ESSA Bancorp, Inc.
Form 10-Q
February 11, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended December 31, 2012

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)

N/A

(Former name or former address, if changed since last report)

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 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES x NO ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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 definition of large accelerated filer and accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

As of February 5, 2013 there were 13,084,108 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

ESSA Bancorp, Inc.

FORM 10-Q

Table of Contents

		Page
	Part I. Financial Information	
Item 1.	Financial Statements (unaudited)	1
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
	Part II. Other Information	
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	33
Item 6.	Exhibits	34
Signature Page		35

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2012	September 30, 2012
	(dollars in thousands)	
Cash and due from banks	$ 12,443	$ 11,034
Interest-bearing deposits with other institutions	7,474	4,516
Total cash and cash equivalents	19,917	15,550
Certificates of deposit	1,766	1,266
Investment securities available for sale, at fair value	331,525	329,585
Loans receivable, held for sale	2,096	346
Loans receivable (net of allowance for loan losses of $7,555 and $7,302)	940,275	950,009
Regulatory stock, at cost	19,054	21,914
Premises and equipment, net	16,100	16,170
Bank-owned life insurance	28,075	27,848
Foreclosed real estate	2,503	2,998
Intangible assets, net	3,207	3,457
Goodwill	8,541	8,541
Deferred income taxes	11,359	11,336
Other assets	21,224	29,766
TOTAL ASSETS	$ 1,405,642	$ 1,418,786
LIABILITIES		
Deposits	$ 967,892	$ 995,634
Short-term borrowings	84,500	43,281
Other borrowings	159,460	191,460
Advances by borrowers for taxes and insurance	6,943	3,432
Other liabilities	9,500	9,568
TOTAL LIABILITIES	1,228,295	1,243,375
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized, none issued)		
Common stock ($.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 13,191,008 and 13,229,908 outstanding at December 31, 2012 and September 30, 2012)	181	181
Additional paid in capital	181,748	181,220
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(10,872)	(10,985)
Retained earnings	67,455	65,181
Treasury stock, at cost; 4,942,087 and 4,903,187 shares outstanding at December 31, 2012 and September 30, 2012, respectively	(62,353)	(61,944)
Accumulated other comprehensive income	1,188	1,758

TOTAL STOCKHOLDERS EQUITY	177,347	175,411
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,405,642	$ 1,418,786

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended December 31, 2012	2011
	(dollars in thousands, except per share data)	
INTEREST INCOME		
Loans receivable, including fees	$ 12,237	$ 9,341
Investment securities:		
Taxable	1,630	1,638
Exempt from federal income tax	54	48
Other investment income	29	2
Total interest income	13,950	11,029
INTEREST EXPENSE		
Deposits	1,971	1,911
Short-term borrowings	36	5
Other borrowings	1,224	2,405
Total interest expense	3,231	4,321
NET INTEREST INCOME	10,719	6,708
Provision for loan losses	1,000	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,719	6,208
NONINTEREST INCOME		
Service fees on deposit accounts	807	727
Services charges and fees on loans	229	184
Trust and investment fees	215	215
Gain on sale of investments, net	30	
Gain on sale of loans, net	334	
Earnings on Bank-owned life insurance	226	198
Insurance commissions	175	191
Other	10	9
Total noninterest income	2,026	1,524
NONINTEREST EXPENSE		
Compensation and employee benefits	4,556	3,936
Occupancy and equipment	949	756
Professional fees	312	490
Data processing	663	482
Advertising	110	86

Federal Deposit Insurance Corporation FDIC premiums		185		162
Loss (Gain) on foreclosed real estate		(226)		67
Amortization of intangible assets		250		81
Other		706		602
Total noninterest expense		7,505		6,662
Income before income taxes		4,240		1,070
Income taxes		1,361		184
NET INCOME	$	2,879	$	886
Earnings per share				
Basic	$	0.24	$	0.08
Diluted	$	0.24	$	0.08
Dividends per share	$	0.05	$	0.05

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended December 31,	
	2012	**2011**
Net income	$ 2,879	$ 886
Other comprehensive loss:		
Investment securities available for sale:		
Unrealized holding loss	(932)	(1,871)
Tax effect	318	636
Reclassification of gains recognized in net income	(30)	
Tax effect	10	
Net of tax amount	(634)	(1,235)
Pension plan adjustment:		
Related to actuarial losses and prior service cost	97	119
Tax effect	(33)	(41)
Net of tax amount	64	78
Total other comprehensive loss	(570)	(1,157)
Comprehensive income (loss)	$ 2,309	$ (271)

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
				(Dollars in thousands)				
Balance, September 30, 2012	13,229,908	$ 181	$ 181,220	$ (10,985)	$ 65,181	$ (61,944)	$ 1,758	$ 175,411
Net income					2,879			2,879
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of income tax benefit of $327							(634)	(634)
Change in unrecognized pension cost, net of income taxes of $33							64	64
Cash dividends declared ($.05 per share)					(605)			(605)
Stock based compensation			527					527
Allocation of ESOP stock			1	113				114
Treasury shares purchased	(38,900)					(409)		(409)
Balance, December 31, 2012	13,191,008	$ 181	$ 181,748	$ (10,872)	$ 67,455	$ (62,353)	$ 1,188	$ 177,347

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31,	
	2012	2011
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 2,879	$ 886
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000	500
Provision for depreciation and amortization.	286	240
Amortization and accretion of discounts and premiums, net	369	423
Net gain on sale of investment securities	(30)	
Gain on sale of loans, net	(334)	
Origination of mortgage loans sold	(12,963)	
Proceeds from sale of mortgage loans originated for sale	11,547	
Compensation expense on ESOP	114	121
Stock based compensation	527	534
Decrease in accrued interest receivable	360	326
(Decrease) Increase in accrued interest payable	(13)	226
Earnings on bank-owned life insurance	(226)	(198)
Deferred federal income taxes	307	510
Decrease in prepaid FDIC premiums	175	146
(Gain) loss on foreclosed real estate, net	(226)	67
Amortization of identifiable intangible assets	250	81
Other, net	2,038	51
Net cash provided by operating activities	6,060	3,913
INVESTING ACTIVITIES		
Purchase of certificates of deposit	(500)	
Investment securities available for sale:		
Proceeds from sale of investment securities	1,106	
Proceeds from principal repayments and maturities	37,955	21,253
Purchases	(42,306)	(32,895)
Increase (decrease) in loans receivable, net	8,214	(4,272)
Redemption of FHLB stock	2,860	844
Investment in limited partnership	(110)	(945)
Proceeds from sale of foreclosed real estate	1,246	472
Purchase of premises, equipment, and software	(245)	(221)
Net cash provided by (used for) investing activities	8,220	(15,764)
FINANCING ACTIVITIES		
(Decrease) increase in deposits, net	(21,745)	2,420
Net increase in short-term borrowings	41,219	6,000
Proceeds from other borrowings	7,000	
Repayment of other borrowings	(39,000)	(11,000)
Increase in advances by borrowers for taxes and insurance	3,511	2,347
Purchase of treasury stock shares.	(293)	

