and our report dated December 11, 2009, expressed an unqualified opinion.

/s/ S.R. Snodgrass, A.C.
Wexford, PA
December 11, 2009

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 sheets of ESSA Bancorp, Inc. and subsidiaries as of September 30, 2009 and 2008, 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, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2009, 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, 2009, 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 11, 2009, expressed an unqualified opinion on the effectiveness of ESSA Bancorp, Inc.'s internal control over financial reporting.

As discussed in Note 15 to the consolidated financial statements, ESSA Bancorp, Inc. changed its method of accounting for its defined benefit pension plans as of September 30, 2007, in accordance with Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (incorporated into Accounting Standards Codification Topic 715, *Compensation—Retirement Benefits*).

As discussed in Note 18 to the consolidated financial statements, effective October 1, 2008, ESSA Bancorp, Inc. adopted Accounting Standards Codification Topic 820, *Fair Value Measurement and Disclosure.*

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As discussed in Note 1 to the consolidated financial statements, ESSA Bancorp, Inc., changed its method of accounting for split dollar life insurance arrangements as of October 1, 2008, in accordance with Accounting Standards Codification Topic 725, *Compensation—Retirement Benefits*.

/s/ S.R. Snodgrass, A.C.
Wexford, PA
December 11, 2009

## 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, 2009, 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, 2009, 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 11, 2009

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

| | September 30, | |
|---|---|---|
| | 2009 | 2008 |
| | (dollars in thousands) | |
| ASSETS | | |
| Cash and due from banks | $ 7,103 | $ 8,382 |
| Interest-bearing deposits with other institutions | 11,490 | 4,232 |
| Total cash and cash equivalents | 18,593 | 12,614 |
| Certificates of deposit | 5,355 | 3,777 |
| Investment securities available for sale | 217,566 | 204,078 |
| Investment securities held to maturity (fair value of $6,923 and $11,924) | 6,709 | 11,857 |
| Loans receivable (net of allowance for loan losses of $5,815 and $4,915) | 733,580 | 706,890 |
| Federal Home Loan Bank stock | 20,727 | 19,188 |
| Premises and equipment | 10,620 | 10,662 |
| Bank-owned life insurance | 15,072 | 14,516 |
| Foreclosed real estate | 2,579 | 31 |
| Other assets | 11,318 | 9,869 |
| TOTAL ASSETS | $1,042,119 | $993,482 |
| LIABILITIES | | |
| Deposits | $ 408,855 | $370,529 |
| Short-term borrowings | 48,091 | 39,510 |
| Other borrowings | 390,507 | 373,247 |
| Advances by borrowers for taxes and insurance | 1,377 | 2,047 |
| Other liabilities | 7,783 | 8,063 |
| TOTAL LIABILITIES | 856,613 | 793,396 |
| Commitment and contingencies (Notes 13 and 14) | — | — |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock ($.01 par value; 10,000,000 shares authorized, none issued) | — | — |
| Common stock ($.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 14,878,620 and 16,777,667 outstanding at September 30, 2009 and 2008, respectively) | 170 | 170 |
| Additional paid-in capital | 162,243 | 159,919 |
| Unallocated common stock held by the Employee Stock Ownership Plan (ESOP) | (12,339) | (12,792) |
| Retained earnings | 62,337 | 58,227 |
| Treasury stock, at cost; 2,102,280 and 203,233 shares outstanding at September 30, 2009 and 2008, respectively | (27,695) | (2,753) |
| Accumulated other comprehensive income (loss) | 790 | (2,685) |
| TOTAL STOCKHOLDERS' EQUITY | 185,506 | 200,086 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,042,119 | $993,482 |

See accompanying notes to the consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (dollars in thousands) | | |
| INTEREST INCOME | | | |
| Loans receivable | $42,290 | $40,180 | $35,866 |
| Investment securities: | | | |
| Taxable | 9,990 | 10,536 | 7,827 |
| Exempt from federal income tax | 331 | 331 | 302 |
| Other investment income | 122 | 1,018 | 1,515 |
| Total interest income | 52,733 | 52,065 | 45,510 |
| INTEREST EXPENSE | | | |
| Deposits | 6,942 | 9,066 | 10,640 |
| Short-term borrowings | 395 | 1,424 | 1,769 |
| Other borrowings | 16,402 | 15,152 | 11,396 |
| Total interest expense | 23,739 | 25,642 | 23,805 |
| NET INTEREST INCOME | 28,994 | 26,423 | 21,705 |
| Provision for loan losses | 1,500 | 900 | 360 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 27,494 | 25,523 | 21,345 |
| NONINTEREST INCOME | | | |
| Service fees on deposit accounts | 3,181 | 3,480 | 3,492 |
| Services charges and fees on loans | 567 | 624 | 587 |
| Trust and investment fees | 847 | 864 | 764 |
| Impairment loss on securities | (68) | (802) | — |
| Gain on sale of investments, net | 178 | — | — |
| Gain on sale of loans, net | 430 | — | 12 |
| Earnings on Bank-owned life insurance | 556 | 575 | 565 |
| Other | 37 | 62 | 76 |
| Total noninterest income | 5,728 | 4,803 | 5,496 |
| NONINTEREST EXPENSE | | | |
| Compensation and employee benefits | 14,577 | 12,650 | 10,829 |
| Occupancy and equipment | 2,916 | 2,839 | 2,650 |
| Professional fees | 1,376 | 1,432 | 815 |
| Data processing | 1,886 | 1,866 | 1,837 |
| Advertising | 672 | 630 | 695 |
| FDIC premiums | 682 | 48 | 55 |
| Contributions | — | — | 12,693 |
| Other | 2,004 | 1,716 | 1,611 |
| Total noninterest expense | 24,113 | 21,181 | 31,185 |
| Income (loss) before income taxes | 9,109 | 9,145 | (4,344) |
| Income taxes | 2,553 | 3,068 | 782 |
| NET INCOME (LOSS) | $ 6,556 | $ 6,077 | $ (5,126) |
| Earnings (loss) per share[1]: | | | |
| Basic | $ 0.47 | $ 0.39 | $ (0.47) |
| Diluted | $ 0.47 | $ 0.38 | $ (0.47) |

[1] Earnings per share for 2007 are calculated for the period beginning with the Company's date of conversion of April 3, 2007.

