

The Path to Performance

2018 Annual Report



ESSA Tower 6 branch and business center in downtown Allentown.
Photo courtesy of City Center Allentown.





Fellow Shareholders:

In recent years, ESSA Bancorp, Inc. has embarked on a course to transform itself from a thrift operating primarily in Monroe County into a diversified community bank with a commercial focus spanning a larger geography in Eastern Pennsylvania. This led us to acquiring three financial institutions in other markets over the past five years. This past year we used our strategic planning process to continue our development toward becoming a high-performing diversified community bank. The plan focused on regionalizing our banking teams, making operational enhancements to support productivity, analyzing facilities and business lines to maximize efficiency, and implementing new technologies to support decision-making. Ultimately, building shareholder value through improved earnings is our foremost goal.

In fiscal 2018, ESSA's financial results supported our belief that our strategy and actions have set us on a path to better performance. If we look at income before taxes, the Company had a much stronger year in fiscal 2018 compared to fiscal 2017. Income before income taxes increased 36.6% to \$12.2 million for the year ended September 30, 2018 compared to \$8.9 million for the year ended September 30, 2017.

Net income for the year ended September 30, 2018 was negatively impacted by a one-time charge to income tax expense of \$3.7 million recorded in the Company's first fiscal quarter. This was due to the reduction in the carrying value of the Company's deferred tax assets, which resulted from the reduction in the federal corporate income tax rate under the Tax Cuts and Jobs Act of 2017. Our net income decreased from \$7.3 million, or \$0.69 per diluted share for fiscal 2017 to \$6.5 million, or \$0.60 per diluted share for the year ended September 30, 2018.

Again, if we eliminate income taxes from the year-over-year comparison, growth and increased efficiencies were the primary drivers of the Company's success during fiscal 2018. Total loans originated during fiscal 2018 were \$433.6 million, a record year. Net loan growth of 5.5% was the primary reason our net interest income increased by \$2.7 million or 6.0% in fiscal 2018 compared to fiscal 2017. The Company's efficiency ratio improved to 71.11% for fiscal 2018 from 77.14% for fiscal 2017 or by 7.8%.

During the year ended September 30, 2018 the Company closed its remaining three supermarket branches, restructured several retail departments, sold two unused properties, and developed and implemented a cost accounting system with the goal of improving management's analytical capabilities. As a result, total noninterest expense declined by \$1.6 million or 3.8% for fiscal 2018 compared to fiscal 2017.

Accelerating Interest Income

Total interest income in fiscal 2018 rose to \$64.5 million from \$58.3 million a year earlier, which directly reflected our emphasis on loan growth as the primary driver of revenue growth. Net interest income in fiscal 2018 increased to \$48.2 million, up 6.0% from \$45.5 million in fiscal 2017. Net interest income after provision for loan losses was \$44.2 million in fiscal 2018 compared to \$42.2 million in fiscal 2017.

The net interest margin was 2.85% for the 12 months ended September 30, 2018 compared with 2.77% for the 12 months ended September 30, 2017. The net interest spread was 2.71% for the fiscal year ended September 30, 2018 compared to a net interest rate spread of 2.69% for the fiscal year ended September 20, 2017.



*Gary S. Olson,
President & CEO*

Asset Growth Led by Commercial Banking

While the Company demonstrated a year-over-year 5.5% growth in net loans, total commercial loans (commercial and industrial, commercial real estate, and government) grew by 28%. Commercial loans increased to \$539.4 million at September 30, 2018 compared to \$420.5 million a year earlier. The Company's loan portfolio composition reflected this growth, with all commercial loans comprising 41% of total loans in fiscal 2018, compared to 34% in fiscal 2017. Our progress toward moving the asset mix to a ratio of two-thirds commercial/one-third consumer is consistent with our goal of becoming a diversified community bank with a commercial focus.

The key to commercial lending growth was reorganizing our bankers by regions. The commercial banking team focused on quality loan production, acquiring new customers, and strong client retention. Commercial real estate (CRE) activity led the way, with \$416.6 million in loans at September 30, 2018, up 31% from \$318.3 million at September 30, 2017. Commercial and industrial loans (C&I) increased to \$49.5 million during the same period, up 12% from \$44.1 million a year earlier. In fiscal 2018, the Company produced \$433.6 million in total loans, which was a Company-record number, and closed a record 293 commercial loans totaling \$296 million.

