

The **right way** to bank.

**ESSA**  Bancorp

*Annual Report* 2010

## ESSA LOCATIONS

**Blakeslee**  
**Brodheads ville**  
**Bushkill**  
**East Stroudsburg**  
**Marshall s Creek**  
**Mountainhome**  
**Stroudsburg**  
**Tannersville**

## BRANCH LOCATIONS IN WEIS SUPERMARKETS

**Brodheads ville**  
**Crawford Drive (Bethlehem)**  
**Eagle Valley (East Stroudsburg)**  
**Mount Pocono**  
**North Cedar Crest Blvd. (Allentown)**  
**Pen Argyl**  
**Schnecksville**  
**Stroud Township**  
**Tannersville**

## ADDITIONAL SERVICES

**Asset Management & Trust Services**  
**ESSA Investment Services**

## BOARD OF DIRECTORS AND GENERAL COUNSEL

### **John E. Burrus**

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

### **Gary S. Olson**

President & CEO, ESSA Bank & Trust

### **Elizabeth Bensinger Weekes, Esq.**

Partner, Bensinger & Weekes, PA

### **William P. Douglass**

President, Douglass Enterprises, Inc.

### **Daniel J. Henning**

President, A.C. Henning Enterprises, Inc.

### **Frederick E. Kutteroff**

President, Keystone Savings Bank (retired)

### **John S. Schoonover, Jr.**

Partner, Schoonover & Vanderhoof  
Architects, LLC

### **Robert C. Selig, Jr.**

President, Selig Construction Company

### **William A. Viechnicki, DDS**

Orthodontist

### **Todd R. Williams, Esq.**

General Counsel

## 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

### **Corporate Headquarters**

ESSA Bancorp, Inc.  
200 Palmer Street  
Stroudsburg, PA 18360

### **Mailing Address**

PO Box L  
Stroudsburg, PA 18360-0160

### **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

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

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

(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,				
	2010	2009	2008	2007	2006
<b>Selected Other Data:</b>					
Return on average assets .....	0.43%	0.64%	0.63%	(0.62)%	0.58%
Return on average equity .....	2.49%	3.42%	2.92%	(3.88)%	6.96%
Interest rate spread (2) .....	2.34%	2.40%	2.09%	2.18 %	2.46%
Net interest margin (3) .....	2.78%	2.93%	2.88%	2.78 %	2.70%
Non-performing assets as a percent of total assets .....	1.20%	0.74%	0.40%	0.06 %	0.07%
Non-performing loans as a percent of total loans .....	1.47%	0.70%	0.55%	0.09 %	0.08%
Allowance for loan losses as a percent of total loans .....	1.01%	0.79%	0.69%	0.67 %	0.69%
Total risk-based capital (to risk-weighted assets) .....	32.60%	31.00%	30.30%	32.84 %	15.77%
Average equity to average total assets .....	17.26%	18.59%	21.77%	15.98 %	8.36%

(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.

## Fellow Shareholders:

**The Right Way to Bank.** As I reflect upon the past year, I realize that this simple phrase describes what we do every day here at ESSA to create value for our shareholders, customers, employees and community. This has been an especially difficult year, as challenging economic conditions confronted most industries, companies and individuals. Despite these obstacles, we are fortunate to have an engaged staff and board whose tireless work has allowed ESSA to continue operating as a safe, sound and stable banking institution.

Banking is a business of managing risks. By prudently managing these risks we've provided our stakeholders with the value they expect. Two of the greatest risks we face are managing our capital and maintaining our strong credit quality. Our commitment to capital management strategies led to the completion of a second and the start of a third stock repurchase program in 2010. We have repurchased over four million shares of ESSA Bancorp, Inc. stock in the first two buy-back programs and authorization to purchase up to an additional 5 percent of outstanding shares was granted with the third stock repurchase program. Our capital remains significant – more than double the industry minimum requirement. ESSA's lending policies have provided us with a strong loan portfolio. Our non-performing assets remain below national and peer averages. As we continue to lend money and actively work with qualified borrowers, we will strive to maintain and enhance our credit quality.