See accompanying notes to the consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional Paid-In Capital | Unallocated Common Stock Held by the ESOP | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Comprehensive Income (Loss) |
| | | | | (dollars in thousands) | | | | | |
| Balance, September 30, 2006 | — | $ — | $ — | $ — | $ 58,526 | $ — | $ (189) | $ 58,337 | |
| Net loss | | | | | (5,126) | | | (5,126) | $ (5,126) |
| Other comprehensive income: | | | | | | | | | |
| Unrealized gain on securities available for sale, net of income taxes of $123 | | | | | | | 238 | 238 | 238 |
| Comprehensive loss | | | | | | | | | $ (4,888) |
| Cumulative effect of change in accounting for pension, net of income tax benefit of $1,250 | | | | | | | (2,426) | (2,426) | |
| Issuance of common stock for initial public offering, net of expenses of $2.9 million | 15,870,000 | 159 | 155,647 | | | | | 155,806 | |
| Issuance of common stock to ESSA Bank & Trust Foundation | 1,110,900 | 11 | 11,098 | | | | | 11,109 | |
| Stock purchased for ESOP | | | | (13,585) | | | | (13,585) | |
| Allocation of ESOP stock | | | 37 | 302 | | | | 339 | |
| 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 available 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 | |

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Components of other comprehensive income (loss): | | | |
| Change in net unrealized gain (loss) on investment securities available for sale | $ 4,519 | $ (749) | $ 238 |
| Realized gains included in net income, net of tax of $61 | (117) | — | — |
| Realized impairment loss included in net income, net of income tax benefit of $23 and $273 in 2009 and 2008, respectively | 45 | 529 | — |
| Change in unrealized pension cost, net of tax benefit of $502 and $45 in 2009 and 2008, respectively | (972) | (88) | — |
| Total | $ 3,475 | $ (308) | $ 238 |

See accompanying notes to the consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended September 30, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | (dollars in thousands) | | |
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 6,556 | $ 6,077 | $ (5,126) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Provision for loan losses | 1,500 | 900 | 360 |
| Provision for depreciation and amortization | 1,197 | 1,253 | 1,054 |
| Accretion of discounts and premiums, net | (60) | (397) | (118) |
| Impairment loss on securities | 68 | 802 | — |
| Net gain on sale of investment securities | (178) | — | — |
| Gain on sale of loans, net | (430) | — | (12) |
| Origination of mortgage loans sold | (7,036) | — | — |
| Proceeds from sale of mortgage loans originated for sale | 7,139 | — | — |
| Contribution of common stock to charitable foundation | — | — | 11,109 |
| Compensation expense on ESOP | 614 | 576 | 39 |
| Stock-based compensation | 2,151 | 717 | — |
| Decrease (increase) in accrued interest receivable | 307 | 443 | (1,984) |
| Increase (decrease) in accrued interest payable | 116 | (21) | 292 |
| Decrease in other receivables | — | — | 1,841 |
| Earnings on Bank-owned life insurance | (556) | (575) | (565) |
| Deferred federal income taxes | (858) | (394) | (1,587) |
| Other, net | (964) | 1,314 | (1,038) |
| Net cash provided by operating activities | 9,566 | 10,695 | 4,565 |
| INVESTING ACTIVITIES | | | |
| Proceeds from repayments of certificates of deposit | 3,497 | 98 | — |
| Purchase of certificates of deposit | (4,907) | (3,767) | — |
| Investment securities available for sale: | | | |
| Proceeds from sale of investment securities | 23,890 | — | — |
| Proceeds from principal repayments and maturities | 95,395 | 119,541 | 58,989 |
| Purchases | (126,150) | (119,476) | (174,644) |
| Investment securities held to maturity: | | | |
| Proceeds from principal repayments and maturities | 5,125 | 5,263 | 2,575 |
| Increase in loans receivable, net | (49,887) | (87,693) | (63,088) |
| Proceeds from sale of loans | 19,592 | — | 923 |
| Redemption of FHLB stock | 509 | 4,084 | 2,764 |
| Purchase of FHLB stock | (2,048) | (6,819) | (5,542) |
| Investment in limited partnership | (2,729) | — | — |
| Proceeds from sale of other real estate | 21 | — | — |
| Purchase of premises, equipment, and software | (1,057) | (698) | (1,130) |
| Net cash used for investing activities | (38,749) | (89,467) | (179,153) |
| FINANCING ACTIVITIES | | | |
| Increase (decrease) in deposits, net | 38,326 | (14,187) | (17,437) |
| Net increase (decrease) in short-term borrowings | 8,581 | 5,280 | (1,069) |
| Proceeds from other borrowings | 127,260 | 146,050 | 82,697 |
| Repayment of other borrowings | (110,000) | (52,500) | (27,000) |
| Increase (decrease) in advances by borrowers for taxes and insurance | (670) | 624 | (775) |
| Purchase of treasury stock shares | (25,938) | (9,410) | — |
| Dividends on common stock | (2,397) | (1,250) | — |
| Net proceeds from the issuance of common stock | — | — | 155,806 |
| Purchase of common stock in connection with ESOP | — | — | (13,585) |
| Net cash provided by financing activities | 35,162 | 74,607 | 178,637 |
| Increase (decrease) in cash and cash equivalents | 5,979 | (4,165) | 4,049 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 12,614 | 16,779 | 12,730 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 18,593 | $ 12,614 | $ 16,779 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | | |
| Cash paid: | | | |
| Interest | $ 23,623 | $ 25,663 | $ 23,513 |
| Income taxes | 3,150 | 2,996 | 2,060 |

| | | | |
|---|---|---|---|
| Noncash items: | | | |
| Other real estate owned | 2,573 | 31 | — |
| Treasury stock payable | (1,008) | 1,008 | — |

See accompanying notes to the consolidated financial statements.

**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 and Northampton 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 inter-company 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.

**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, 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.

**Allowance for Loan Losses**

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

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

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

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Allowance for Loan Losses (Continued)

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) loans 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 the fair value of the rights as compared with amortized cost. 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. Total servicing assets included in other assets as of September 30, 2009 and 2008, were $289,000 and $156,000, 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

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**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.

**Real Estate Owned**

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.

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## 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.

**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. The Company has elected to report the effects of other comprehensive income (loss) as part of the Consolidated Statement of Changes in Stockholders’ Equity.

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:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Net unrealized gain (loss) on securities available for sale | $ 4,277 | $ (170) | $ 50 |
| Net unrecognized pension cost | (3,487) | (2,515) | (2,427) |
| Total | $ 790 | $(2,685) | $(2,377) |

**Fair Value Measurements**

Under generally accepted accounting principles related to 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 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – 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 3 – 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.

Under generally accepted accounting principles, 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 (loss) or consolidated stockholders' equity.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ("FASB") issued an accounting standard related to business combinations which is effective for fiscal years beginning on or after December 15, 2008. This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. This accounting standard was subsequently codified into Accounting Standards Codification (ASC) Topic 805, *Business Combinations.* The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued an accounting standard related to noncontrolling interests in consolidated financial statements, which is effective for fiscal years beginning on or after December 15, 2008. This standard establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This accounting standard was subsequently codified into ASC 810-10, *Consolidation*. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued an accounting standard related to disclosures about derivatives and hedging activities, which is effective for fiscal years and interim periods beginning after November 15, 2008. This standard requires enhanced disclosures about derivative instruments and hedging activities and therefore should improve the transparency of financial reporting. This accounting standard was subsequently codified into ASC 815-10, *Derivatives and Hedging.* The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In June 2008, the FASB issued accounting guidance related to determining whether instruments granted in share-based payment transactions are participating securities, which is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. This guidance clarified that instruments granted in share-based payment transactions can be participating securities prior to the requisite service having been rendered. A basic principle of this guidance is that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of EPS pursuant to the two-class method. All prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) are required to be adjusted retrospectively to conform to this guidance. This accounting guidance was subsequently codified into ASC Topic 260, *Earnings Per Share*. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In June 2009, the FASB issued an accounting standard related to the accounting for transfers of financial assets, which is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. This standard enhances reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This standard eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. This standard also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. This accounting standard was subsequently codified into ASC Topic 860. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Recent Accounting Pronouncements (Continued)**