As we added new lending relationships and focused on retaining clients through superior service, our team has sought out opportunities to expand relationships with commercial clients, providing deposit products, a wide array of treasury management services, employee benefits, and investment capabilities. Going forward, we expect new analytical tools will support the goal of expanding relationships with commercial lending clients.

**We used our
strategic planning
process to continue
our development
toward becoming a
high-performing
diversified
community bank.**

Asset Quality

Maintaining asset quality through disciplined loan underwriting and credit quality standards is of critical importance to ESSA. Safe, stable operation is one of the guiding principles of our mission statement. As we continue to grow, ensuring the profitability and quality of assets provides assurance that our growth and risk appetite is sustainable.

The performance of our loan portfolio in 2018 continued to reflect attention to quality, with nonperforming assets of \$11.7 million, or 0.64% of total assets at September 30, 2018, improving from \$15.7 million, or 0.88% of total assets at September 30, 2017. Net loan charge-offs were \$1.7 million in fiscal 2018, down from \$3.0 million in fiscal 2017. Based on continuing asset quality and prudent reserving, the allowance for loan losses to total loans at fiscal year-end 2018 increased to 0.89% from 0.75% at fiscal year-end 2017.

Growing Core Deposits to Fund Lending

An expanding base of core deposits (demand, savings and money market accounts) has been a critical component of our strategic plan, providing the most attractively priced source of funding for lending. These deposits comprised nearly 61% of total deposits at September 30, 2018, representing the Company's highest-ever level of core deposits.

Total deposits increased 5% in 2018 from a year earlier. Although deposit growth enabled us to reduce borrowings by \$13 million in 2018, loan growth still required borrowed funds, which have become costlier as short-term interest rates have risen. The most effective means for generating funds and maintaining sound margins on loans will be to keep growing the Company's core demand deposits—a high priority in the coming year.

We made further investments in human capital, creating a Retail Sales Manager position. This position will provide training and sales and service leadership. The primary focus will be to build core deposits, improve the customer experience, and drive more revenue through our 21-branch retail bank network.

Operational Efficiency, Accelerated Productivity

Our strategic plan targeted improved operational efficiency, focusing resources and expenditures on lines of business that provide the best opportunity to meet stringent goals for productivity and profitability. Early in fiscal 2018, we completed an organizational realignment that has proven its value in supporting efficient and productive operation, providing clear lines of reporting and more direct management of an expanded and geographically diverse banking team. We formalized our three operating regions: the Lehigh Valley region, Northern region (Poconos and Scranton/Wilkes-Barre), and Philadelphia region. Fiscal 2018 was the first full year of operation for this three-region structure organized under three new regional presidents.

Managing compensation and employee benefit costs and overall operating expenses, new and more productive regional offices, and savings related to closing the Company's remaining grocery store branch locations and winding down the indirect auto lending business all contributed to the reduction in total noninterest expense during fiscal 2018 compared to fiscal 2017. We anticipate further improvement with our continued focus on managing expenses.



The quality, skill, and dedication of employees is the most important driver of growth. Employee-related costs are, by far, the most significant part of the Company's expenses. Organizational adjustments, a new reporting structure that mirrors our business activities, clear standards for job expectations, and compensation linked to performance are giving our team members clear direction, supporting a productive and satisfying work experience.

Systems, Processes to Enhance Performance

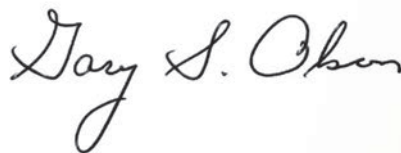
During the past year, the Company implemented several processes to enhance analysis and financial modeling that are improving our ability to analyze performance and maintain an optimal asset and liability mix. We continue to move ESSA's balance sheet to be more consistent with a high-performing financial institution. Our new cost accounting system allows us access to financial data that helps management initiate strategic plans and validate the results of these plans along with other ongoing operations.

