

VALUE PEOPLE

Building Value.
Empowering People.



ANNUAL REPORT 2019



*Delaware Water Gap,
Pocono Mountains*

Fellow Shareholders:

ESSA Bancorp, Inc.'s fiscal 2019 was an exciting one for the Company, in which we delivered significantly improved year-over-year performance. This reflects our continued commitment to becoming a commercially focused financial institution, delivering sustainable earnings growth, and building long-term shareholder value. We executed on a strategic plan that focuses on four tenets: operating in three distinct markets, fostering speed of innovation, creating customer value, and delivering long-term shareholder value.

During 2019 we delivered profitable growth through an integrated regional structure, gained operational efficiencies generated by enhanced customer information and technology, maintained strong risk management practices, and empowered employees to deliver exceptional service and promote expanded customer relationships.

Our focus on organic growth, changing the balance sheet mix, and expanding banking relationships with customers was particularly evident in commercial lending, which increased 13% year-over-year and reached record levels. The number of loan originations in fiscal 2019 was the second-highest in the Company's history (following a record year for originations in 2018). For the first time in the Company's history, commercial loan balances exceeded residential mortgage balances. Our ability to execute on our strategic plan resulted in solid earnings growth and enhanced shareholder value. This was reflected in an 11% dividend increase in 2019 and subsequent 10% increase in the first quarter of 2020.

Net income for the year ended September 30, 2019 rose 23.5% to \$12.6 million or \$1.18 per diluted share, compared with adjusted net income of \$10.2 million or \$0.94 per diluted share in fiscal 2018, which adds back a one-time \$3.7 million charge to income tax expense due to the Tax Cuts and Jobs Act of 2017.

Balance Sheet Mix & Growth

Total loans receivable, net of allowance for loan losses, increased slightly to \$1.33 billion at September 30, 2019, up from \$1.31 billion in 2018. The modest growth was the result of the continued run-off of the indirect auto loan portfolio, which declined by \$64.1 million over the past twelve months, and our decision to manage the residential loan portfolio near its current level.

In fiscal 2019, the Company closed \$172 million in commercial loans. As noted earlier, for the first time in our Company's history, commercial loans comprised a greater percentage of total loans than residential mortgage loans. This was an exciting milestone, reflecting good progress toward becoming a commercially focused financial institution. The strongest growth came out of our Lehigh Valley and Philadelphia regions, markets where we've placed emphasis on growing our commercial banking business and hiring new bankers.

Progress toward shifting the asset mix continues and remains consistent with our stated objectives and strategic plan. Increased commercial banking across many sectors, complementing longstanding activity in residential and consumer lending, has created a more balanced, diversified loan portfolio. Commercial real estate (CRE) loans rose to \$480.6 million at September 30, 2019 from \$416.6 million a year earlier and comprised 36% of ESSA's loan portfolio. The growth of CRE lending is evident when compared to fiscal 2017, when CRE loans were \$318.3 million and comprised 26% of our loan portfolio.

We continue to invest in new team members, hiring commercial banking professionals, portfolio managers, cash management personnel, and mortgage professionals in our Lehigh Valley and Philadelphia regions. The commercial banking team focused on a mix of small business, commercial, and commercial real estate loan production, acquiring new customers and retaining existing customers with improved customer service.



City Hall/Downtown District,
Scranton



Gary S. Olson,
President & CEO

Expanding our base of core deposits (checking accounts, savings accounts, and money market accounts) is a critical part of our strategic plan, providing the most cost-effective source to fund loan growth. To that end, we hired new branch managers and made investments in other retail banking personnel. Core deposits comprised 67% of total deposits at September 30, 2019, up from 61% of total deposits at year-end 2018. Noninterest-bearing demand accounts, which primarily reflect increased commercial banking relationships, grew 11% in 2019. Deposit growth contributed to a reduction in wholesale borrowings of \$50.2 million in 2019.

We continue to evaluate and rationalize our retail branch delivery model. In 2019, we repositioned the Nazareth branch to a larger facility and saw positive results from our previous repositioning of the Allentown branch, with deposits increasing almost 100%. Other core deposit initiatives in 2019 included launching an online account opening service, a new index money market account, and improved user experience and functionality of mobile banking applications.