The bank's growth continues on many fronts. Deposits increased over \$131.6 million and for the first time ESSA was ranked in the number one position for deposit market share in Monroe County. We closed \$126 million in loans this past year, and our commercial loan portfolio now stands at almost \$100 million. We added four new branches to our branch network: one traditional branch within our current market area of Monroe County and three supermarket branches inside Weis Markets in neighboring Lehigh Valley. This growth provides a foundation for future success by expanding our footprint into new markets.

ESSA continues to provide its customers with faster,

easier and more efficient ways to bank. Our new eDeposit product for businesses brings remote deposit capture to our customers, saving them time and money. Our extended branch network increases customer convenience and



provides access to a knowledgeable, friendly staff ready to assist with their financial needs. In our nine supermarket branches, this includes the availability of 7-day banking, extended hours and the added convenience of being able to bank where you shop!

For ESSA's most important asset – our employees – we've provided state of the art technology to improve efficiencies in time, quality of work and overall productivity. New phone and web conferencing make it possible to include all staff members in important meetings and training sessions. We've also updated our capability to provide employees with online training and educational opportunities.

The communities we serve benefit from our success through our continued charitable donations and employee volunteerism. We also give back through our community development program – implemented under the Community Reinvestment Act – which earned an "Outstanding" rating this past year for our efforts in meeting the credit needs of the community at large.

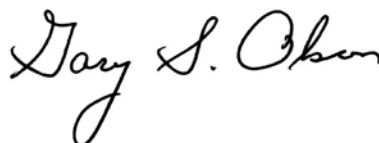
It is through these initiatives that shareholders maintain confidence that ESSA Bancorp, Inc. will remain a solid investment over time. Since converting to a public company in 2007, we have consistently outperformed the SNL Thrift Index and the Russell 2000 Index in terms of total return performance. ESSA's cumulative total return on its common stock between April 7, 2007 and September 30, 2010 was 104.14 percent as compared to 36.16 percent for SNL Thrift Index

and 87.60 percent for Russell 2000 over the same period. Additionally, our total return to investors in 2010 was 12.99 percent while industry average was only 4.5 percent. Currently, we are ranked 203 in market capitalization out of 1,250 publicly traded banks and thrifts and ended the year with a tangible common equity to total assets ratio of 15.1 percent. This ensures that we have the capital strength to withstand the tough economic climate. Our strong capital position has made it possible to continue to reward shareholders with a \$.05 per share quarterly dividend being paid in March, June, September and December.

At ESSA Bancorp, Inc., we strive to do the right thing for the communities we serve and for every customer, every employee and every shareholder every day. As the industry evolves it will no doubt provide us with more challenges. It will take each and every one of us, from the Board of Directors through management and

staff, making the right choices to accomplish ESSA's mission within the parameters of our guiding principles. The rewards will be many – the community will have a trusted partner dedicated to making lives better, our customers will have a stable bank from which to get needed products and services, our staff will continue to have rewarding employment and our shareholders will see their investments increase in value. We are well positioned to continue with the consistency required to achieve **"The Right Way to Bank."**

Sincerely,



Gary S. Olson  
President & CEO

### 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](http://www.essabank.com).

### 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.

## The right way to bank

**A**t ESSA Bank & Trust, “The right way to bank” is more than just a phrase used in advertising copy; it’s a part of everything we do. We believe that doing the right things, whether that be supporting local organizations in their efforts to make the community a better place to live or offering 7-day banking for added convenience, translates into being the right way to bank. Our Guiding Principles have consistently provided the foundation upon which we decide what’s right for us, our customers and the community.

In 2010, “doing the right thing” included continued expansion and growth, the addition of new products and services and ongoing community involvement. By concentrating on these efforts, our decisions have strengthened an already safe, sound and stable position, enhanced the bank’s value and improved the quality of life for those in the communities we serve.

**Market Expansion and Growth** • ESSA Bank & Trust continues to strengthen its position in the Monroe County market area. The bank is now ranked number one in market share as of June 30, 2010 with 23.53 percent of the deposits in Monroe County, an increase of 3.87 percent over last year. This was due in part to the opening of the bank’s fourteenth branch in Mountainhome last March. The new branch has already booked more than \$3 million in deposits and continues to grow.