We also implemented systems to utilize the extensive amounts of data we generate to better serve customers and identify product and service opportunities. Notable among our new capabilities is a sophisticated Marketing Customer Information File (MCIF) system that enables us to unlock the value of the vast amounts of data ESSA generates on a daily basis. As we access the capabilities of MCIF, we expect to gain a clearer understanding of customer activity, use of products and services, and opportunities to proactively offer specific financial solutions to commercial and retail customers. We have already seen positive results from initial implementation, and look forward to taking full advantage of these systems and processes in 2019 and beyond.

Path to Performance: 2019 Outlook

We are enthusiastic about the gains made throughout fiscal 2018. We believe the Company is well positioned to continue growing and improving in the coming year. We have set higher standards for financial performance in fiscal 2019. Our focus on commercial banking will continue, and while we plan to continue appropriate investment in people, technology, and facilities, we will not lose our focus on serving customers as efficiently as possible. We look forward to continuing our transformative path, delivering superior service and products to customers, serving the community, being a great place to work, and building the Company's long-term value for shareholders.

Sincerely,



Gary S. Olson, President & CEO

**As we
continue to grow,
ensuring the profitability
and quality of assets
provides assurance that our
growth and risk appetite
is sustainable.**

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.

Selected Balance Sheet Data (Years ended September 30; data in thousands)

	2018	2017	2016	2015	2014
Total assets	\$1,833,790	\$1,785,218	\$1,772,479	\$1,606,544	\$1,574,815
Investment securities: Available for sale	371,438	390,452	390,410	379,407	383,078
Loans, net	1,305,071	1,236,681	1,219,213	1,102,118	1,058,267
Deposits	1,336,855	1,274,861	1,214,820	1,096,754	1,133,889
Borrowed funds	298,496	311,614	360,061	320,440	259,320
Equity	179,186	182,727	176,344	171,280	167,309

Selected Operations Data (Years ended September 30; data in thousands)

	2018	2017	2016	2015	2014
Net interest income	\$48,235	\$45,519	\$46,935	\$43,789	\$40,149
Provisions for loan losses	4,000	3,350	2,550	2,075	2,350
Net interest income after provisions for loan losses	44,235	42,169	44,385	41,714	37,799
Noninterest income	7,813	8,199	8,783	7,896	7,407
Noninterest expense	39,853	41,438	42,858	36,865	33,811
Income before income tax expense	12,195	8,930	10,310	12,745	11,395
Income tax expense	5,664	1,591	2,583	2,954	2,891
Net income	\$6,531	\$7,339	\$7,727	\$9,791	\$8,504
Earnings per share: Basic	\$0.60	\$0.69	\$0.74	\$0.94	\$0.79
Diluted	\$0.60	\$0.69	\$0.73	\$0.93	\$0.79

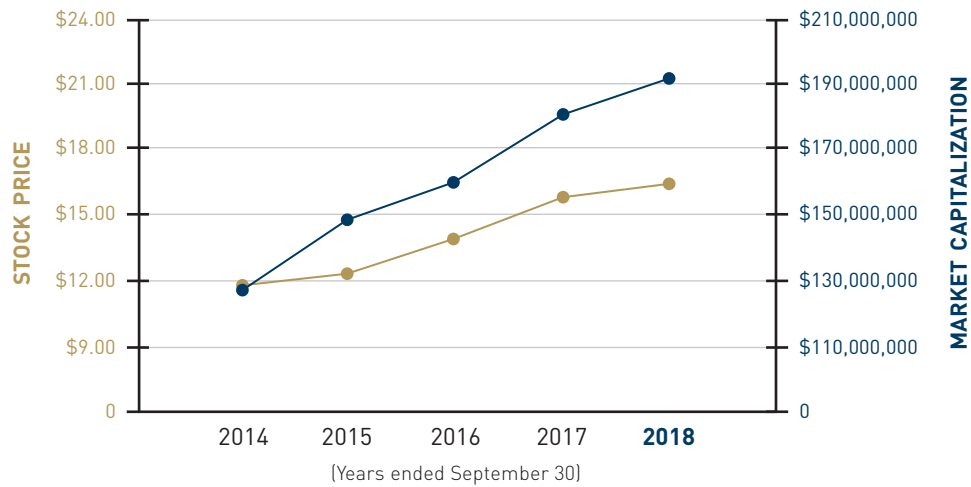
Selected Other Data (Years ended September 30)