Growing Revenue, Operating Efficiently

We continued our progress toward shifting balance sheet assets toward our goal of two-thirds commercial loans and one-third residential mortgage and consumer loans. Loan originations and our asset composition were the primary drivers of revenue growth. Total interest income in fiscal 2019 increased 5% from fiscal 2018 to \$67.8 million, which was the highest in the Company's history. Our net interest margin was negatively impacted by increased interest expense, a result of deposit growth and average short-term interest rates being 34% higher in fiscal 2019 versus 2018. This was offset by a lower loan loss provision, which was \$1.9 million lower in 2019 versus 2018. The Company's interest rate spread, reflecting the difference between average yields of interest-earning assets and interest-bearing liabilities, was 2.50% in 2019

During 2019, we invested in products, technology, and people in order to improve our financial performance and further our strategic objectives.



Allentown Skyline,
Lehigh Valley

compared with 2.71% in 2018, and the net interest margin was 2.73% in 2019 compared with 2.85% in 2018. The industry continues to be challenged by the flattening of the yield curve.

We had greater contributions from our noninterest income lines of business, growing asset management and trust revenue by 14% and increasing net profit contributions from our employee benefits brokerage subsidiary. In the fourth quarter of 2019 we made the decision to change broker dealers and announced a partnership with Ameriprise Financial Services that we believe will benefit our investment services customers.

Noninterest expense declined 4.5% in fiscal 2019 from the previous year, reflecting actions that included further leveraging our cost accounting system, more productive locations in Allentown and Nazareth, and ongoing benefits from rationalizing facilities in past years. Our strategic plan has targeted improved operational efficiency, reflected in the bank's efficiency ratio, which improved to 68.4% in 2019 from 71.1% in 2018 and 77.1% in 2017. Some of the initiatives instituted in fiscal 2019 that will continue in fiscal 2020 include implementing teller capture in our retail network, a new vendor management system, and continued efficiencies gained from exiting indirect auto lending. Technology continues to be critical in controlling expenses and providing a superior customer experience. All of our noninterest expense categories other than compensation and employee benefits, and data processing declined in fiscal 2019 compared with the previous year.

Focus on Asset Quality

Maintaining strong asset quality through disciplined underwriting and a balanced credit culture is a critical component of our plan. Based on the rapid growth in commercial lending, we expanded our credit administration and support teams by adding commercial portfolio managers and centralizing our commercial construction

process. Nonperforming assets were \$10.3 million or 0.57% of total assets at September 30, 2019, compared with \$11.7 million or 0.64% of total assets at September 30, 2018.

Reflective of our decision to exit indirect auto lending and our disciplined underwriting standards, total loan charge-offs declined from \$2.5 million in fiscal 2018 to \$1.9 million in fiscal 2019, and most of the total charge-offs were related to the discontinued auto lending business. By the end of fiscal 2019, we had sharply reduced the amount of foreclosed real estate owned compared to fiscal 2018.

Based on continuing asset quality and prudent reserving, the allowance for loan losses to total loans at fiscal year-end 2019 increased to 0.94% from 0.89% at fiscal year-end 2018. Finally, we've managed concentrations in each of our asset categories. We continue our commitment to a clean, high-quality balance sheet.

Enterprise Risk Management

As part of our strategic planning process we began an enterprise-wide risk management program to better assess, manage, and align all of the Company's risk with our strategic plan. During the fourth quarter of 2019 we adopted a risk appetite statement that was approved by our Board of Directors. We expect that this approach to enterprise risk management will enhance strategic decision-making and the overall performance of the Company.

Customer Service, Product Diversity

The quality, skill, and dedication of our employees are the most important drivers in achieving our objectives. During 2019 we embarked on a renewed and more focused customer service culture. We took steps to engage and empower employees to deliver better service to our customers, including an employee survey that focused on providing an environment that fosters the highest level of customer service.



*Ben Franklin Parkway,
Philadelphia*

As we expanded our banking teams, we placed greater emphasis on hiring the right employees and providing more training. Reporting structures are more defined and in line with our business objectives. Our regional delivery model implemented in 2018 continues to put decision-makers closer to the customer. We will continue to establish and refine key performance indicators to enhance both internal and external customer service.

2020 initiatives include new contactless debit cards; ESSA's Bank at Work, a personal banking solution for employees of our commercial clients that has financial education as its leading feature; evolving our digital strategy; and continued leveraging of our technology and systems.

We have set higher standards for financial performance in fiscal 2020. We remain focused on transitioning the balance sheet, specifically the loan and deposit mix, to reflect

Our strategic plan is designed to build long-term value through our commitment to growth, asset quality, productivity, technology, and the empowerment of our employees and customers.

During 2019, we invested in products, technology, and people in order to improve our financial performance and further our strategic objectives. Some of our product initiatives include online account opening for easier access for our consumer customers, new money market and savings accounts, providing interest rate hedging for our commercial loan customers, and as previously mentioned establishing a new broker-dealer relationship for our investment services customers.