Dividends on common stock		(605)		(546)
Net cash used for financing activities		(9,913)		(779)
Increase (decrease) in cash and cash equivalents		4,367		(12,630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		15,550		41,694
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	19,917	$	29,064
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Cash Paid:				
Interest	$	3,244	$	4,096
Income taxes		5		
Noncash items:				
Transfers from loans to foreclosed real estate	$	525	$	286
Treasury stock payable		116		

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. 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.; Pocono Investments Company; ESSA Advisory Services, LLC; Integrated Financial Corporation; Integrated Delaware, Inc. and Integrated Abstract Incorporated, a wholly owned subsidiary of Integrated Financial Corporation. The primary purpose of the Company is to act as a holding company for the Bank. The Company is subject to regulation and supervision as a savings and loan holding company by the Federal Reserve Board. The Bank is a Pennsylvania-chartered savings association located in Stroudsburg, Pennsylvania. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Banking Department and the Federal Deposit Insurance Corporation. 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 has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania Corporation that provided investment advisory services to the general public as a former subsidiary of First Star Bank. The Company acquired First Star Bank in a transaction that closed on July 31, 2012. Integrated Financial Corporation is currently inactive. Integrated Delaware, Inc. is a Delaware Investment Corporation and was previously owned by First Star Bank. Integrated Abstract Incorporated is a Pennsylvania Corporation that provides title insurance services. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management, are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the three month periods ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three month period ended December 31, 2012 and 2011.

	Three months ended	
	December 31, 2012	**December 31, 2011**
Weighted-average common shares outstanding	18,133,095	16,980,900
Average treasury stock shares	(4,906,440)	(4,871,278)
Average unearned ESOP shares	(1,080,703)	(1,125,979)
Average unearned non-vested shares	(57,827)	(176,045)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	12,088,125	10,807,598
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share		

Additional common stock equivalents (stock options) used to calculate diluted earnings per share		
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	12,088,125	10,807,598

6

At December 31, 2012 and 2011 there were options to purchase 1,458,379 shares of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At December 31, 2012 and 2011 there were 47,913 and 165,958 shares, respectively, of nonvested stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles (GAAP) 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 Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

4. Recent Accounting Pronouncements:

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has provided the necessary disclosure in Note 11 of the Company s financial statements for the three months ended December 31, 2012.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income.* The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. The Company has provided the necessary disclosure in the Statement of Comprehensive Income.

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate a Scope Clarification.* The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations

in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company s financial statements.

In July, 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). This ASU is not expected to have a significant impact on the Company s financial statements.

In October, 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. This ASU is not expected to have a significant impact on the Company s financial statements.

5. Investment Securities

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 123,581	$ 3,940	$ (23)	$ 127,498
Freddie Mac	49,088	1,618	(24)	50,682
Governmental National Mortgage Association	46,555	740	(49)	47,246
Other mortgage-backed securities	4,944	170		5,114
Total mortgage-backed securities	224,168	6,468	(96)	230,540
Obligations of states and political subdivisions	24,336	955	(22)	25,269
U.S. government agency securities	55,559	365	(1)	55,923
Corporate obligations	10,476	193	(22)	10,647
Trust-preferred securities	4,875	575		5,450
Other debt securities	1,476	36		1,512
Total debt securities	320,890	8,592	(141)	329,341
Equity securities - financial services	2,191	12	(19)	2,184
Total	$ 323,081	$ 8,604	$ (160)	$ 331,525

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 111,145	$ 4,652	$ (3)	$ 115,794
Freddie Mac	48,913	1,952	(11)	50,854
Governmental National Mortgage Association	43,164	803	(16)	43,951
Other mortgage-backed securities	5,043	162		5,205
Total mortgage-backed securities	208,265	7,569	(30)	215,804
Obligations of states and political subdivisions	18,611	906		19,517
U.S. government agency securities	74,106	379	(1)	74,484
Corporate obligations	8,602	146	(91)	8,657
Trust-preferred securities	5,852	382	(1)	6,233
Other debt securities	1,476	36		1,512
Total debt securities	316,912	9,418	(123)	326,207
Equity securities - financial services	3,267	111		3,378
Total	$ 320,179	$ 9,529	$ (123)	$ 329,585

Table of Contents

The amortized cost and fair value of debt securities at December 31, 2012, 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	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,233	$ 2,253
Due after one year through five years	49,987	50,534
Due after five years through ten years	51,495	52,918
Due after ten years	217,175	223,636
Total	$ 320,890	$ 329,341

For the three months ended December 31, 2012, the Company realized gross gains of $31,000 and gross losses of $1,000 on proceeds from the sale of investment securities of $1.1 million. The Company had no sales of investment securities for the three months ended December 31, 2011.

6. 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):

	December 31, 2012						
		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	3	$ 3,991	$ (22)	$ 1,345	$ (1)	$ 5,336	$ (23)
Freddie Mac	3	5,998	(24)			5,998	(24)
Governmental National Mortgage Association	5	9,087	(49)			9,087	(49)
Obligations of states and political subdivisions	4	5,330	(22)			5,330	(22)
U.S. government agency securities	3	2,905	(1)			2,905	(1)
Corporate obligations	4	2,366	(15)	993	(7)	3,359	(22)
Equity securities-financial services	1	2,041	(19)			2,041	(19)
Total	23	$ 31,718	$ (152)	$ 2,338	$ (8)	$ 34,056	$ (160)

	September 30, 2012						
		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	3	$ 4,083	$ (3)	$	$	$ 4,083	$ (3)
Freddie Mac	1	2,002	(11)			2,002	(11)
Governmental National Mortgage Association	5	6,090	(16)			6,090	(16)
U.S. government agency securities	1	999	(1)			999	(1)

Corporate obligations	5	1,059		(25)	1,434		(66)	2,493		(91)
Trust-preferred securities	1	998		(1)				998		(1)
Total	16	$ 15,231	$	(57)	$ 1,434	$	(66)	$ 16,665	$	(123)

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, debt obligations of a U.S. state or political subdivision and corporate debt obligations.