	2018	2017	2016	2015	2014
Return on average assets	0.36%	0.42%	0.45%	0.62%	0.59%
Return on average equity	3.61%	4.11%	4.40%	5.68%	5.01%
Interest rate spread ⁽¹⁾	2.71%	2.69%	2.81%	2.89%	2.89%
Net interest margin ⁽²⁾	2.85%	2.77%	2.89%	2.96%	2.97%
Non-performing assets as a percentage of total assets	0.64%	0.88%	1.24%	1.41%	1.58%
Tier 1 core capital (to adjusted tangible assets)	9.28%	9.19%	8.76%	10.03%	10.04%

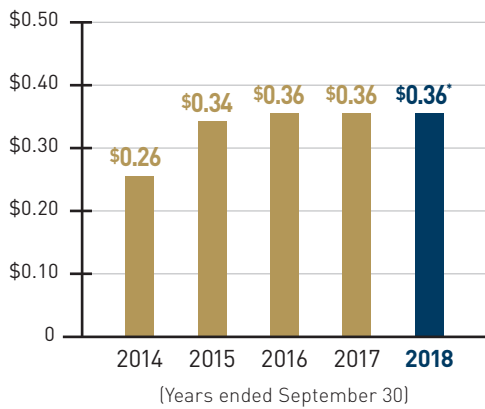
(1) The interest rate spread represents the difference between the weighted-average yield on a fully tax-equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(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.

Stock Price & Market Capitalization

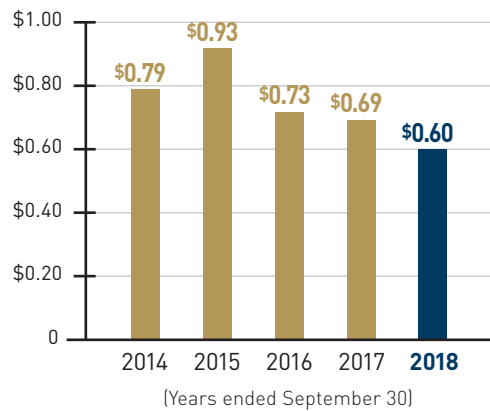


Dividends per Share

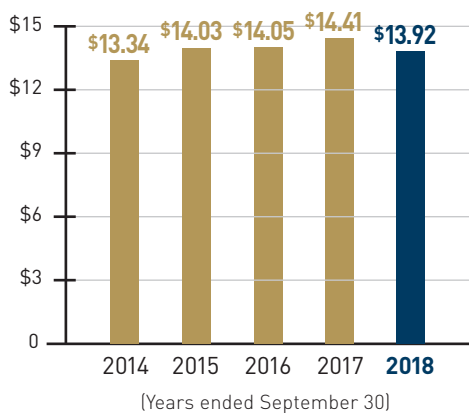


*Increased to \$0.40 1st Quarter 2019.

Earnings per Share (Diluted)

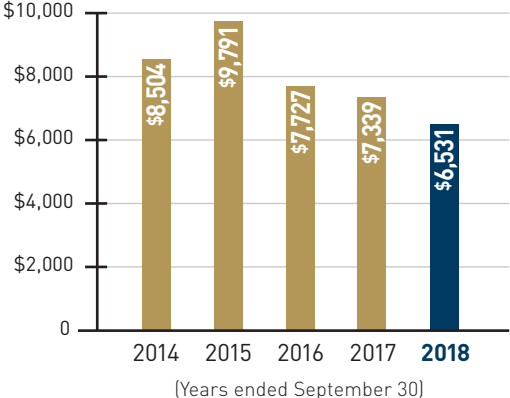


Tangible Book Value (Per Share)