Delivering Performance & Shareholder Value: 2020 Outlook

Finally, our strategic plan is designed to build long-term shareholder value through our commitment to generating sustainable growth, maintaining strong asset quality, enhancing productivity, leveraging technology, and empowering our employees and customers.

increasing focus on commercial banking; evolving our digital strategy and delivery channels for customers; growing revenue from noninterest income; and enhancing the productivity of our banking teams. We look forward to delivering performance in the coming year for customers, communities, employees, and our shareholders.

Sincerely,

Gary S. Olson, President & CEO

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)

	2019	2018	2017	2016	2015
Total assets	\$1,799,427	\$1,833,790	\$1,785,218	\$1,772,479	\$1,606,544
Investment securities: Available for sale	313,393	371,438	390,452	390,410	379,407
Loans, net	1,328,653	1,305,071	1,236,681	1,219,213	1,102,118
Deposits	1,342,830	1,336,855	1,274,861	1,214,820	1,096,754
Borrowed funds	248,282	298,496	311,614	360,061	320,440
Equity	189,508	179,186	182,727	176,344	171,280

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

	2019	2018	2017	2016	2015
Net interest income	\$47,010	\$48,235	\$45,519	\$46,935	\$43,789
Provisions for loan losses	2,076	4,000	3,350	2,550	2,075
Net interest income after provisions for loan losses	44,934	44,235	42,169	44,385	41,714
Noninterest income	8,157	7,813	8,199	8,783	7,896
Noninterest expense	38,053	39,853	41,438	42,858	36,865
Income before income tax expense	15,038	12,195	8,930	10,310	12,745
Income tax expense	2,415	5,664	1,591	2,583	2,954
Net income	\$12,623	\$6,531	\$7,339	\$7,727	\$9,791
Earnings per share: Basic	\$1.18	\$0.60	\$0.69	\$0.74	\$0.94
Diluted	\$1.18	\$0.60	\$0.69	\$0.73	\$0.93

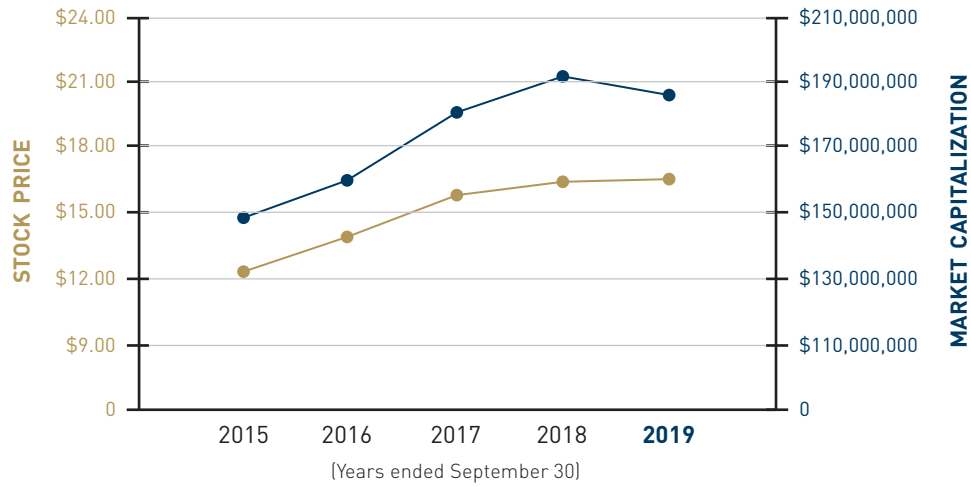
Selected Other Data (Years ended September 30)

	2019	2018	2017	2016	2015
Return on average assets	0.69%	0.36%	0.42%	0.45%	0.62%
Return on average equity	6.80%	3.61%	4.11%	4.40%	5.68%
Interest rate spread ⁽¹⁾	2.50%	2.71%	2.69%	2.81%	2.89%
Net interest margin ⁽²⁾	2.73%	2.85%	2.77%	2.89%	2.96%
Non-performing assets as a percentage of total assets	0.57%	0.64%	0.88%	1.24%	1.41%
Tier 1 core capital (to adjusted tangible assets)	9.67%	9.28%	9.19%	8.76%	10.03%

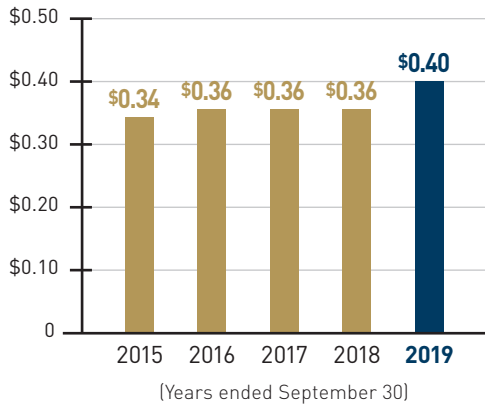
(1) The interest rate spread represents the difference between the weighted-average yield on a fully tax-equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(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.