Table of Contents

The Company reviews its position quarterly and has asserted that at December 31, 2012, 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 non-collection of principal and interest during the period.

7. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	December 31, 2012	September 30, 2012
Held for investment:		
Real Estate Loans:		
Residential	$ 689,622	$ 696,350
Construction	3,916	3,805
Commercial	160,059	160,192
Commercial	11,380	12,818
Obligations of states and political subdivisions	34,138	33,736
Home equity loans and lines of credit	46,389	47,925
Other	2,326	2,485
	947,830	957,311
Less allowance for loan losses	7,555	7,302
Net loans	$ 940,275	$ 950,009
Held for sale:		
Real Estate Loans:		
Residential	2,096	346

	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity and Lines of Credit	Other Loans	Total
	Residential	Construction (dollars in thousands)	Commercial					
December 31, 2012								
Total Loans	$ 689,622	$ 3,916	$ 160,059	$ 11,380	$ 34,138	$ 46,389	$ 2,326	$ 947,830
Individually evaluated for impairment	12,897		18,144	263		258		31,562
Loans acquired with deteriorated credit quality	341		6,160	533		44	17	7,095
Collectively evaluated for impairment	676,384	3,916	135,755	10,584	34,138	46,087	2,309	909,173

Commercial Loans	Obligations of States and	Home Equity and Lines of	Other Loans	Total

	Real Estate Loans				Political	Credit		
	Residential	Construction (dollars in thousands)	Commercial		Subdivisions			
September 30, 2012								
Total Loans	$ 696,350	$ 3,805	$ 160,192	$ 12,818	$ 33,736	$ 47,925	$ 2,485	$ 957,311
Individually evaluated for impairment	7,942		17,415	423		191		25,971
Loans acquired with deteriorated credit quality	271		6,159	1,007		44	19	7,500
Collectively evaluated for impairment	688,137	3,805	136,618	11,388	33,736	47,690	2,466	923,840

We maintain a loan review system that 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. 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, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after a period of performance.

Table of Contents

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 10,101	$ 10,097	$	$ 6,405	$ 34
Construction					
Commercial	23,073	23,117		22,524	171
Commercial	752	750		1,115	2
Obligations of states and political subdivisions					
Home equity loans and lines of credit	293	293		229	
Other	17	17		18	
Total	34,236	34,274		30,291	207
With an allowance recorded:					
Real Estate Loans					
Residential	3,137	3,135	698	3,052	27
Construction					
Commercial	1,231	1,234	266	1,244	4
Commercial	44	42	11	43	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	9	9	2	9	
Other					
Total	4,421	4,420	977	4,348	31
Total:					
Real Estate Loans					
Residential	13,238	13,232	698	9,457	61
Construction					
Commercial	24,304	24,351	266	23,768	175
Commercial	796	792	11	1,158	2
Obligations of states and political subdivisions					
Home equity loans and lines of credit	302	302	2	238	
Other	17	17		18	
Total Impaired Loans	$ 38,657	$ 38,694	$ 977	$ 34,639	$ 238

Table of Contents

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2012					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 5,182	$ 5,177	$	$ 4,687	$ 82
Construction					
Commercial	22,290	22,341		13,584	457
Commercial	1,386	1,385		581	28
Obligations of states and political subdivisions					
Home equity loans and lines of credit	226	226		238	
Other	19	19		25	
Total	29,103	29,148		19,115	567
With an allowance recorded:					
Real Estate Loans					
Residential	3,031	3,030	661	1,892	68
Construction					
Commercial	1,284	1,286	270	1,326	13
Commercial	44	44	12	47	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	9	9	9	13	1
Other					
Total	4,368	4,369	952	3,278	82
Total:					
Real Estate Loans					
Residential	8,213	8,207	661	6,579	150
Construction					
Commercial	23,574	23,627	270	14,910	470
Commercial	1,430	1,429	12	628	28
Obligations of states and political subdivisions					
Home equity loans and lines of credit	235	235	9	251	1
Other	19	19		25	
Total Impaired Loans	$ 33,471	$ 33,517	$ 952	$ 22,393	$ 649

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. The portion of any loan that represents a specific allocation of the allowance for loan losses is placed in the Doubtful category. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Bank s Commercial Loan Officers perform an annual review of all commercial relationships $250,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank engages an external consultant to conduct loan reviews on at least a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than $500,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate

consideration in the determination of the allowance.

Table of Contents

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of December 31, 2012 and September 30, 2012 (in thousands):

December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	$ 132,220	$ 3,900	$ 23,939	$	$ 160,059
Commercial	10,764	358	258		11,380
Obligations of states and political subdivisions	34,138				34,138
Total	$ 177,122	$ 4,258	$ 24,197	$	$ 205,577

September 30, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	$ 132,841	$ 5,502	$ 21,849	$	$ 160,192
Commercial	12,035	360	423		12,818
Obligations of states and political subdivisions	33,736				33,736
Total	$ 178,612	$ 5,862	$ 22,272	$	$ 206,746

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing. The following tables present the risk ratings in the consumer categories of performing and non-performing loans at December 31, 2012 and September 30, 2012 (in thousands):

	Performing	Non-performing	Total
December 31, 2012			
Real estate loans:			
Residential	$ 677,765	$ 11,857	$ 689,622
Construction	3,916		3,916
Home Equity loans and lines of credit	46,069	320	46,389
Other	2,309	17	2,326
Total	$ 730,059	$ 12,194	$ 742,253

	Performing	Non-performing	Total
September 30, 2012			
Real estate loans:			
Residential	$ 685,814	$ 10,536	$ 696,350
Construction	3,805		3,805
Home Equity loans and lines of credit	47,552	373	47,925
Other	2,466	19	2,485
Total	$ 739,637	$ 10,928	$ 750,565

