ESSA Bancorp, Inc.
Form 10-Q
February 10, 2014
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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, 2013

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 3, 2014 there were 11,892,664 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	December 31, 2013	September 30, 2013
	(dollars in thousands)	
Cash and due from banks	$ 11,293	$ 22,393
Interest-bearing deposits with other institutions	3,524	4,255
Total cash and cash equivalents	14,817	26,648
Certificates of deposit	1,767	1,767
Investment securities available for sale, at fair value	315,829	315,622
Loans receivable (net of allowance for loan losses of $8,369 and $8,064)	922,286	928,230
Regulatory stock, at cost	10,024	9,415
Premises and equipment, net	15,542	15,747
Bank-owned life insurance	29,025	28,797
Foreclosed real estate	2,618	2,111
Intangible assets, net	2,229	2,466
Goodwill	8,817	8,817
Deferred income taxes	12,024	11,183
Other assets	20,218	21,512
TOTAL ASSETS	$ 1,355,196	$ 1,372,315
LIABILITIES		
Deposits	$ 996,391	$ 1,041,059
Short-term borrowings	33,000	23,000
Other borrowings	145,760	129,260
Advances by borrowers for taxes and insurance	7,360	4,962
Other liabilities	6,136	7,588
TOTAL LIABILITIES	1,188,647	1,205,869
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; 11,927,964 and 11,945,564 outstanding at December 31, 2013 and September 30,	181	181

2013)		
Additional paid in capital	182,506	182,440
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(10,419)	(10,532)
Retained earnings	73,169	71,709
Treasury stock, at cost; 6,205,131 and 6,187,531 shares outstanding at December 31, 2013 and September 30, 2013, respectively	(76,313)	(76,117)
Accumulated other comprehensive loss	(2,575)	(1,235)
TOTAL STOCKHOLDERS EQUITY	166,549	166,446
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,355,196	$ 1,372,315

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended December 31,	
	2013	2012
	(dollars in thousands, except per share data)	
INTEREST INCOME		
Loans receivable, including fees	$ 10,523	$ 12,237
Investment securities:		
Taxable	1,527	1,630
Exempt from federal income tax	73	54
Other investment income	59	29
Total interest income	12,182	13,950
INTEREST EXPENSE		
Deposits	1,988	1,971
Short-term borrowings	23	36
Other borrowings	680	1,224
Total interest expense	2,691	3,231
NET INTEREST INCOME	9,491	10,719
Provision for loan losses	750	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,741	9,719
NONINTEREST INCOME		
Service fees on deposit accounts	792	807
Services charges and fees on loans	185	229
Trust and investment fees	211	215
Gain on sale of investments, net		30
Gain on sale of loans, net		334
Earnings on Bank-owned life insurance	228	226
Insurance commissions	193	175
Other	18	10

Total noninterest income		1,627		2,026
NONINTEREST EXPENSE				
Compensation and employee benefits		4,308		4,556
Occupancy and equipment		918		949
Professional fees		409		312
Data processing		680		663
Advertising		106		110
Federal Deposit Insurance Corporation (FDIC) premiums		229		185
Loss (Gain) on foreclosed real estate		42		(226)
Merger related costs		258		
Amortization of intangible assets		237		250
Other		561		706
Total noninterest expense		7,748		7,505
Income before income taxes		2,620		4,240
Income taxes		616		1,361
NET INCOME	$	2,004	$	2,879
Earnings per share				
Basic	$	0.18	$	0.24
Diluted	$	0.18	$	0.24
Dividends per share	$	0.05	$	0.05

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended December 31,	
	2013	**2012**
Net income	$ 2,004	$ 2,879
Other comprehensive loss:		
Investment securities available for sale:		
Unrealized holding loss	(2,036)	(932)
Tax effect	691	318
Reclassification of gains recognized in net income		(30)
Tax effect		10
Net of tax amount	(1,345)	(634)
Pension plan adjustment:		
Related to actuarial losses and prior service cost	7	97
Tax effect	(2)	(33)
Net of tax amount	5	64
Total other comprehensive loss	(1,340)	(570)
Comprehensive income	$ 664	$ 2,309