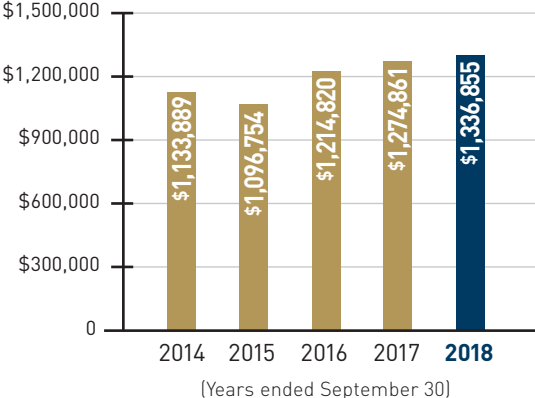


Consolidated Financial Highlights (cont'd)

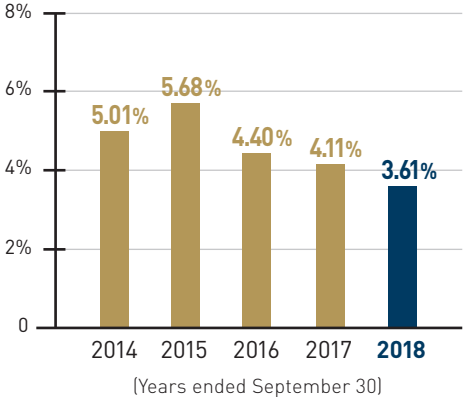
Net Income (in Thousands)



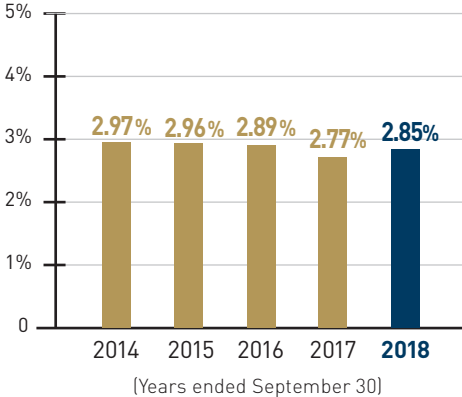
Deposits (in Thousands)



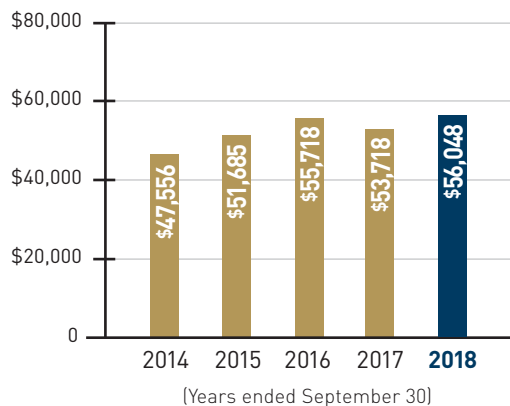
Return on Average Equity



Net Interest Margin

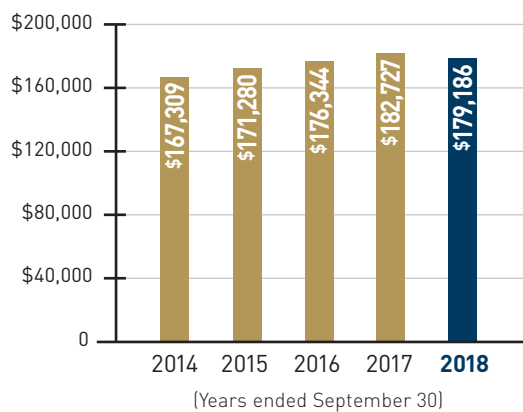


Revenue* (in Thousands)



*Net interest income plus noninterest income.

Stockholders' Equity (in Thousands)



Executive Personnel

BOARD OF DIRECTORS & GENERAL COUNSEL

William A. Viechnicki, D.D.S.

*Chairman of the Board
Orthodontist*

Robert C. Selig, Jr.

*Vice Chairman of the Board
President – Selig Construction Company*

Joseph S. Durkin

Executive Vice President – Reilly Associates

Philip H. Hosbach IV

*Vice President, Global Public Affairs for Vaccines
– Sanofi Pasteur (retired)*

Elizabeth Bensinger Weekes, Esq.

Partner – Bensinger & Weekes, PA

Timothy S. Fallon

CEO – PBS 39

Frederick E. Kutteroff

President – Keystone Savings Bank (retired)

John E. Burrus

Director Emeritus

Christine D. Gordon, Esq.