Table of Contents

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2012 and September 30, 2012 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
December 31, 2012							
Real estate loans							
Residential	$ 672,854	$ 3,531	$ 1,380	$	$ 11,857	$ 16,768	$ 689,622
Construction	3,916						3,916
Commercial	146,902	1,142	58		11,957	13,157	160,059
Commercial	10,043				1,337	1,337	11,380
Obligations of states and political subdivisions	34,138						34,138
Home equity loans and lines of credit	45,795	245	29		320	594	46,389
Other	2,274	35			17	52	2,326
Total	$ 915,922	$ 4,953	$ 1,467	$	$ 25,488	$ 31,908	$ 947,830

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
September 30, 2012							
Real estate loans							
Residential	$ 680,876	$ 3,664	$ 1,274	$	$ 10,536	$ 15,474	$ 696,350
Construction	3,805						3,805
Commercial	142,277	3,658	3,348		10,909	17,915	160,192
Commercial	10,948				1,870	1,870	12,818
Obligations of states and political subdivisions	33,736						33,736
Home equity loans and lines of credit	46,967	447	138		373	958	47,925
Other	2,452	14			19	33	2,485
Total	$ 921,061	$ 7,783	$ 4,760	$	$ 23,707	$ 36,250	$ 957,311

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 allocated 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. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management s judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic

conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. The allowance for loan losses as of December 31, 2012 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 FDIC and the Pennsylvania Department of Banking, as an integral part of their examination process, have periodically reviewed 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.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Table of Contents

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2012 (in thousands):

	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
ALL balance at September 30, 2012	$ 5,401	$ 29	$ 699	$ 474	$ 127	$ 499	$ 22	$ 51	$ 7,302
Charge-offs	(645)		(106)			(35)			(786)
Recoveries	37		1			1			39
Provision	756	(21)	190	(90)	(11)	(88)	111	153	1,000
ALL balance at December 31, 2012	$ 5,549	$ 8	$ 784	$ 384	$ 116	$ 377	$ 133	$ 204	$ 7,555

	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
ALL balance at September 30, 2011	$ 5,220	$ 8	$ 1,255	$ 500	$ 74	$ 622	$ 80	$ 411	$ 8,170
Charge-offs	(180)					(114)	(3)		(297)
Recoveries				20					20
Provision	522		193	(13)		17	58	(277)	500
ALL balance at December 31, 2011	$ 5,562	$ 8	$ 1,448	$ 507	$ 74	$ 525	$ 135	$ 134	$ 8,393

	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
Individually evaluated for impairment	$ 698	$	$ 266	$ 11	$	$ 2	$	$	$ 977
Collectively evaluated for impairment	4,851	8	118	773	116	375	133	204	6,578
ALL balance at December 31, 2012	$ 5,549	$ 8	$ 384	$ 784	$ 116	$ 377	$ 133	$ 204	$ 7,555

	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Obligations of States	Home Equity	Other Loans	Unallocated	Total

					and Political Subdivisions	Loans and Lines of Credit			
Individually evaluated for impairment	$ 661	$	$ 270	$ 12	$	$ 9	$	$	$ 952
Collectively evaluated for impairment	4,740	29	429	462	127	490	22	51	6,350
ALL balance at September 30, 2012	$ 5,401	$ 29	$ 699	$ 474	$ 127	$ 499	$ 22	$ 51	$ 7,302

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated

Table of Contents

increased provisions to the residential real estate, commercial real estate and other loan segments for the three month period ending December 31, 2012 due to increased charge off activity and impairment evaluations in those segments. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The following is a summary of troubled debt restructuring granted during the three months ended December 31, 2012 and 2011.

	For the Three Months Ended December 31, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	1	$ 130	$ 130
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Other			
Total	1	$ 130	$ 130

	For the Three Months Ended December 31, 2011		
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	1	$ 320	$ 320
Construction			
Commercial	5	1,614	1,614
Commercial	3	216	217
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Other			
Total	9	$ 2,150	$ 2,151

The following is a summary of troubled debt restructurings that have subsequently defaulted within one year of modification.

	For the Twelve Months Ended December 31, 2012	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Real estate loans:		
Residential	$	$
Construction		
Commercial		

Commercial		
Obligations of states and political subdivisions		
Home equity loans and lines of credit		
Other		
Total	$	$

Table of Contents

8. Deposits

Deposits consist of the following major classifications (in thousands):

	December 31, 2012	September 30, 2012
Non-interest bearing demand accounts	$ 46,971	$ 41,767
NOW accounts	103,028	109,923
Money market accounts	149,658	155,666
Savings and club accounts	104,007	102,143
Certificates of deposit	564,228	586,135
Total	$ 967,892	$ 995,634

9. Net Periodic Benefit Cost-Defined Benefit Plan

For a detailed disclosure on the Bank s pension and employee benefits plans, please refer to Note 13 of the Company s Consolidated Financial Statements for the year ended September 30, 2012 included in the Company s Form 10-K.

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

	Three Months Ended December 31, 2012	2011
Service Cost	$ 176	$ 149
Interest Cost	179	178
Expected return on plan assets	(258)	(203)
Amortization of unrecognized loss	97	119
Net periodic benefit cost	$ 194	$ 243

The Bank plans to contribute $600,000 to its pension plan in May 2013.

10. Equity Incentive Plan

The Company maintains 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.

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 for *Share-Based Payments,* the Company expenses 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. The Company 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. The Company recognizes compensation expense for the fair value of restricted shares on a straight-line basis over the requisite service period for the entire award.

Table of Contents

For the three months ended December 31, 2012 and 2011, the Company recorded $527,000 and $534,000 of share-based compensation expense, respectively, comprised of stock option expense of $172,000 and restricted stock expense of $356,000 for the December 31, 2012 period and stock option expense of $172,000 and restricted stock expense of $362,000 for the December 31, 2011 period. Expected future expenses relating to the 288,675 non-vested options outstanding as of December 31, 2012, is $261,000 over the remaining vesting period of 0.42 years. Expected future compensation expense relating to the 115,212 restricted shares at December 31, 2012, is $593,000 over the remaining vesting period of 0.42 years.

The following is a summary of the Company s stock option activity and related information for its option grants for the three month period ended December 31, 2012.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2012	1,458,379	$ 12.35	5.67	$
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2012	1,458,379	$ 12.35	5.42	$
Exercisable at December 31, 2012	1,169,704	$ 12.35	5.42	$

The weighted-average grant date fair value of the Company s non-vested options as of December 31, 2012 and 2011 was $2.38.