In June 2009, the FASB issued Statement of Financial Accounting Standards ("FAS") No. 167, *Amendments to FASB Interpretation No. 46 (R)*. FAS 167, which amends FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, (FIN 46(R)). Under FASB's Codification at ASC 105-10-65-1-d, FAS No. 167 will remain authoritative until integrated into the FASB Codification. This statement prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity (VIE) and eliminates the quantitative model prescribed by FIN 46(R). The new model identifies two primary characteristics of a controlling financial interest: (1) provides a company with the power to direct significant activities of the VIE, and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. FAS No. 167 requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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

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

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

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## 2. COMPLETION OF INITIAL PUBLIC OFFERING

On July 25, 2006, the Bank's Board of Directors adopted a Plan of Conversion (the "Plan") pursuant to which the Bank would convert from a Pennsylvania-chartered mutual savings institution to a Pennsylvania-chartered stock association and concurrently form ESSA Bancorp, Inc., a Pennsylvania-chartered stock holding company. On December 7, 2006, the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission with respect to the shares to be offered and sold pursuant to the Plan. The Company registered for offer and sale 16,980,900 shares of common stock, par value $0.01 per share, at a sales price of $10.00 per share.

The stock offering was consummated on April 3, 2007, resulting in gross proceeds of $158.7 million, through the sale of 15,870,000 shares at a price of $10.00 per share. The Company also contributed 1,110,900 shares of its common stock to the ESSA Bank & Trust Foundation and $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.

The Company lent approximately $13.6 million to the Bank's Employee Stock Ownership Plan. The Company retained approximately $64.4 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 the Bank.

In accordance with regulations, at the time that the Bank converted from a mutual savings bank to a stock savings bank, a portion of retained earnings was restricted by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of the Bank, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

### 3. 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, 2009, 2008, and 2007. The net loss of $7,289,000 from April 3, 2007 (date of conversion) to September 30, 2007 will be used as the numerator for the year ended 2007.

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Weighted average common shares outstanding | 16,980,900 | 16,980,900 | 16,980,900 |
| Average treasury stock shares | (1,396,616) | (5,406) | — |
| Average unearned ESOP shares | (1,254,824) | (1,300,445) | (1,340,780) |
| Average unearned nonvested shares | (486,572) | (117,641) | — |
| Weighted-average common shares and common stock equivalents used to calculate basic earnings per share | 13,842,888 | 15,557,408 | 15,640,120 |
| 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 | 13,905,061 | 15,976,911 | 15,640,120 |

At September 30, 2009, there were common stock equivalents outstanding of 432,230 shares 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 or common stock equivalents outstanding for September 30, 2008 or 2007.

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**4. INVESTMENT SECURITIES**

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

| | 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 securities | 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 |

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**4. INVESTMENT SECURITIES (Continued)**

| | 2008 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Available for Sale** | | | | |
| Fannie Mae | $ 56,462 | $ 189 | $ (515) | $ 56,136 |
| Freddie Mac | 77,700 | 269 | (282) | 77,687 |
| Governmental National Mortgage Association securities | 14,037 | 113 | (28) | 14,122 |
| Total mortgage-backed securities | 148,199 | 571 | (825) | 147,945 |
| Obligations of states and political subdivisions | 7,171 | 104 | (129) | 7,146 |
| U.S. government agency securities | 48,887 | 140 | (136) | 48,891 |
| Total debt securities | 204,257 | 815 | (1,090) | 203,982 |
| Equity securities | 79 | 17 | — | 96 |
| Total | $204,336 | $ 832 | $ (1,090) | $204,078 |
| **Held to Maturity** | | | | |
| Fannie Mae | $ 6,179 | $ 25 | $ (23) | $ 6,181 |
| Freddie Mac | 3,678 | 43 | (1) | 3,720 |
| Total mortgage-backed securities | 9,857 | 68 | (24) | 9,901 |
| U.S. government agency securities | 2,000 | 23 | — | 2,023 |
| Total | $ 11,857 | $ 91 | $ (24) | $ 11,924 |

The amortized cost and fair value of debt securities at September 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

| | AVAILABLE FOR SALE | | HELD TO MATURITY | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 1,327 | $ 1,339 | $ 1,580 | $ 1,586 |
| Due after one year through five years | 21,179 | 21,461 | 1,085 | 1,106 |
| Due after five years through ten years | 27,120 | 27,657 | 2,346 | 2,469 |
| Due after ten years | 161,448 | 167,036 | 1,698 | 1,762 |
| Total | $211,074 | $217,493 | $ 6,709 | $ 6,923 |

For the year ended September 30, 2009, the Company realized gross gains of $184,000, gross losses of $6,000, and proceeds from the sale of investment securities of $23,890,000. The Company had no sales of investment securities for the years ending September 30, 2008 and 2007.

Investment securities with carrying values of $18,468,000 and $15,960,000 at September 30, 2009 and 2008, respectively, were pledged to secure public deposits and other purposes as required by law.

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## 5. 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):

| | 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) |

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 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 | 20 | $ 41,932 | $ (538) | $ — | $ — | $41,932 | $ (538) |
| Freddie Mac | 17 | 27,530 | (257) | 940 | (26) | 28,470 | (283) |
| Governmental National Mortgage Association securities | 4 | 3,694 | (28) | — | — | 3,694 | (28) |
| Obligations of states and political subdivisions | 6 | 4,076 | (129) | — | — | 4,076 | (129) |
| U.S. government agency securities | 5 | 18,260 | (136) | — | — | 18,260 | (136) |
| Total | 52 | $ 95,492 | $ (1,088) | $ 940 | $ (26) | $96,432 | $ (1,114) |

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, 2009, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

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

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## 6. LOANS RECEIVABLE

Loans receivable consist of the following (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Real estate loans: | | |
| Residential | $603,830 | $572,038 |
| Construction | 1,707 | 8,254 |
| Commercial | 68,040 | 69,505 |
| Commercial | 16,452 | 11,987 |
| Home equity loans and lines of credit | 46,792 | 47,508 |
| Other | 2,526 | 3,059 |
| | 739,347 | 712,351 |
| Less deferred loan (costs)/fees | (48) | 546 |
| | 739,395 | 711,805 |
| Less allowance for loan losses | 5,815 | 4,915 |
| Net loans | $733,580 | $706,890 |

Mortgage loans serviced by the Company for others amounted to $38,732,000, $16,665,000, and $19,346,000 at September 30, 2009, 2008, and 2007, respectively.