*Deputy Chief Compliance Officer –
Olympus Corporation of the Americas*

Gary S. Olson

President & CEO – ESSA Bank & Trust

William P. Douglass

Director Emeritus

Daniel J. Henning

President – A.C. Henning Enterprises, Inc.

Brian T. Regan, CPA

*Shareholder – Regan, Levin, Bloss,
Brown & Savchak, P.C.*

John S. Schoonover, Jr.

Director Emeritus

James V. Fareri, Esq.

General Counsel

OFFICERS

Gary S. Olson

President & CEO

Allan A. Muto

Executive Vice President & CFO

Robert L. Selitto

Vice President & Controller

Charles D. Hangen

Executive Vice President & COO

Diane K. Reimer

*Senior Vice President,
Administrative/Operations Division*

Stephanie Lefferson

*Corporate Secretary,
Investor & Community Relations*

Peter A. Gray

Executive Vice President & CBO

Thomas J. Grayuski

*Senior Vice President,
Human Resources Division*

CORPORATE HEADQUARTERS

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

Mailing Address

P.O. Box L
Stroudsburg, PA 18360

Auditors

S.R. Snodgrass, P.C.
2009 Mackenzie Way, Suite 340
Cranberry Township, PA 16066

General Counsel

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

The Path to Performance

2017

OCT

- Implemented new cost accounting and profitability system
- Implemented MCIF system to better understand customer data

DEC

- Rationalized our retail network and closed remaining supermarket branches
- Consolidated from four to three regions
- Reorganized leadership team and lines of business to better serve customers

2018

JUL

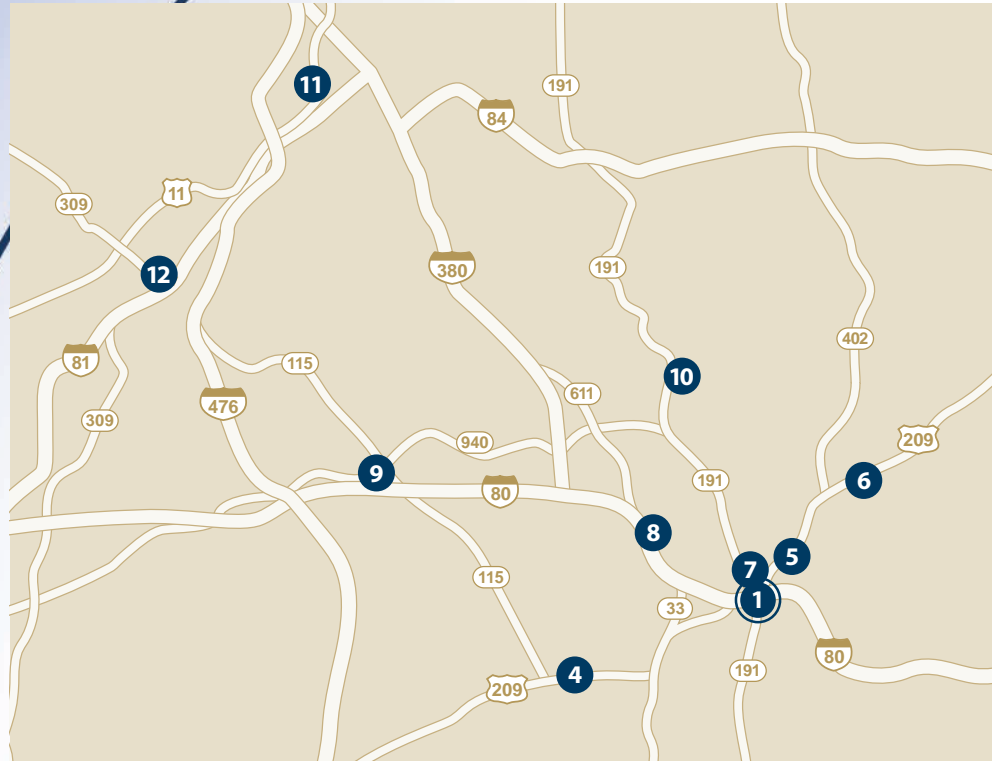
- Discontinued indirect auto lending and have exited that line of business
- Authorized share repurchase program