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock							
	Number of Shares	**Amount**	**Additional Paid In Capital**	**Unallocated Common Stock Held by the ESOP**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total Stockholders Equity**
				(Dollars in thousands)				
Balance, September 30, 2013	11,945,564	$ 181	$ 182,440	$ (10,532)	$ 71,709	$ (76,117)	$ (1,235)	$ 166,446
Net income					2,004			2,004
Other comprehensive loss							(1,340)	(1,340)
Cash dividends declared ($ .05 per share)					(544)			(544)
Stock based compensation			55					55
Allocation of ESOP stock			11	113				124
Treasury shares purchased	(17,600)					(196)		(196)
Balance, December 31, 2013	11,927,964	$ 181	$ 182,506	$ (10,419)	$ 73,169	$ (76,313)	$ (2,575)	$ 166,549

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended December 31,	
	2013	**2012**
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 2,004	$ 2,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	750	1,000
Provision for depreciation and amortization	291	286
Amortization and accretion of discounts and premiums, net	240	369
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	124	114
Stock based compensation	55	527
Decrease in accrued interest receivable	106	360
Increase (decrease) in accrued interest payable	309	(13)
Earnings on bank-owned life insurance	(228)	(226)
Deferred federal income taxes	(151)	307
Decrease in prepaid FDIC premiums		175
(Gain) loss on foreclosed real estate, net	42	(226)
Amortization of identifiable intangible assets	237	250
Other, net	(606)	2,038
Net cash provided by operating activities	3,173	6,060
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	12,952	37,955
Purchases	(15,457)	(42,306)
Decrease in loans receivable, net	4,586	8,214
Redemption of FHLB stock	626	2,860
Purchase of FHLB stock	(1,235)	
Investment in limited partnership		(110)
Proceeds from sale of foreclosed real estate	82	1,246
Purchase of premises, equipment, and software	(48)	(245)

Net cash provided by investing activities		1,506		8,220
FINANCING ACTIVITIES				
Decrease in deposits, net		(44,668)		(21,745)
Net increase in short-term borrowings		10,000		41,219
Proceeds from other borrowings		21,500		7,000
Repayment of other borrowings		(5,000)		(39,000)
Increase in advances by borrowers for taxes and insurance		2,398		3,511
Purchase of treasury stock shares		(196)		(293)
Dividends on common stock		(544)		(605)
Net cash used for financing activities		(16,510)		(9,913)
Increase (decrease) in cash and cash equivalents		(11,831)		4,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		26,648		15,550
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	14,817	$	19,917
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Cash Paid:				
Interest	$	2,382	$	3,244
Income taxes				5
Noncash items:				
Transfers from loans to foreclosed real estate	$	631	$	525
Treasury stock payable				116

See accompanying notes to the unaudited consolidated financial statements.

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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; 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 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, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014.

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, 2013 and 2012.

	Three months ended

	December 31, 2013	December 31, 2012
Weighted-average common shares outstanding	18,133,095	18,133,095
Average treasury stock shares	(6,190,794)	(4,906,440)
Average unearned ESOP shares	(1,035,427)	(1,080,703)
Average unearned non-vested shares	(16,718)	(57,827)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,890,156	12,088,125
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	16,073	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,906,229	12,088,125

At December 31, 2013 and 2012 there were options to purchase 317,910 and 1,458,379 shares, respectively, 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, 2013 and 2012 there were 14,997 and 47,913 shares, respectively, of nonvested stock outstanding at prices of $10.94 and $12.35 per share, respectively, 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 February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. The ASU requires the measurement of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors as well as any additional amount that the entity expects to pay on behalf of its co-obligors. The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2013, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In April 2013, the FASB issued ASU 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*. The amendments in this update are being issued to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity s governing documents from the entity s inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity s inception. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted. Entities that use the liquidation basis of accounting as of the effective date in accordance with other Topics (for example, terminating employee benefit plans) are not required to apply the amendments. Instead, those entities should continue to apply the guidance in those other Topics until they have completed liquidation. This ASU is not expected to have a significant impact on the Company s financial statements.