At September 30, 2009, 2008, and 2007, the Company had nonaccrual loans of $4,565,000, $3,938,000, and $555,000, respectively. Additional interest income that would have been recorded under the original terms of the loan agreements amounted to $422,000, $133,000, and $34,000 for the years ended September 30, 2009, 2008, and 2007, respectively. Included in September 30, 2009, nonaccrual loans were $480,000 of impaired loans. Included in September 30, 2008, nonaccrual loans were $2,495,000 of impaired loans.

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Impaired loans with a related allowance | $1,035 | $2,697 | $— |
| Impaired loans without a related allowance | 2,835 | — | — |
| Related allowance for loan losses | 176 | 534 | — |
| Average recorded balance of impaired loans | 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, 2009 and 2008, 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):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Balance, beginning of period | $4,915 | $4,206 | $3,855 |
| Add: | | | |
| Provision charged to operations | 1,500 | 900 | 360 |
| Loan recoveries | 3 | 2 | 1 |
| | 6,418 | 5,108 | 4,216 |
| Less loans charged off | (603) | (193) | (10) |
| Balance, end of period | $5,815 | $4,915 | $4,206 |

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**6. 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, 2009 and 2008, these persons were indebted to the Company for loans totaling $1,143,000 and $1,126,000, respectively. During the year ended September 30, 2009, $196,000 of loan advances were made and repayments totaled $179,000.

**7. 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 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.

**8. PREMISES AND EQUIPMENT**

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

| | 2009 | 2008 |
|---|---|---|
| Land and land improvements | $ 3,874 | $ 3,531 |
| Buildings and leasehold improvements | 9,316 | 9,206 |
| Furniture, fixtures, and equipment | 7,350 | 7,029 |
| Construction in process | 119 | 76 |
| | 20,659 | 19,842 |
| Less accumulated depreciation | (10,039) | (9,180) |
| Total | $ 10,620 | $10,662 |

Depreciation expense amounted to $979,000, $1,059,000, and $1,055,000 for the years ended September 30, 2009, 2008, and 2007, respectively.

**9. DEPOSITS**

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Weighted-Average Interest Rate | Amount | Weighted-Average Interest Rate | Amount |
| Non-interest-bearing demand accounts | — % | $ 25,415 | — % | $ 24,862 |
| NOW accounts | 0.09 | 54,635 | 0.08 | 55,694 |
| Money market accounts | 1.25 | 109,265 | 2.57 | 74,807 |
| Savings and club accounts | 0.40 | 66,305 | 0.40 | 61,444 |
| Certificates of deposit | 2.92 | 153,235 | 3.63 | 153,722 |
| Total | 1.50% | $408,855 | 2.09% | $370,529 |

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**9. DEPOSITS (Continued)**

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Weighted-Average Interest Rate | Amount | Weighted-Average Interest Rate | Amount |
| Certificates of deposit: | | | | |
| 0.00 - 2.00% | 1.18% | $ 47,714 | 1.99% | $ 421 |
| 2.01 - 4.00% | 3.08 | 63,885 | 3.10 | 97,408 |
| 4.01 - 6.00% | 4.67 | 41,636 | 4.57 | 55,893 |
| Total | 2.92% | $153,235 | 3.63% | $153,722 |

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

| | |
|---|---|
| 2010 | $ 82,208 |
| 2011 | 17,798 |
| 2012 | 16,607 |
| 2013 | 13,793 |
| 2014 | 22,829 |
| Total | $153,235 |

The aggregate amount of time certificates of deposit with a minimum denomination of $100,000 and individual retirement accounts with a minimum denomination of $250,000 were $66,418,000 and $0, respectively, at September 30, 2009. Time certificates of deposit and individual retirement accounts in excess of $250,000 were not federally insured at September 30, 2009.

The Emergency Economic Stabilization Act which became law on October 3, 2008, raised the amount of federal deposit insurance coverage (FDIC) for all deposit accounts to $250,000. This provision of the act is scheduled to expire on December 31, 2013. In addition, on October 14, 2008, the Federal Deposit Insurance Corporation announced a new program – the Temporary Liquidity Guarantee Program, which provides FDIC coverage of non-interest-bearing deposit transaction accounts and certain other accounts regardless of dollar amount. This new program is scheduled to expire June 30, 2010.

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

| | 2009 |
|---|---|
| Within three months | $16,913 |
| Three through six months | 7,422 |
| Six through twelve months | 4,869 |
| Over twelve months | 37,214 |
| Total | $66,418 |

## 9. DEPOSITS (Continued)

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| NOW accounts | $ 45 | $ 41 | $ 45 |
| Money market accounts | 1,591 | 1,684 | 1,104 |
| Savings and club accounts | 271 | 278 | 320 |
| Certificates of deposits | 5,035 | 7,063 | 9,171 |
| Total | $6,942 | $9,066 | $10,640 |

## 10. SHORT-TERM BORROWINGS

As of September 30, 2009 and 2008, the Company had $48,091,000 and $39,510,000 of short-term borrowings, respectively, of which $7,091,000 and $24,010,000, 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 2009, the Company had a borrowing limit of approximately $481 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):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Balance at year-end | $48,091 | $39,510 | $34,230 |
| Maximum amount outstanding at any month-end | 73,162 | 56,183 | 46,409 |
| Average balance outstanding during the year | 48,171 | 36,150 | 33,975 |
| Weighted-average interest rate: | | | |
| As of year-end | 0.43% | 2.41% | 5.17% |
| Paid during the year | 0.82% | 3.94% | 5.21% |

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

## 11. 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 | 2009 | 2008 |
| Convertible | 8/31/2010 | 12/5/2018 | 4.73% | 3.30% | 6.06% | $ 68,000 | $ 64,000 |
| Fixed rate | 11/23/2009 | 9/11/2014 | 4.13 | 2.48 | 5.95 | 171,607 | 170,247 |
| Mid-term | 10/19/2009 | 9/24/2012 | 3.46 | 2.03 | 5.35 | 85,900 | 94,000 |
| Securities sold under agreements to repurchase | 1/17/2011 | 9/3/2018 | 3.50 | 2.37 | 4.01 | 65,000 | 45,000 |
| | | Total | | | | $390,507 | $373,247 |

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**11. 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 |
|---|---|---|
| 2010 | $71,500 | 4.33% |
| 2011 | 89,247 | 4.45 |
| 2012 | 74,100 | 3.78 |
| 2013 | 87,300 | 3.62 |
| 2014 | 33,360 | 3.55 |
| 2015 and thereafter | 35,000 | 3.89 |
| Total | $390,507 | 3.99% |

Included above are ten convertible notes, which total $68,000,000 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 are secured by U.S. government agency and mortgage-backed securities with a carrying value of $78,163,000 and $49,646,000 at September 30, 2009 and 2008, respectively.