AUG

- Relocated Allentown branch and office to Tower 6 in the Neighborhood Improvement Zone in downtown Allentown
- Reduced our overall corporate real estate to improve efficiency

ESSA Locations by Region

1. Corporate Center
200 Palmer Street
P.O. Box L
Stroudsburg, PA 18360



NORTHERN REGION

4. Brodheadsville

1881 Route 209
Brodheadsville, PA 18322

5. East Stroudsburg

75 Washington Street
East Stroudsburg, PA 18301

6. Marshalls Creek

5120 Milford Road
East Stroudsburg, PA 18302

7. Stroudsburg

744 Main Street
Stroudsburg, PA 18360

8. Tannersville

2826 Route 611
Tannersville, PA 18372

9. Blakeslee

249 Route 940
Blakeslee, PA 18610

10. Mountainhome

975 Route 390
Cresco, PA 18326

11. Scranton

300 Mulberry Street
Scranton, PA 18503

12. Wilkes-Barre

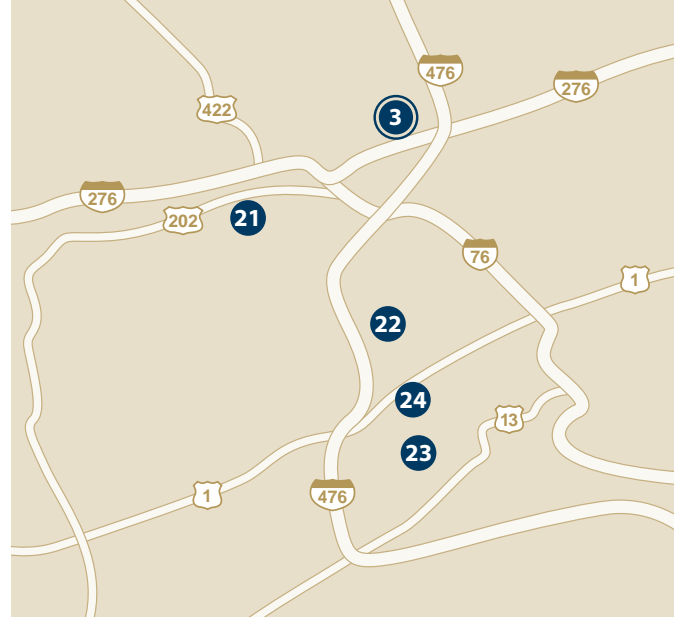
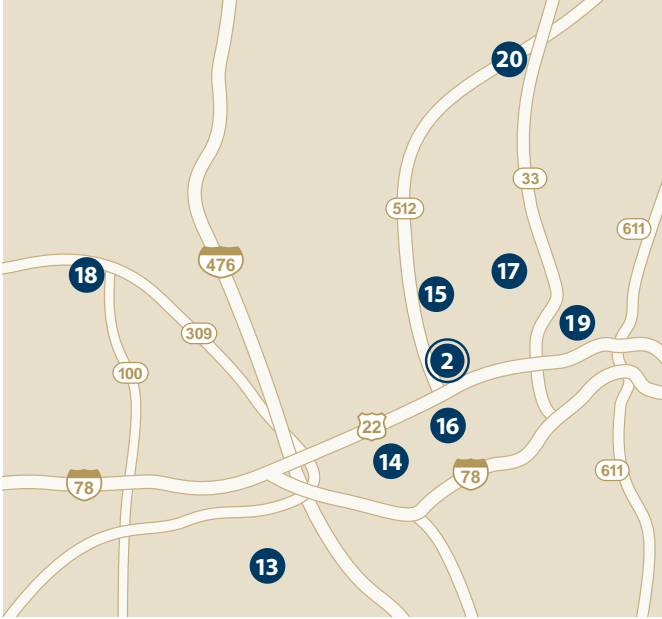
1065 Highway 315
Wilkes-Barre, PA 18702