In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements.* The amendments in this update affect the scope,

measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following: 1. Change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment Company. 2. Require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. 3. Require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity s status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this update are effective for an entity s interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. This ASU is not expected to have a significant impact on the Company s financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the

tax position at the reporting date. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In January 2014, FASB issued ASU 2014-01, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.* The amendments in this update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company s financial statements.

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5. Investment Securities

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

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 118,067	$ 1,166	$ (2,088)	$ 117,145
Freddie Mac	57,856	760	(1,628)	56,988
Governmental National Mortgage Association	37,054	246	(267)	37,033
Other mortgage-backed securities	3,111		(16)	3,095
Total mortgage-backed securities	216,088	2,172	(3,999)	214,261
Obligations of states and political subdivisions	24,079	555	(622)	24,012
U.S. government agency securities	52,503	188	(738)	51,953
Corporate obligations	12,727	187	(180)	12,734
Trust-preferred securities	4,967	500		5,467
Other debt securities	5,369	45	(37)	5,377
Total debt securities	315,733	3,647	(5,576)	313,804
Equity securities - financial services	2,025			2,025
Total	$ 317,758	$ 3,647	$ (5,576)	$ 315,829

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 114,927	$ 1,691	$ (1,595)	$ 115,023
Freddie Mac	60,111	838	(1,252)	59,697
Governmental National Mortgage Association	39,692	289	(230)	39,751
Other mortgage-backed securities	3,385		(19)	3,366
Total mortgage-backed securities	218,115	2,818	(3,096)	217,837
Obligations of states and political subdivisions	23,754	654	(499)	23,909
U.S. government agency securities	52,775	225	(480)	52,520
Corporate obligations	12,756	186	(169)	12,773
Trust-preferred securities	4,943	471		5,414
Other debt securities	1,147	7		1,154

Total debt securities	313,490	4,361	(4,244)	313,607
Equity securities - financial services	2,025		(10)	2,015
Total	$ 315,515	$ 4,361	$ (4,254)	$ 315,622

The amortized cost and fair value of debt securities at December 31, 2013, 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	$ 2,871	$ 2,879
Due after one year through five years	40,356	40,616
Due after five years through ten years	68,652	68,104
Due after ten years	203,854	202,205
Total	$ 315,733	$ 313,804

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For the three months ended December 31, 2013, the Company did not sell any investment securities. 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.

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, 2013						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	42	$ 56,551	$ (1,581)	$ 10,839	$ (507)	$ 67,390	$ (2,088)
Freddie Mac	22	29,338	(1,257)	6,704	(371)	36,042	(1,628)
Governmental National Mortgage Association	7	6,280	(196)	3,649	(71)	9,929	(267)
Other mortgage backed securities	3	2,245	(11)	850	(5)	3,095	(16)
Obligations of states and political subdivisions	9	5,393	(288)	3,450	(334)	8,843	(622)
U.S. government agency securities	13	33,663	(737)	999	(1)	34,662	(738)
Corporate obligations	7	6,002	(180)			6,002	(180)
Other debt securities	1	1,971	(37)			1,971	(37)
Total	104	$ 141,443	$ (4,287)	$ 26,491	$ (1,289)	$ 167,934	$ (5,576)

	September 30, 2013						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	30	$ 47,814	$ (1,589)	$ 1,057	$ (6)	$ 48,871	$ (1,595)
Freddie Mac	20	32,781	(1,252)			32,781	(1,252)
Governmental National Mortgage Association	6	10,301	(230)			10,301	(230)
Other mortgage-backed securities	3	3,366	(19)			3,366	(19)