The following is a summary of the status of the Company s restricted stock as of December 31, 2012, and changes therein during the three month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2012	115,212	$ 12.35
Granted		
Vested		
Forfeited		
Nonvested at December 31, 2012	115,212	$ 12.35

11. Fair Value Measurement

The following disclosures show the hierarchal disclosure framework associated within the level of pricing observations utilized in measuring assets and liabilities at fair value. 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.

Table of Contents

The following table presents information about the Company s securities, other real estate owned and impaired loans measured at fair value as of December 31, 2012 and September 30, 2012 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

Fair Value Measurement at December 31, 2012

Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of December 31, 2012
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 230,540	$	$ 230,540
Obligations of states and political subdivisions		25,269		25,269
U.S. government agencies		55,923		55,923
Corporate obligations		10,647		10,647
Trust-preferred securities		3,690	1,760	5,450
Other debt securities		1,512		1,512
Equity securities-financial services	2,184			2,184
Total debt and equity securities	$ 2,184	$ 327,581	$ 1,760	$ 331,525
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,503	$ 2,503
Impaired loans measured on a non-recurring basis	$	$	$ 37,680	$ 37,680

Fair Value Measurement at September 30, 2012

Fair Value Measurements Utilized for the Company s Financial Assets (in thousands):	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of September 30, 2012
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 215,804	$	$ 215,804
Obligations of states and political subdivisions		19,517		19,517
U.S. government agencies		74,484		74,484
Corporate obligations		8,657		8,657
Trust-preferred securities		4,493	1,740	6,233
Other debt securities		1,512		1,512
Equity securities-financial services	3,378			3,378
Total debt and equity securities	$ 3,378	$ 324,467	$ 1,740	$ 329,585
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,998	$ 2,998
Impaired loans measured on a non-recurring basis	$	$	$ 32,520	$ 32,520

The following table presents a summary of changes in the fair value of the Company s Level III investments for the periods ended December 31, 2012 and September 30, 2012.

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	December 31, 2012	September 30, 2012
Beginning balance	$ 1,740	$
Purchases, sales, issuances, settlements, net		1,528
Total unrealized gain:		
Included in earnings		
Included in other comprehensive income	20	212
Transfers in and/or out of Level III		

	$	1,760	$	1,740

Each financial asset and liability is identified as having been valued according to a specified level of input, 1, 2 or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

Table of Contents

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on a security s relationship to other benchmark quoted securities. Most of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond s terms and conditions, among other things. Securities reported at fair value utilizing Level 1 inputs are limited to actively traded equity securities whose market price is readily available from the New York Stock Exchange or the NASDAQ exchange. Foreclosed real estate 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 the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from foreclosed real estate. Impaired loans are reported at fair value utilizing level three inputs. For these loans, a review of the collateral is conducted and an appropriate allowance for loan losses is allocated to the loan. At December 31, 2012, 220 impaired loans with a carrying value of $38.7 million were reduced by specific valuation allowance totaling $977,000 resulting in a net fair value of $37.7 million based on Level 3 inputs.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
(unaudited, in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
December 31, 2012:				
Impaired loans	37,680	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30%
Foreclosed real estate owned	2,503	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	0% to 30%

	Quantitative Information about Level 3 Fair Value Measurements			
(unaudited, in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
September 30, 2012:				
Impaired loans	32,520	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30%
Foreclosed real estate owned	2,998	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	0% to 30%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

Table of Contents

The fair values presented represent the Company s best estimate of fair value using the methodologies discussed below.

Disclosures about Fair Value of Financial Instruments

The fair values presented represent the Company s best estimate of fair value using the methodologies discussed below.

	December 31, 2012			
	Level I	Level II	Level III	Total Fair Value
Financial assets:				
Cash and cash equivalents	$ 19,917	$	$	$ 19,917
Investment and mortgage backed securities Available for sale	2,184	327,581	1,760	331,525
Loans receivable, held for sale, net			2,096	2,096
Loans receivable, net			978,499	978,499
Accrued interest receivable	4,569			4,569
FHLB stock	19,054			19,054
Mortgage servicing rights			402	402
Bank owned life insurance	28,075			28,075
Financial liabilities:				
Deposits	$ 398,559	$	$ 574,202	$ 972,761
Short-term borrowings	84,500			84,500
Other borrowings			162,523	162,523
Advances by borrowers for taxes and insurance	6,943			6,943
Accrued interest payable	1,115			1,115

	September 30, 2012			
	Level I	Level II	Level III	Total Fair Value
Financial assets:				
Cash and cash equivalents	$ 15,550	$	$	$ 15,550
Investment and mortgage backed securities Available for sale	3,378	324,467	1,740	329,585
Loans receivable, held for sale, net			346	346
Loans receivable, net			997,685	997,685
Accrued interest receivable	4,929			4,929
FHLB stock	21,914			21,914
Mortgage servicing rights			365	365
Bank owned life insurance	27,848			27,848
Financial liabilities:				
Deposits	$ 409,499	$ 597,028	$	$ 1,006,527
Short-term borrowings	43,281			43,281
Other borrowings		195,636		195,636
Advances by borrowers for taxes and insurance	3,432			3,432
Accrued interest payable	1,128			1,128

	December 31, 2012		September 30, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 19,917	$ 19,917	$ 15,550	$ 15,550
Investment securities available for sale	331,525	331,525	329,585	329,585
Loans receivable, held for sale, net	2,096	2,096	346	346
Loans receivable, net	940,275	978,499	950,009	997,339

Accrued interest receivable	4,569	4,569	4,929	4,929
FHLB stock	19,054	19,054	21,914	21,914
Mortgage servicing rights	402	402	365	365
Bank owned life insurance	28,075	28,075	27,848	27,848
Financial liabilities:				
Deposits	$ 967,892	$ 972,761	$ 995,634	$ 1,006,527
Short-term borrowings	84,500	84,500	43,281	43,281
Other borrowings	159,460	162,523	191,460	195,636
Advances by borrowers for taxes and insurance	6,943	6,943	3,432	3,432
Accrued interest payable	1,115	1,115	1,128	1,128

Table of Contents

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.

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 Bank, 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 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.

Loans Receivable

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage Servicing Rights

The Company utilizes a third party provider to estimate the fair value of certain loan servicing rights. Fair value for the purpose of this measurement is defined as the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced liquidation.