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## 12. INCOME TAXES

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $3,331 | $3,357 | $ 2,313 |
| State | 80 | 105 | 56 |
| Total current taxes | 3,411 | 3,462 | 2,369 |
| Deferred income tax benefit | (858) | (394) | (1,587) |
| Total income tax provision | $2,553 | $3,068 | $ 782 |

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):

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 1,977 | $ 1,671 |
| Net unrealized loss on securities | — | 88 |
| Charitable contributions carryover | 3,538 | 3,858 |
| Employee benefit plan | 1,796 | 1,295 |
| Writedown of preferred stock | 340 | 317 |
| Other | 502 | 401 |
| Total gross deferred tax assets | 8,153 | 7,630 |
| Valuation allowance | (2,633) | (2,930) |
| Total net deferred tax assets | 5,520 | 4,700 |
| Deferred tax liabilities: | | |
| Pension plan | 366 | 560 |
| Net unrealized gain on securities | 2,203 | — |
| Mortgage servicing rights | 98 | 53 |
| Premises and equipment | 240 | 370 |
| Other | 175 | 122 |
| Total gross deferred tax liabilities | 3,082 | 1,105 |
| Net deferred tax assets | $ 2,438 | $ 3,595 |

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 carry back 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 write down 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 $2,633,000 and $2,930,000 at September 30, 2009 and 2008, 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.

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**12. INCOME TAXES (Continued)**

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

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| | Amount | % of Pretax Income | Amount | % of Pretax Income | Amount | % of Pretax Income |
| Provision at statutory rate | $ 3,097 | 34.0% | $ 3,109 | 34.0% | $(1,477) | (34.0)% |
| Valuation allowance | (297) | (3.3) | 333 | 3.7 | 2,597 | 60.0 |
| Income from Bank-owned life insurance | (189) | (2.1) | (195) | (2.1) | (192) | (4.4) |
| Tax-exempt income | (221) | (2.4) | (186) | (2.0) | (131) | (3.0) |
| Low-income housing credits | (58) | (0.6) | (61) | (0.7) | (64) | (1.5) |
| Other, net | 221 | 2.4 | 68 | 0.7 | 49 | 0.9 |
| Actual tax expense and effective rate | $ 2,553 | 28.0% | $ 3,068 | 33.6% | $ 782 | 18.0% |

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

Retained earnings include $4,308,000 at September 30, 2009, for which no provision for federal income tax has been made. This amount represents deductions for bad debt reserves for tax purposes, which were only allowed to savings institutions that met certain definitional tests prescribed by the Internal Revenue Code of 1986, as amended. The Small Business Job Protection Act of 1996 eliminated the special bad debt deduction granted solely to thrifts. Under the terms of the Act, there would be no recapture of the pre-1988 (base year) reserves. However, these pre-1988 reserves would be subject to recapture under the rules of the Internal Revenue Code if the Bank itself pays a cash dividend in excess of earnings and profits or liquidates. The act also provides for the recapture of deductions arising from "applicable excess reserve: defined as the total amount of reserve over the base year reserve." The Bank's total reserve exceeds the base year reserve and deferred taxes have been provided for this excess.

**13. COMMITMENTS**

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

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

| | 2009 | 2008 |
|---|---|---|
| Commitments to extend credit | $ 9,024 | $ 8,516 |
| Standby letters of credit | 2,376 | 2,018 |
| Unfunded lines of credit | 37,835 | 50,322 |

Commitments to extend credit consist of fixed-rate commitments with interest rates ranging from 4.25 percent to 6.95 percent. The commitments outstanding at September 30, 2009, contractually mature in less than one year.

**13. COMMITMENTS (Continued)**

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

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

**14. LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE**

The Company leases various branch locations and other offices under long-term operating leases. Future minimum lease payments by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more, consisted of the following at September 30, 2009 (in thousands):

| | |
|---|---|
| 2010 | $ 461 |
| 2011 | 474 |
| 2012 | 442 |
| 2013 | 349 |
| 2014 | 337 |
| 2014 and beyond | 2,053 |
| Total | $4,116 |

The total rental expenses for the above leases for the years ended September 30, 2009, 2008, and 2007, were $536,000, $526,000, and $464,000, respectively.

**15. EMPLOYEE BENEFITS**

**Employee Stock Ownership Plan ("ESOP")**

In connection with the conversion, the Company created an ESOP for the benefit of employees who meet the eligibility requirements, which include having completed one year of service with the Company or its subsidiary and attained age 21. The ESOP trust acquired 1,358,472 shares of the Company's stock from proceeds from a loan with the Company. The Company makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP. The ESOP trust's outstanding loan bears interest at 3.25 percent and requires an annual payment of principal and interest of $1,103,000 through December of 2036. The Company's ESOP, which is internally leveraged, does not report the loans receivable extended to the ESOP as assets and does not report the ESOP debt due to the Company.

## 15. EMPLOYEE BENEFITS (Continued)

**Employee Stock Ownership Plan ("ESOP") (Continued)**

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of payments made during the year to remaining amount of payments due on the loan through maturity. Accordingly, the shares pledged as collateral are reported as unallocated common stock held by the ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized ESOP expense of $614,000, $576,000, and $339,000 for the years ended September 30, 2009, 2008, and 2007, respectively.

The following table presents the components of the ESOP shares:

| | 2009 | 2008 |
|---|---|---|
| Allocated shares | 90,565 | 45,282 |
| Shares committed to be released | 33,962 | 33,962 |
| Unreleased shares | 1,233,945 | 1,279,228 |
| Total ESOP shares | 1,358,472 | 1,358,472 |
| Fair value of unreleased shares (in thousands) | $ 16,300 | $ 17,781 |

**Equity Incentive Plan**

In May 2008, the Company implemented the ESSA Bancorp, Inc. 2007 Equity Incentive Plan (the "Plan"). The Plan provides for a total of 2,377,326 shares of common stock for issuance upon the grant or exercise of awards. Of the shares available under the Plan, 1,698,090 may be issued in connection with the exercise of stock options and 679,236 may be issued as restricted stock. The Plan allows for the granting of non-qualified stock options ("NSOs"), incentive stock options ("ISOs"), and restricted stock. Options are granted at no less than the fair value of the Company's common stock on the date of the grant.

On May 23, 2008, certain officers, employees and outside directors were granted in aggregate 1,140,469 NSOs; 317,910 ISOs; and 590,320 shares of restricted stock. In accordance with generally accepted accounting principles, the Company began to expense the fair value of all share-based compensation grants over the requisite service periods.

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

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

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

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**15 EMPLOYEE BENEFITS (Continued)**

**Equity Incentive Plan (Continued)**

During the year ended September 30, 2009 and 2008, the Company recorded $2.2 million and $717,000, respectively, of share-based compensation expense, consisting of stock option expense of $694,000 and $232,000, respectively, and restricted stock expense of $1.5 million and $485,000, respectively. Expected future expense relating to the 1,166,703 non-vested options outstanding as of September 30, 2009, is $2.5 million over the remaining vesting period of 3.67 years. Expected future compensation expense relating to the 471,531 restricted shares at September 30, 2009, is $5.3 million over the remaining vesting period of 3.67 years.