In late spring of 2010, ESSA also expanded into the Lehigh Valley with three new branches inside Weis Markets in Allentown, Bethlehem and Schnecksville. Supermarket branches have been a successful strategy for the bank, providing customers with the convenience of banking where they shop and the extended banking hours in which to do it. Employees in these new branches have taken the initiative of putting themselves out in the store to meet and develop relationships with the supermarket customers. As a result, deposits stand at over \$1 million to date.

As part of ESSA’s long-term commitment to make the Lehigh Valley a permanent part of its geography, both a Commercial Loan Officer, Steven Levendusky, and a Trust Officer, William Evans, have been added to our staff and are dedicated to this specific market.

To assist customers with mortgage loans, a local loan originator has also been assigned. Combining a successful track record in supermarket banking, a full range of financial products and services, and knowledgeable, friendly employees who continue to exceed customers’ needs and expectations has established a solid foundation upon which to grow in the Lehigh Valley.

**Products and Services** • The continual improvement of products and services is an important part of ESSA’s commitment to customer satisfaction. In 2010, that commitment led to both the introduction of new products and services for business banking customers and the appointment of a Cash Management Officer, Roxanne Odierno, to help customers determine the best solution for their particular financial needs.

The diversity of products now available for business customers makes it easier to find the ideal fit for each situation.

- Checks can now be efficiently and easily deposited electronically at the customer’s convenience using eDeposit, ESSA’s remote deposit capture product.
- Automated Clearing House (ACH) Origination provides a gateway between ESSA customers and other financial institutions for processing electronic transactions.
- Electronic customer payments are handled accurately and securely with Merchant Payment Solutions.

Additionally, ESSA Bank & Trust rolled out its own branded Visa® credit cards in 2010. Available for both business and retail customers, over 750 new accounts have already been established.

**Community Involvement** • As a leading business member of the community, ESSA has long believed in giving back to improve the quality of life for residents. The ESSA Bank & Trust Foundation exists to fund the needs of 501(c)3 organizations and to ensure the continued support of non-profit work which enhances housing programs, parks and recreation, educational programs, community health and the arts. The private foundation has committed over \$5 million to local charitable organizations to date.

The bank also reaches out to the community through its Brown Bag Luncheon Seminars, which bring expert speakers and relevant topics to community members. Offered on a quarterly basis, the seminars have dealt with such topics as recognizing the signs and symptoms of stroke, restoring financial balance, hypertension in women and diagnosing Alzheimer's disease.

Community support from ESSA isn't limited to corporate donations and sponsorships. The bank's

employees play a large part in improving the communities in which they work and live through volunteer efforts. From senior management to entry level staff, ESSA employees dedicate their time and talent to local charities through board service, leadership roles, committee memberships, team participation and fund-raising efforts. It is through their dedicated service that ESSA employees demonstrate their value to the bank, its customers and the community at large.

## CORPORATE INFORMATION

**Stock Listing** ESSA Bancorp, Inc. common stock is listed on the NASDAQ Global Market<sup>SM</sup> 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](http://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](http://www.sec.gov) or through the ESSA website at [www.essabank.com](http://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](mailto: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](http://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 PO Box L, Stroudsburg, PA 18360-0160.

**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](mailto:amuto@essabank.com).

News media representatives and others seeking general information should contact Lynn Dailey, Director of Marketing Services, at (570) 422-0188 or via e-mail at [ldailey@essabank.com](mailto:ldailey@essabank.com).

**Annual Shareholders Meeting** All shareholders are invited to attend the ESSA Bancorp, Inc. annual meeting on Thursday, March 3, 2011 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

### Special Counsel

Luse Gorman Pomerenk & Schick, P.C.  
5335 Wisconsin Avenue, N.W., Suite 780  
Washington, DC 20015

## 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, 2010, 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](http://www.sec.gov) or through the Investor Relations link on our corporate website at [www.essabank.com](http://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.



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