Deposit Liabilities

The fair values disclosed for demand, savings, and money market deposit accounts are valued at the amount payable on demand as of quarter-end. Fair values for time deposits 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 of similar remaining maturities.

Table of Contents

Other Borrowings

Fair values for 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 other 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.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under Risk Factors in Part I, Item 1A of the Company s Annual Report on Form 10-K and Part II, Item 1A of this Report on Form 10-Q, as well as the following factors:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- adverse changes in the securities markets;

- legislative or regulatory changes that adversely affect our business;

- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or *de novo* branches, if any;

- changes in consumer spending, borrowing and savings habits;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and

- changes in our organization, compensation and benefit plans.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Table of Contents

Comparison of Financial Condition at December 31, 2012 and September 30, 2012

Total Assets. Total assets decreased by $13.1 million, or 0.9%, to $1,405.6 million at December 31, 2012 from $1,418.7 million at September 30, 2012. Decreases in loans receivable and other assets were offset, in part, by increases in interest bearing deposits with other institutions and investment securities available for sale.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions increased $3.0 million, or 65.5%, to $7.5 million at December 31, 2012 from $4.5 million at September 30, 2012. This increase was primarily the result of the cash generated from the increase in sales of loans receivable from September 30, 2012 through December 31, 2012.

Net Loans. Net loans decreased $9.7 million, or 1.0%, to $940.3 million at December 31, 2012 from $950.0 million at September 30, 2012. During this period, residential real estate loans outstanding decreased by $6.7 million to $689.6 million. Commercial real estate loans decreased $133,000 to $160.1 million, home equity loans and lines of credit decreased $1.5 million to $46.4 million, and other loans decreased $159,000 to $2.3 million. These decreases were partially offset by increases in construction loans outstanding of $111,000 to $3.9 million and obligations of states and political subdivisions of $402,000 to $34.1 million.

Other Assets. Other assets decreased $8.5 million, or 28.7%, to $21.2 million at December 31, 2012 from $29.8 million at September 30, 2012. The primary reason for the decrease was a decrease in accounts receivable for $6.7 million at December 31, 2012 compared to September 30, 2012. At September 30, 2012, the Company had approximately $6.0 million in accounts receivable for brokered deposits that the Company contracted for prior to September 30, 2012 but for which the funds were not received until October 1, 2012.

Investment Securities Available for Sale. Investment securities available for sale increased $1.9 million, or 0.59%, to $331.5 million at December 31, 2012 from $329.6 million at September 30, 2012. The increase was due primarily to increases in mortgage-backed securities of $14.7 million and municipal bonds of $5.8 million, offset in part, by a decrease in agency bonds of $18.6 million.

Deposits. Deposits decreased $27.7 million, or 2.79%, to $967.9 million at December 31, 2012 from $995.6 million at September 30, 2012. At December 31, 2012 compared to September 30, 2012, certificate of deposit accounts decreased $21.9 million to $564.2 million, NOW accounts decreased $6.9 million to $103.0 million, and money market accounts decreased $6.0 million to $149.7 million. These decreases were offset in part during the same period by an increase in non-interest bearing demand accounts of $5.2 million to $47.0 million and savings and club accounts of $1.9 million to $104.0 million. Included in the certificates of deposit at December 31.2012 was a decrease in brokered certificates of $4.3 million to $152.5 million.

Borrowed Funds. Borrowed funds increased by $9.2 million, or 3.93%, to $244.0 million at December 31, 2012, from $234.7 million at September 30, 2012. The increase in borrowed funds was primarily due to increases in short term FHLBank Pittsburgh borrowings of $41.2 million offset by declines in other borrowings of $32.0 million.

Stockholders Equity. Stockholders equity increased by $1.9 million, or 1.1%, to $177.3 million at December 31, 2012 from $175.4 million at September 30, 2012. This increase was primarily the result of net income of $2.9 million which was partially offset by a decrease in accumulated other comprehensive income of $570,000 to $1.2 million at December 31, 2012 from $1.8 million at September 30, 2012.

Table of Contents

Average Balance Sheets for the Three Months Ended December 31, 2012 and 2011

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily 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 Three Months Ended December 31,					
	2012			2011		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans (1)	$ 953,090	$ 12,237	5.09%	$ 748,215	$ 9,341	4.95%
Investment securities						
Taxable (2)	96,785	422	1.73%	36,771	232	2.50%
Exempt from federal income tax (2) (3)	10,038	54	3.23%	7,743	48	3.80%
Total investment securities	106,823	476	1.87%	44,514	280	2.73%
Mortgage-backed securities	218,612	1,208	2.19%	206,380	1,406	2.70%
Federal Home Loan Bank stock	19,914	24	0.48%	16,283		0.00%
Other	5,657	5	0.35%	21,783	2	0.04%
Total interest-earning assets	1,304,096	13,950	4.25%	1,037,175	11,029	4.23%
Allowance for loan losses	(7,408)			(8,257)		
Noninterest-earning assets	102,046			62,838		
Total assets	$ 1,398,734			$ 1,091,756		
Interest-bearing liabilities:						
NOW accounts	$ 95,415	13	0.05%	$ 58,932	4	0.03%
Money market accounts	153,302	116	0.30%	112,827	80	0.28%
Savings and club accounts	100,692	12	0.05%	70,968	24	0.13%
Certificates of deposit	578,902	1,830	1.25%	353,897	1,803	2.02%
Borrowed funds	228,709	1,260	2.19%	290,416	2,410	3.29%
Total interest-bearing liabilities	1,157,020	3,231	1.11%	887,040	4,321	1.93%
Non-interest bearing NOW accounts	48,791			32,242		
Noninterest-bearing liabilities	15,586			10,594		
Total liabilities	1,221,397			929,876		
Equity	177,337			161,880		
Total liabilities and equity	$ 1,398,734			$ 1,091,756		
Net interest income		$ 10,719			$ 6,708	
Interest rate spread			3.14%			2.30%
Net interest-earning assets	$ 147,076			$ 150,135		
Net interest margin (4)			3.26%			2.57%
		112.71%			116.93%	

Average interest-earning assets to average interest-bearing liabilities

(1) Non-accruing loans are included in the outstanding loan balances.
(2) Available for sale securities are reported at fair value.
(3) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.
(4) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Comparison of Operating Results for the Three Months Ended December 31, 2012 and December 31, 2011

Net Income. Net income increased $2.0 million, or 224.9%, to $2.9 million for the three months ended December 31, 2012 compared to net income of $886,000 for the comparable period in 2011. The increase was due primarily to increases in net interest income and noninterest income, offset in part, by an increase in noninterest expenses.