The following is a summary of the Company's stock option activity and related information for its option plan for the year ended September 30, 2009.

| | Number of Stock Options | Weighted-average Exercise Price | Weighted-average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding, September 30, 2008 | 1,458,379 | $ 12.35 | 9.67 | $ 2,260 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Outstanding, September 30, 2009 | 1,458,379 | $ 12.35 | 8.67 | $ 1,254 |
| Exercisable at year-end | 291,676 | $ 12.35 | 8.67 | $ 251 |

The weighted-average grant date fair value of the Company's non-vested options as of September 30, 2009 and 2008, was $2.38.

The following is a summary of the status of the Company's restricted stock as of September 30, 2009, and changes therein during the year then ended:

| | Number of Restricted Stock | Weighted-average Grant Date Fair Value |
|---|---|---|
| Nonvested at September 30, 2008 | 589,414 | 12.35 |
| Granted | — | — |
| Vested | (117,883) | 12.35 |
| Forfeited | — | — |
| Nonvested at September 30, 2009 | 471,531 | $ 12.35 |

**Defined Benefit Plan**

The Bank sponsors a trusteed, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

**15. EMPLOYEE BENEFITS (Continued)**

**Defined Benefit Plan (Continued)**

The Company adopted the recognition provisions of FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (incorporated into Accounting Standards Codification Topic 715, *Compensation – Retirement Benefits*) and initially applied them to the funded status of its defined benefit pension plan as of September 30, 2007. The initial recognition of the funded status of its defined benefit pension plan resulted in a decrease in consolidated stockholders' equity of $2,426,000, which was net of a tax benefit of $1,250,000.

The following table sets forth the incremental effect of Accounting Standards Codification Topic 715, *Compensation – Retirement Benefits* (ASC Topic 715), on individual line items in the Consolidated Balance Sheet at September 30, 2007 (in thousands):

| | Before application of ASC Topic 715 | Adjustments | After application of ASC Topic 715 |
|---|---|---|---|
| Other assets | $ 10,800 | $ (1,077) | $ 9,723 |
| Total assets | 911,492 | (1,077) | 910,415 |
| Other liabilities | 4,308 | 1,349 | 5,657 |
| Total liabilities | 704,374 | 1,349 | 705,723 |
| Accumulated other comprehensive income (loss) | 49 | (2,426) | (2,377) |
| Total stockholders' equity | 207,118 | (2,426) | 204,692 |
| Total liabilities and stockholders' equity | 911,492 | (1,077) | 910,415 |

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

| | 2009 | 2008 |
|---|---|---|
| **Change in benefit obligation:** | | |
| Benefit obligation at beginning of year | $ 8,495 | $ 8,716 |
| Service cost | 358 | 517 |
| Interest cost | 510 | 572 |
| Actuarial gains (losses) | 1,180 | (1,305) |
| Benefits paid | (166) | (5) |
| Benefit obligation at end of year | 10,377 | 8,495 |
| **Change in plan assets:** | | |
| Fair value of plan assets at beginning of year | 6,366 | 7,366 |
| Actual return on plan assets | 4 | (995) |
| Contributions | 1,600 | — |
| Benefits paid | (166) | (5) |
| Fair value of plan assets at end of year | 7,804 | 6,366 |
| Funded status | $ (2,573) | $(2,129) |

Amounts not yet recognized as a component of net periodic pension cost (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Amounts recognized in accumulated other comprehensive income (loss) consist of: | | | |
| Net loss | $ 5,265 | $ 3,782 | $3,639 |
| Prior service cost | 18 | 28 | 38 |
| Total | $ 5,283 | $ 3,810 | $3,677 |

The accumulated benefit obligation for the defined benefit pension plan was $6,203,000 and $4,830,000 at September 30, 2009 and 2008, respectively.

**15. EMPLOYEE BENEFITS (Continued)**

**Defined Benefit Plan (Continued)**

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Service cost | $ 358 | $ 517 | $ 614 |
| Interest cost | 510 | 572 | 478 |
| Expected return on plan assets | (509) | (660) | (443) |
| Amortization of prior service cost | 10 | 10 | 9 |
| Amortization of unrecognized loss | 202 | 207 | 182 |
| Net periodic benefit cost | $ 571 | $ 646 | $ 840 |

The estimated prior service cost and net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are $302,000 and $10,000, respectively.

Weighted-average assumptions used to determine benefit obligations:

| | 2009 | 2008 |
|---|---|---|
| Discount rate | 5.50% | 6.00% |
| Rate of compensation increase | 5.00 | 5.50 |

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Discount rate | 6.00% | 5.75% | 6.25% |
| Expected long-term return on plan assets | 8.00 | 8.00 | 8.00 |
| Rate of compensation increase | 5.50 | 5.50 | 5.50 |

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

Plan Assets

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

| Asset Category | 2009 | 2008 |
|---|---|---|
| Cash and fixed income securities | 35.2% | 35.4% |
| Equity securities | 64.8 | 64.6 |
| Total | 100.0% | 100.0% |

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## 15. EMPLOYEE BENEFITS (Continued)

**Defined Benefit Plan (Continued)**

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

Cash Flows

The Bank expects to contribute $500,000 to its pension plan in 2010.

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

| | |
|---|---|
| 2010 | $ 21 |
| 2011 | 25 |
| 2012 | 32 |
| 2013 | 41 |
| 2014 | 55 |
| 2015 - 2019 | 831 |

**401(k) Plan**

The Bank also has a savings plan qualified under Section 401(k) of the Internal Revenue Code, which covers substantially all employees over 21 years of age. Employees can contribute to the plan, but are not required to. Employer contributions are allocated based on employee contribution levels. The expense related to the plan for the years ended September 30, 2009, 2008, and 2007, were $224,000, $210,000, and $195,000, respectively.

**Supplemental Executive Retirement Plan**

The Bank maintains a salary continuation agreement with certain executives of the Bank, which provides for benefits upon retirement to be paid to the executive for no less than 192 months, unless the executive elects to receive the present value of the payments as a lump sum. The Bank has recorded accruals of $694,000 and $666,000, at September 30, 2009 and September 30, 2008, respectively, which represents the estimated present value (using a discount rate of 6.25 percent) of the benefits earned under this agreement.

## 16. REGULATORY RESTRICTIONS

**Reserve Requirements**

The Bank is required to maintain reserve funds in cash or in deposit with the Federal Reserve Bank. The required reserve at September 30, 2009 and 2008, was $4,303,000 and $4,295,000, respectively.

**Dividend Restrictions**

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

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## 17. REGULATORY CAPITAL REQUIREMENTS

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

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions. Management believes as of September 30, 2009, the Bank met all capital adequacy requirements to which they are subject.

As of September 30, 2009 and 2008, the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier 1 risk-based, core capital, and tangible equity capital ratios must be at least 10 percent, 6 percent, 5 percent, and 1.5 percent, respectively. There have been no conditions or events since the notification that management believes have changed the Bank's category.