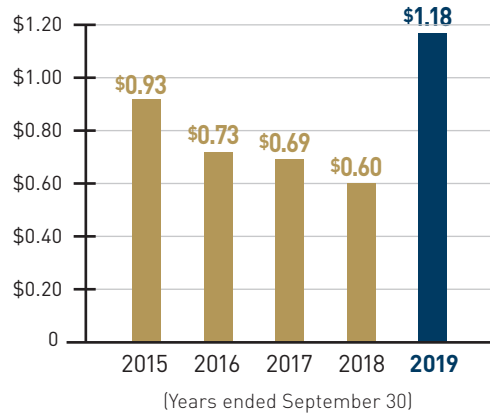
Stock Price & Market Capitalization



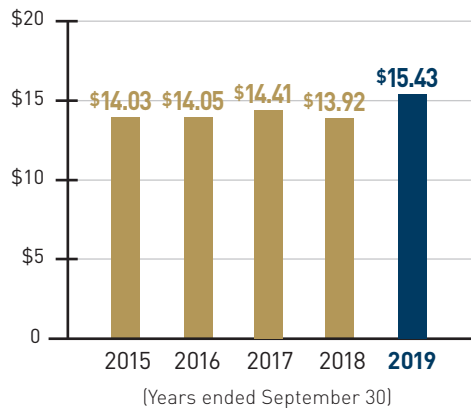
Dividends per Share



Earnings per Share (Diluted)

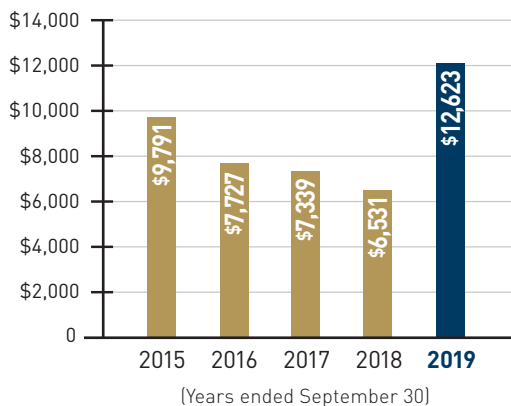


Tangible Book Value (Per Share)

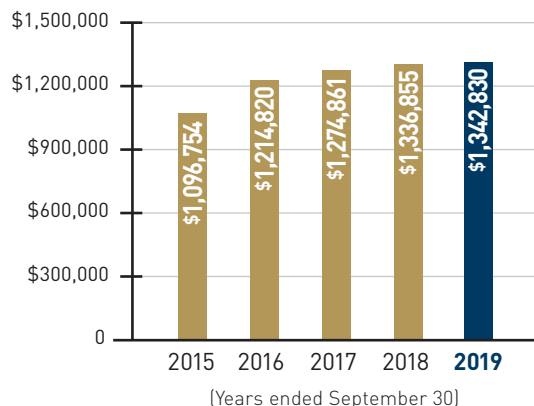


Consolidated Financial Highlights (cont'd)

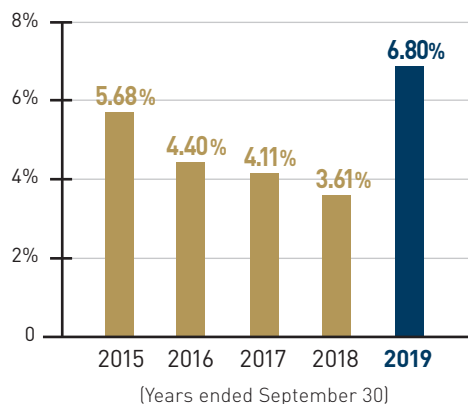
Net Income (in Thousands)



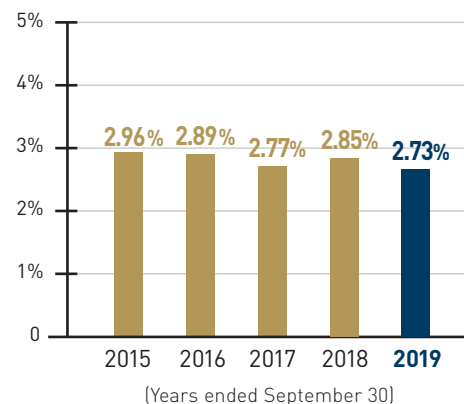
Deposits (in Thousands)