Net Interest Income. Net interest income increased $4.0 million, or 59.8%, to $10.7 million for the three months ended December 31, 2012 from $6.7 million for the comparable period in 2011. The increase was primarily attributable to an increase in the Company s interest rate spread to 3.14% for the three months ended December 31, 2012, from 2.30% for the comparable period in 2011, offset in part by a decrease of $3.1 million in the Company s average net earnings assets.

Interest Income. Interest income increased $2.9 million, or 26.5%, to $14.0 million for the three months ended December 31, 2012 from $11.0 million for the comparable 2011 period. The increase resulted primarily from additional earning assets added as a result of the merger with First Star Bank in the fourth quarter of 2012. Average interest earning assets increased $266.9 million and the average yield on interest earning assets increased two basis points. The average yield on interest earning assets was 4.25% for the three months ended December 31, 2012, as compared to 4.23% for the comparable 2011 period. Loans increased on average $204.9 million between the two periods. In addition, average investment securities increased $62.3 million, mortgage-backed securities increased $12.2 million, Federal Home Loan Bank stock increased $3.6 million and other interest earning assets decreased $16.1 million. The decrease in other interest earning assets was primarily due to a corresponding decrease in the average balance of cash held at FHLBank Pittsburgh. Interest income for the fiscal first quarter 2013 also includes the recapture of approximately $500,000, before tax, of a previously recorded fair value adjustment to a loan acquired as part of the First Star acquisition. This loan was fully repaid in the first quarter. An additional $473,000, before tax, was recaptured during the quarter related to similar loans that were partially repaid.

Interest Expense. Interest expense decreased $1.1 million, or 25.2%, to $3.2 million for the three months ended December 31, 2012 from $4.3 million for the comparable 2011 period. The decrease resulted from an 82 basis point decrease in the overall cost of interest bearing liabilities to 1.11% for the three months ended December 31, 2012 from 1.93% for the comparable 2011 period, partially offset by a $270.0 million increase in average interest-bearing liabilities. Average interest bearing liabilities increased primarily as a result of the merger with First Star Bank in the fourth quarter of 2012. The yield on borrowed funds declined primarily as a result of the prepayment of $37.0 million in higher yielding borrowings in the fourth quarter of 2012. Yields on certificates of deposits declined due primarily to the replacement of maturing brokered certificates of deposit with shorter duration lower cost certificates of deposit.

Provision for Loan Losses. 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 a 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 subject to interpretation and revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision for loan losses of $1.0 million for the three month period ended December 31, 2012 as compared to $500,000 for the three month period ended December 31, 2011. The allowance for loan losses was $7.6 million, or 0.80% of loans outstanding, at December 31, 2012, compared to $7.3 million, or 0.76% of loans outstanding at September 30, 2012.

Non-interest Income. Non-interest income increased $502,000, or 32.9%, to $2.0 million for the three months ended December 31, 2012 from $1.5 million for the comparable period in 2011. The primary reasons for the increase were increases in gain on sale of loans, net of $334,000 and service fees on deposit accounts of $80,000 during the 2012 period. As part of its overall interest rate risk management strategy, the Company sold $11.5 million of long-term, fixed-rate mortgage loans during the quarter ended December 31, 2012. There were no loans sold during the comparable 2011 period.

Non-interest Expense. Non-interest expense increased $843,000, or 12.7%, to $7.5 million for the three months ended December 31, 2012 from $6.7 million for the comparable period in 2011. The primary reasons for the increase were increases in compensation and employee benefits of $620,000, occupancy and equipment of $193,000 and data processing expense of $181,000. These increases were partially offset by decreases in the cost to liquidate foreclosed real estate of $293,000 and professional fees of $178,000. The increases in noninterest expense were due primarily to the larger organization in fiscal first quarter 2013 compared with fiscal first quarter 2012 as a result of the First Star merger. The decrease in professional fees was due to a decrease in merger related legal fees.

Income Taxes. Income tax expense increased $1.2 million to $1.4 million for the three months ended December 31, 2012 from $184,000 for the comparable 2011 period. The increase was primarily a result of the increase in income before taxes of $3.2 million for the three months ended December 31, 2012. The effective tax rate was 32.1% for the three months ended December 31, 2012, compared to 17.2% for the 2011 period. The increase in the effective tax rate was primarily due to the decrease in the portion of pre-tax income derived from non-taxable loan and investment income for the three months ended December 31, 2012 compared to the 2011 period.

Non-Performing Assets

The following table provides information with respect to the Bank s non-performing assets at the dates indicated. (Dollars in thousands)

	December 31, 2012	September 30, 2012
Non-performing assets:		
Non-accruing loans	$ 25,488	$ 23,707
Troubled debt restructures	531	533
Total non-performing loans	26,019	24,240
Foreclosed real estate	2,503	2,998
Total non-performing assets	$ 28,522	$ 27,238
Ratio of non-performing loans to total loans	2.74%	2.53%
Ratio of non-performing loans to total assets	1.85%	1.71%
Ratio of non-performing assets to total assets	2.03%	1.92%
Ratio of allowance for loan losses to total loans	0.80%	0.76%

Loans are reviewed on a regular basis and 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 assets increased $1.3 million to $28.5 million at December 31, 2012 from $27.2 million at September 30, 2012. Non-performing loans increased $1.8 million to $26.0 million at December 31, 2012 from $24.2 million at September 30, 2012. The increase was primarily due to an increase of $516,000 in nonperforming commercial loans and $1.3 million in nonperforming residential loans. The increase in commercial loans was primarily due to the addition of one commercial real estate loan. At December 31, 2012 the outstanding balance of this loan was $446,000 and the loan was paying pursuant to its terms. The number of nonperforming residential loans increased to 99 at December 31, 2012, from 79 at September 30, 2012. The $25.5 million of non-accruing loans at December 31, 2012 included 88 residential loans with an aggregate outstanding balance of $10.7 million that were past due 90 or more days at December 31, 2012, 90 commercial and commercial real estate loans with aggregate outstanding balances of $13.3 million and 16 consumer loans with aggregate balances of $337,000. Within the residential loan balance are $1.2 million of loans less than 90 days past due. In the quarter ended December 31, 2012, the Company identified eight residential loans which, although paying as agreed, have a high probability of default. Foreclosed real estate decreased $495,000 to $2.5 million at December 31, 2012 from $3.0 million at September 30, 2012. Foreclosed real estate consists of 28 residential properties, two building lots and one commercial property.