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

| | 2009 | 2008 |
|---|---|---|
| Total stockholders' equity | $154,214 | $143,146 |
| Accumulated other comprehensive (income) loss | (662) | 2,560 |
| Disallowed servicing assets | (260) | (141) |
| Tier I, core, and tangible capital | 153,292 | 145,565 |
| Allowance for loan losses | 5,639 | 4,381 |
| Unrealized gains on equity securities | 27 | 7 |
| Total risk-based capital | $158,958 | $149,953 |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| Total Capital (to Risk-Weighted Assets) | | | | |
| Actual | $158,958 | 31.0% | $149,953 | 30.3% |
| For Capital Adequacy Purposes | 41,063 | 8.0 | 39,586 | 8.0 |
| To Be Well Capitalized | 51,329 | 10.0 | 49,482 | 10.0 |
| Tier I Capital (to Risk-Weighted Assets) | | | | |
| Actual | $153,292 | 29.9% | $145,565 | 29.4% |
| For Capital Adequacy Purposes | 20,531 | 4.0 | 19,793 | 4.0 |
| To Be Well Capitalized | 30,797 | 6.0 | 29,689 | 6.0 |
| Tier I Capital (to Adjusted Assets) | | | | |
| Actual | $153,292 | 15.2% | $145,565 | 15.5% |
| For Capital Adequacy Purposes | 40,418 | 4.0 | 37,561 | 4.0 |
| To Be Well Capitalized | 50,523 | 5.0 | 46,952 | 5.0 |
| Tangible Capital (to Tangible Assets) | | | | |
| Actual | $153,292 | 15.2% | $145,565 | 15.5% |
| For Capital Adequacy Purposes | 15,157 | 1.5 | 14,086 | 1.5 |

## 18. FAIR VALUE MEASUREMENTS

The Company adopted new, generally accepted accounting principles related to *Fair Value Measurements* on October 1, 2008, which provides consistency and comparability in determining fair value measurements and provides for expanded disclosures about fair value measurements. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities.

The following table presents information about the Company's securities, other real estate owned and impaired loans measured at fair value as of September 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

| | September 30, 2009 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets measured at fair value on a recurring basis: | | | | |
| Investment securities available for sale | | | | |
| Mortgage-backed securities | $ — | $188,264 | $ — | $188,264 |
| Obligations of states and political subdivisions | — | 7,483 | — | 7,483 |
| U.S. government agencies | — | 21,746 | — | 21,746 |
| Equity securities | 73 | — | — | 73 |
| Assets measured at fair value on a non-recurring basis: | | | | |
| Other real estate owned | — | 2,579 | — | 2,579 |
| Impaired loans | — | 3,694 | — | 3,694 |
| Mortgage servicing rights | — | — | 289 | 289 |

### Investment Securities Available for Sale

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

### Mortgage Servicing Rights (MSRs)

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

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## 18. FAIR VALUE MEASUREMENTS (Continued)

**Impaired Loans**

The Company has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. These assets are included above as Level II fair values. The fair value consists of the loan balances of $3,870,000 less their valuation allowances of $176,000 at September 30, 2009.

**Real Estate Owned**

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

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 18,593 | $ 18,593 | $ 12,614 | $ 12,614 |
| Certificates of deposit | 5,355 | 5,355 | 3,777 | 3,777 |
| Investment and mortgage-backed securities: | | | | |
| Available for sale | 217,566 | 217,566 | 204,078 | 204,078 |
| Held to maturity | 6,709 | 6,923 | 11,857 | 11,924 |
| Loans receivable, net | 733,580 | 750,163 | 706,890 | 699,943 |
| Accrued interest receivable | 4,419 | 4,419 | 4,726 | 4,726 |
| FHLB stock | 20,727 | 20,727 | 19,188 | 19,188 |
| Mortgage servicing rights | 289 | 289 | 156 | 156 |
| Bank-owned life insurance | 15,072 | 15,072 | 14,516 | 14,516 |
| Financial liabilities: | | | | |
| Deposits | $408,855 | $412,438 | $370,529 | $373,253 |
| Short-term borrowings | 48,091 | 48,091 | 39,510 | 39,510 |
| Other borrowings | 390,507 | 408,039 | 373,247 | 380,394 |
| Advances by borrowers for taxes and insurance | 1,377 | 1,377 | 2,047 | 2,047 |
| Accrued interest payable | 1,786 | 1,786 | 1,670 | 1,670 |

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

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**19. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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

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

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

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

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

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

The fair value approximates the current book value.

**Bank-Owned Life Insurance**

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

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

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

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

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

**Commitments to Extend Credit**

These financial instruments are generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments are presented in Note 13.

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## 20. PARENT COMPANY

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

CONDENSED BALANCE SHEET

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 10,448 | $ 3,164 |
| Certificates of deposit | 1,495 | — |
| Investment securities available for sale | 19,232 | 52,934 |
| Investment in subsidiary | 154,214 | 143,146 |
| Other assets | 2,049 | 3,436 |
| TOTAL ASSETS | $187,438 | $202,680 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Other liabilities | $ 1,932 | $ 2,594 |
| Stockholders' equity | 185,506 | 200,086 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $187,438 | $202,680 |

CONDENSED STATEMENT OF INCOME

| | Year Ended September 30, 2009 | Year Ended September 30, 2008 | For the Period April 3, to September 30, 2007 |
|---|---|---|---|
| INCOME | | | |
| Interest income | $ 1,659 | $ 3,354 | $ 2,192 |
| Net gains on sale of investments | 30 | — | — |
| Other | 7 | 210 | 113 |
| Total income | 1,696 | 3,564 | 2,305 |
| EXPENSES | | | |
| Contributions to charitable foundation | — | — | 12,696 |
| Professional fees | 293 | 354 | 102 |
| Other | 82 | 60 | 27 |
| Total expenses | 375 | 414 | 12,825 |
| Income (loss) before income tax expense (benefit) | 1,321 | 3,150 | (10,520) |
| Income tax expense (benefit) | 522 | 1,156 | (916) |
| Income (loss) before equity in undistributed net earnings of subsidiary | 799 | 1,994 | (9,604) |
| Equity in undistributed net earnings of subsidiary | 5,757 | 4,083 | 2,315 |
| NET INCOME (LOSS) | $ 6,556 | $ 6,077 | $ (7,289) |

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**20. PARENT COMPANY (Continued)**

CONDENSED STATEMENT OF CASH FLOWS

| | September 30, 2009 | September 30, 2008 | For the Period of April 3 to September 30, 2007 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 6,556 | $ 6,077 | $ (7,289) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | | |
| Equity in undistributed net earnings of subsidiary | (5,757) | (4,083) | (2,315) |
| Net gain on sale of investments | (30) | — | 11,109 |
| Increase in accrued income taxes | 419 | 1,024 | 472 |
| Decrease (increase) in accrued interest receivable | 801 | 524 | (1,056) |
| Deferred federal income taxes | 353 | 16 | (1,619) |
| Other, net | 657 | 266 | (621) |
| Net cash provided by (used for) operating activities | 2,999 | 3,824 | (1,319) |
| INVESTING ACTIVITIES | | | |
| Proceeds from repayments of certificates of deposit | 1,500 | — | — |
| Purchase of certificates of deposit | (2,926) | — | (73,697) |
| Purchase of investment securities available for sale | (21,881) | (67,426) | 15,820 |
| Proceeds from principal repayments and maturities | 55,927 | 72,304 | (77,903) |
| Net cash provided by (used for) investing activities | 32,620 | 4,878 | (135,780) |
| FINANCING ACTIVITIES | | | |
| Purchase of treasury stock shares | (25,938) | (9,410) | — |
| Dividends on common stock | (2,397) | (1,250) | — |
| Net proceeds from the issuance of common stock | — | — | 155,806 |
| Purchase of common stock in connection with ESOP | — | — | (13,585) |
| Net cash provided by (used for) financing activities | (28,335) | (10,660) | 142,221 |
| Increase (decrease) in cash | 7,284 | (1,958) | 5,122 |
| CASH AT BEGINNING OF PERIOD | 3,164 | 5,122 | — |
| CASH AT END OF PERIOD | $ 10,448 | $ 3,164 | $ 5,122 |