2. Lehigh Valley Regional Office

190 Brodhead Road
Suite 200
Bethlehem, PA 18017

3. Philadelphia Regional Office

450 Plymouth Road
Suite 101
Plymouth Meeting, PA 19462



LEHIGH VALLEY REGION

13. Alburtis

11 North Main Street
Alburtis, PA 18011

14. Allentown

600 Hamilton Street, Suite 100
Allentown, PA 18101

15. Bath

358 South Walnut Street
Bath, PA 18014

16. Bethlehem

418 West Broad Street
Bethlehem, PA 18018

17. Nazareth

14 South Main Street
Nazareth, PA 18064

18. New Tripoli

6302 Route 309
New Tripoli, PA 18066

19. Palmer

2415 Park Avenue
Easton, PA 18045

20. Wind Gap

1430 Jacobsburg Road
Wind Gap, PA 18091

PHILADELPHIA REGION

21. Devon

227 West Lancaster Avenue
Devon, PA 19333

22. Haverford

354 West Lancaster Avenue
Haverford, PA 19041

23. Lansdowne

48 West Marshall Road
Lansdowne, PA 19050

24. Upper Darby

8045 West Chester Pike
Upper Darby, PA 19082

ADDITIONAL SERVICES

Asset Management & Trust Services

744 Main Street, Suite 3A
Stroudsburg, PA 18360

ESSA Advisory Services

190 Brodhead Road, Suite 200
Bethlehem, PA 18017

ESSA Investment Services*

746 Main Street
Stroudsburg, PA 18360

*A Cetera Investment Services, LLC Program

Mission Statement

ESSA Bank & Trust will be the leading service-oriented community financial institution offering a full range of financial products to greater Eastern Pennsylvania customers. We will ensure our long-term prosperity by providing products and service 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.

OUR GUIDING PRINCIPLES

There are five Guiding Principles on which our Mission Statement is based:

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 asset. 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 supporting our community through employee volunteering and charitable giving to improve the quality of life. The ESSA Bank & Trust Foundation has been established to support this principle.

ESSA CODE OF ETHICS & CONFLICT OF INTEREST POLICY

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 essabank.com.



Corporate Information

STOCK LISTING

ESSA Bancorp, Inc. common stock is listed on the NASDAQ Global MarketSM 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 at 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 sec.gov or through the ESSA website at essabank.com by clicking on the Investor Relations link. Copies of our Annual Report and Form 10-K may also be obtained by contacting Investor Relations at **570-422-0182** or via email at slefferson@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 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 Stephanie Lefferson, Corporate Secretary, Investor and Community Relations, at corporate headquarters at P.O. Box L, Stroudsburg, PA 18360.

INQUIRIES

Individual investors should contact Stephanie Lefferson, Corporate Secretary, Investor and Community Relations, at **570-422-0182** or via email at slefferson@essabank.com.

Analysts and institutional investors should contact Allan Muto, Executive Vice President and CFO, at **570-422-0181** or via email at amuto@essabank.com.

News media representatives and others seeking general information should contact Peter A. Gray, Executive Vice President, CBO, at **570-422-0198** or via email at pgray@essabank.com.

ANNUAL SHAREHOLDERS' MEETING

All eligible shareholders are invited to attend the ESSA Bancorp, Inc. annual meeting on Thursday, February 28, 2019, at 10 a.m. The meeting will be held at:
Northampton Community College,
Monroe Campus
2411 Route 715
Tannersville, PA 18372

REGISTRAR & TRANSFER AGENT

Computershare, Inc.
P.O. Box 505000
Louisville, KY 40233-5000
800-368-5948
computershare.com/investor

SPECIAL COUNSEL

Luse Gorman, PC
5335 Wisconsin Avenue, N.W., Suite 780
Washington, DC 20015

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may be identified by reference to a future period or periods, or by use of forward-looking terminology, such as "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project," and other similar words and expressions. Our forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, legal developments, technological advances, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets, and the availability of and costs associated with sources of liquidity.

Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. We provide greater detail regarding these factors in our Form 10-K for the year ended September 30, 2018, including the Risk Factors section. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Annual Report or in our filings with the SEC, accessible on the SEC's website at sec.gov or through the Investor Relations link on our corporate website at essabank.com.



Equal Opportunity Lender • Member FDIC

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