At December 31, 2012 the principal balance of troubled debt restructures was $12.5 million as compared to $13.1 million at September 30, 2012. Of the $12.5 million of troubled debt restructures at December 31, 2012, $7.7 million are performing loans and $4.8 million are non-accrual loans. An additional $531,000 of performing troubled debt restructures are classified as non-performing assets because they were non-performing assets at the time they were restructured.

Of the 72 loans that comprise our troubled debt restructures at December 31, 2012, no loans were granted a rate concession at a below market interest rate. Twelve loans with balances totaling $2.0 million were granted market rate and terms concessions, one loan with a balance of $381,000 was granted an interest rate concession and 59 loans with balances totaling $10.1 million were granted term concessions.

As of December 31, 2012, troubled debt restructures were comprised of 42 residential loans totaling $6.9 million, 24 commercial and commercial real estate loans totaling $5.5 million, and six consumer (home equity loans, home equity lines and credit, and other) totaling $158,000.

For the three month period ended December 31, 2012, three loans totaling $471,000 were removed from TDR status. One loan for $172,000 was transferred to foreclosed real estate, and two loans totaling $299,000 completed 12 months of consecutive on time payments.

We have modified terms of loans that do not meet the definition of a TDR. The vast majority of such loans were rate modifications of residential first mortgage loans in lieu of refinancing. The non-TDR rate modifications

were all performing loans when the rates were reset to current market rates. For the three months ended December 31, 2012, we modified 100 loans ($14.1 million) in this fashion. With regard to commercial loans, including commercial real estate loans, various non-troubled loans were modified, either for the purpose of a rate reduction to reflect current market rates (in lieu of a refinance) or the extension of a loan s maturity date. In total, there were ten such loans in the three months ended December 31, 2012 with an aggregate balance of approximately $4.9 million.

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, prepayment and repayment 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 FHLBank advances and other borrowing sources. 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 December 31, 2012, $19.9 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled $2.2 million at December 31, 2012. As of December 31, 2012, we had $229.0 million in borrowings outstanding from FHLBank Pittsburgh and $15.0 million in borrowings through repurchase agreements with other financial institutions. We have access to additional FHLBank advances of up to approximately $577.4 million.

At December 31, 2012, we had $74.0 million in loan commitments outstanding, which included, in part, $31.4 million in undisbursed construction loans and land development loans, $31.6 million in unused home equity lines of credit, $4.9 million in commercial lines of credit and commitments to originate commercial loans, $3.2 million in performance standby letters of credit and $2.7 million in other unused commitments which are primarily to originate residential mortgage loans and multifamily loans. Certificates of deposit due within one year of December 31, 2012 totaled $267.3 million, or 47.3% 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 December 31, 2013. 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 $6.1 million and $3.9 million for the three months ended December 31, 2012 and 2011, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash provided (used) in investing activities was $8.2 million and $(15.8) million for the three months ended December 31, 2012 and 2011, respectively, principally reflecting our loan and investment security activities. Deposit and borrowing cash flows have comprised most of our financing activities which resulted in net cash used of $9.9 million and $779,000 for the three months ended December 31, 2012 and 2011, respectively.

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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements (as such term is defined in applicable Securities and Exchange Commission rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents

Contractual Obligations

During the first three months of fiscal 2013, the Company s contractual obligations did not change materially from those discussed in the Company s Financial Statements for the year ended September 30, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 Company s stock offering increased our capital and provided management with greater flexibility to manage our interest rate risk. In particular, management used the majority of the capital we received to increase our interest-earning assets. There have been no material changes in our interest rate risk since September 30, 2012.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal 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 Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes made in the Company s internal controls over financial reporting (as defined by rule 13a-15(f) under the Securities Exchange Act of 1934) or in other factors that could significantly affect, or are reasonably likely to materially affect, the Company s internal controls over financial reporting during the period covered by this report.

Table of Contents

Part II Other Information

Item 1. 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 financial condition or results of operations.

Item 1A. Risk Factors

In addition to the risk factors relating to the Company that were disclosed in response to Item 1A to part I of Form 10-K for the year ended September 30, 2012, the following additional risk factor exists relating to the First Star merger.

The merger of the Company and First Star and the integration of the companies may be more difficult, costly or time consuming than expected. It is possible that the integration process could result in the loss of key employees or disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the Company s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the merger. As with any member of banking institutions, there may also be business disruptions that cause the Company to lose customers or cause customers to withdraw their deposits from the Company s banking subsidiaries. The success of the combined company following the merger may depend in large part on the ability to integrate the two business models and cultures. If we are not able to integrate the Company s and First Star s operations successfully and in a timely manner, the expected benefits of the merger may not be realized.

The Company may fail to realize the cost savings estimated for the merger. The Company estimates that it will achieve cost savings from the merger when the two companies have been fully integrated, while the Company continues to be comfortable with these expectations, it is possible that the estimates of the potential cost savings could turn out to be incorrect. The cost savings estimates also assume the ability to combine the businesses of the company and First Star in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or the company is not able to successfully combine the two companies the anticipated cost savings may not be fully realized or realized at all, or may take longer to realize than expected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents a summary of the company s share repurchases during the quarter ended December 31, 2012.

Company Purchases of Common Stock

Month Ending	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
October 31, 2012 (1)		$		1,322,991
November 30, 2012 (2)				1,322,991
December 31, 2012 (3)	38,900	10.51	38,900	1,284,091
Total	38,900	$ 10.51	38,900	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are either filed as part of this report or are incorporated herein by reference:

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*
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
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Condition; (ii) the Consolidated Statement of Income; (iii) the Consolidated Statement of Changes in Stockholder Equity; the Consolidated Statement of Cash Flows; and (iv) the Notes to Consolidated Financial Statements. ***

* 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.

*** As provided in Pub. 406 of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

Pursuant to the requirements 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: February 11, 2013	/s/ Gary S. Olson Gary S. Olson President and Chief Executive Officer
Date: February 11, 2013	/s/ Allan A. Muto Allan A. Muto Executive Vice President and Chief Financial Officer