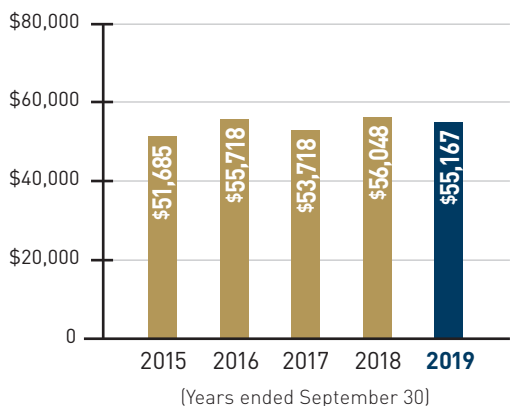
Return on Average Equity



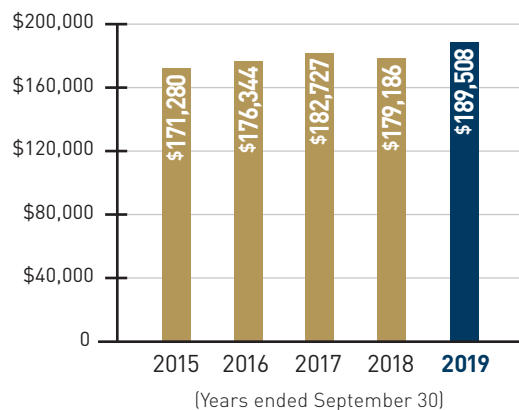
Net Interest Margin



Revenue* (in Thousands)



Stockholders' Equity (in Thousands)



*Net interest income plus noninterest income.

Executive Personnel

BOARD OF DIRECTORS & GENERAL COUNSEL

Robert C. Selig, Jr.

*Chairman of the Board
President – Selig Construction Company*

Joseph S. Durkin

Executive Vice President – Reilly Associates

Christine D. Gordon, Esq.

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

Daniel J. Henning

President – A.C. Henning Enterprises, Inc.

Philip H. Hosbach IV

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

Frederick E. Kutteroff

President – Keystone Savings Bank (retired)

Gary S. Olson

President & CEO – ESSA Bank & Trust

Brian T. Regan, CPA

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

Elizabeth Bensinger Weekes, Esq.

Partner – Bensinger & Weekes, PA

John E. Burrus

Director Emeritus

William P. Douglass

Director Emeritus

John S. Schoonover, Jr.

Director Emeritus

William A. Viechnicki, D.D.S.

Director Emeritus

James V. Fareri, Esq.

General Counsel

OFFICERS

Gary S. Olson

President & CEO

Charles D. Hangen

Executive Vice President & COO

Peter A. Gray

Executive Vice President & CBO

Allan A. Muto

Executive Vice President & CFO

Diane K. Reimer

*Senior Vice President,
Administrative/Operations Division*

Thomas J. Grayuski

*Senior Vice President,
Human Resources Division*

Robert L. Selitto

Senior Vice President & Controller

Stephanie Lefferson

*Corporate Secretary,
Investor & Community Relations*

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

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 27, 2020, 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, 2019, 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.

Focusing on Three Distinct Market Regions

NORTHERN REGION

- 1 Scranton
- 2 Wilkes-Barre
- 3 Mountainhome
- 4 Blakeslee
- 5 Tannersville
- 6 Stroudsburg
- 7 East Stroudsburg
- 8 Marshalls Creek
- 9 Brodheadsville

LEHIGH VALLEY REGION

- 10 Wind Gap
- 11 New Tripoli
- 12 Bath
- 13 Nazareth
- 14 Palmer
- 15 Alburtis
- 16 Allentown
- 17 Bethlehem

PHILADELPHIA REGION

- 18 Devon
- 19 Haverford
- 20 Upper Darby
- 21 Lansdowne

- A Corporate Center
- B Lehigh Valley Regional Office
- C Philadelphia Regional Office

ADDITIONAL SERVICES

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

*Investments are not federally insured, have no financial institution guarantee, and may lose value. Ameriprise Financial is not affiliated with the financial institution where investment services are offered. Investment advisory products and services are made available through Ameriprise Financial Services, Inc., a registered investment adviser. Securities and insurance products offered through Ameriprise Financial Services, Inc., member FINRA and SIPC.