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**21. SELECTED QUARTERLY DATA (Unaudited)**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 |
| Total interest income | $ 13,256 | $ 13,250 | $ 13,233 | $ 12,994 |
| Total interest expense | 6,262 | 6,041 | 5,790 | 5,646 |
| Net interest income | 6,994 | 7,209 | 7,443 | 7,348 |
| Provision for loan losses | 375 | 375 | 375 | 375 |
| Net interest income after provision for loan losses | 6,619 | 6,834 | 7,068 | 6,973 |
| Total noninterest income | 1,325 | 1,262 | 1,747 | 1,394 |
| Total noninterest expense | 5,767 | 5,899 | 6,287 | 6,160 |
| Income before income taxes | 2,177 | 2,197 | 2,528 | 2,207 |
| Income taxes | 347 | 660 | 787 | 759 |
| Net income | $ 1,830 | $ 1,537 | $ 1,741 | $ 1,448 |
| Per share data: | | | | |
| Net income | | | | |
| Basic | $ 0.13 | $ 0.11 | $ 0.13 | $ 0.11 |
| Diluted | $ 0.13 | $ 0.11 | $ 0.13 | $ 0.11 |
| Average shares outstanding | | | | |
| Basic | 14,579,030 | 14,048,861 | 13,450,852 | 13,246,385 |
| Diluted | 14,602,412 | 14,048,861 | 13,468,712 | 13,288,359 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2007 | March 31, 2008 | June 30, 2008 | September 30, 2008 |
| Total interest income | $ 12,889 | $ 12,891 | $ 13,104 | $ 13,181 |
| Total interest expense | 6,690 | 6,515 | 6,234 | 6,203 |
| Net interest income | 6,199 | 6,376 | 6,870 | 6,978 |
| Provision for loan losses | 150 | 150 | 150 | 450 |
| Net interest income after provision for loan losses | 6,049 | 6,226 | 6,720 | 6,528 |
| Total noninterest income | 1,463 | 1,325 | 1,410 | 605 |
| Total noninterest expense | 5,032 | 5,193 | 5,315 | 5,641 |
| Income before income taxes | 2,480 | 2,358 | 2,815 | 1,492 |
| Income taxes | 783 | 704 | 849 | 732 |
| Net income | $ 1,697 | $ 1,654 | $ 1,966 | $ 760 |
| Per share data: | | | | |
| Net income | | | | |
| Basic | $ 0.11 | $ 0.11 | $ 0.13 | $ 0.05 |
| Diluted | $ 0.11 | $ 0.11 | $ 0.12 | $ 0.05 |
| Average shares outstanding | | | | |
| Basic | 15,662,512 | 15,675,131 | 15,659,446 | 15,390,600 |
| Diluted | 15,662,512 | 15,675,131 | 16,046,636 | 15,408,389 |

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**22. SUBSEQUENT EVENTS**

The Company assessed events occurring subsequent to September 30, 2009, through December 11, 2009, for potential recognition and disclosure in the consolidated financial statements. In October 2009, the Company entered into three lease agreements for the continued expansion of its branch network. These lease commitments have been included in Note 14, “Lease Commitments and Total Rental Expense.” No other events have occurred that would require adjustment to or disclosure in the consolidated financial statements which were issued December 11, 2009.

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## SIGNATURES

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

**ESSA BANCORP, INC.**

Date: December 11, 2009

By: /s/ Gary S. Olson
Gary S. Olson
Chief Executive Officer and President
(Duly Authorized Representative)

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

| Signatures | Title | Date |
|---|---|---|
| /s/ Gary S. Olson<br>Gary S. Olson | President, Chief Executive Officer and Director (Principal Executive Officer) | December 11, 2009 |
| /s/ Allan A. Muto<br>Allan A. Muto | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | December 11, 2009 |
| /s/ John E. Burrus<br>John E. Burrus | Director | December 11, 2009 |
| /s/ William P. Douglass<br>William P. Douglass | Director | December 11, 2009 |
| /s/ Daniel J. Henning<br>Daniel J. Henning | Director | December 11, 2009 |
| /s/ Frederick E. Kutteroff<br>Frederick E. Kutteroff | Director | December 11, 2009 |
| /s/ Robert C. Selig, Jr.<br>Robert C. Selig, Jr. | Director | December 11, 2009 |
| /s/ John S. Schoonover, Jr.<br>John S. Schoonover, Jr. | Director | December 11, 2009 |

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| | | |
|---|---|---|
| /s/ William A. Viechnicki, D.D.S.<br>William A. Viechnicki, D.D.S. | Director | December 11, 2009 |
| /s/ Elizabeth B. Weekes<br>Elizabeth B. Weekes | Director | December 11, 2009 |

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# Section 2: EX-23 (EXHIBIT 23)

**Exhibit 23**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-157524 on Form S-8 of ESSA Bancorp, Inc. of our report dated December 11, 2009, relating to our audit of the consolidated financial statements, which appear in the Annual Report on Form 10-K of ESSA Bancorp, Inc. for the year ended September 30, 2009.

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

Wexford, Pennsylvania
December 11, 2009

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# Section 3: EX-31.1 (EXHIBIT 31.1)

**Exhibit 31.1**

**Certification of Principle Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gary S. Olson, certify that:

1. I have reviewed this Annual Report on Form 10-K of ESSA Bancorp, Inc., a Pennsylvania corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 11, 2009

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

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# Section 4: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

**Certification of Principle Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Allan A. Muto, certify that:

1. I have reviewed this Annual Report on Form 10-K of ESSA Bancorp, Inc., a Pennsylvania corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 11, 2009

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

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# Section 5: EX-32 (EXHIBIT 32)

**Exhibit 32**

**Certification of Principle Executive Officer and Principle Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Gary S. Olson, Chief Executive Officer and President of ESSA Bancorp, Inc., a Pennsylvania corporation (the "Company") and Allan A. Muto, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the annual report on Form 10-K for the year ended September 30, 2009 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| Date: December 11, 2009 | /s/ Gary S. Olson |
|---|---|
| | Gary S. Olson<br>Chief Executive Officer and President |
| Date: December 11, 2009 | /s/ Allan A. Muto |
| | Allan A. Muto<br>Executive Vice President and Chief Financial Officer |

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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