Obligations of states and political subdivisions	7	8,064	(499)			8,064	(499)
U.S. government agency securities	10	30,084	(479)	999	(1)	31,083	(480)
Corporate obligations	5	5,042	(169)		(0)	5,042	(169)
Equity securities	1	1,990	(10)			1,990	(10)
Total	82	$ 139,442	$ (4,247)	$ 2,056	$ (7)	$ 141,498	$ (4,254)

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.

The Company reviews its position quarterly and has asserted that at December 31, 2013, 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.

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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, 2013	September 30, 2013
Held for investment:		
Real Estate Loans:		
Residential	$ 674,299	$ 686,651
Construction	2,895	2,288
Commercial	159,916	159,469
Commercial	9,908	10,125
Obligations of states and political subdivisions	40,439	33,445
Home equity loans and lines of credit	40,798	41,923
Other	2,400	2,393
	930,655	936,294
Less allowance for loan losses	8,369	8,064
Net loans	$ 922,286	$ 928,230

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
December 31, 2013				
Real Estate Loans:				
Residential	$ 674,299	$ 12,920	$ 159	$ 661,220
Construction	2,895			2,895
Commercial	159,916	16,716	6,049	137,151
Commercial	9,908	438	460	9,010
Obligations of states and political subdivisions	40,439			40,439
Home equity loans and lines of credit	40,798	333	4	40,461
Other	2,400			2,400

Total	$ 930,655	$ 30,407	$ 6,672	$ 893,576

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	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2013				
Real Estate Loans:				
Residential	$ 686,651	$ 14,018	$ 271	$ 672,362
Construction	2,288			2,288
Commercial	159,469	15,478	6,355	137,636
Commercial	10,125	220	502	9,403
Obligations of states and political subdivisions	33,445			33,445
Home equity loans and lines of credit	41,923	379	3	41,541
Other	2,393			2,393
Total	$ 936,294	$ 30,095	$ 7,131	$ 899,068

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.

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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, 2013					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 9,842	$ 11,417	$	$ 10,081	$ 56
Construction					
Commercial	20,286	21,564		18,939	191
Commercial	898	929		793	3
Obligations of states and political subdivisions					
Home equity loans and lines of credit	337	677		338	2
Other					
Total	31,363	34,587		30,151	252
With an allowance recorded:					
Real Estate Loans					
Residential	3,237	3,345	545	3,003	35
Construction					
Commercial	2,479	2,600	259	2,813	
Commercial					
Obligations of states and political subdivisions					
Home equity loans and lines of credit					
Other					
Total	5,716	5,945	804	5,816	35
Total:					
Real Estate Loans					
Residential	13,079	14,762	545	13,084	91
Construction					
Commercial	22,765	24,164	259	21,752	191
Commercial	898	929		793	3
Obligations of states and political subdivisions					
Home equity loans and lines of credit	337	677		338	2
Other					
Total Impaired Loans	$ 37,079	$ 40,532	$ 804	$ 35,967	$ 287

September 30, 2013	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 11,251	$ 13,013	$	$ 9,716	$ 159
Construction					
Commercial	18,711	20,258		20,751	615
Commercial	722	731		1,034	9
Obligations of states and political subdivisions					
Home equity loans and lines of credit	382	683		373	3
Other				18	
Total	31,066	34,685		31,892	786
With an allowance recorded:					
Real Estate Loans					
Residential	3,038	3,221	518	2,655	74
Construction					
Commercial	3,122	3,178	301	2,839	
Commercial					
Obligations of states and political subdivisions					
Home equity loans and lines of credit					
Other					
Total	6,160	6,399	819	5,494	74
Total:					
Real Estate Loans					
Residential	14,289	16,234	518	12,371	233
Construction					
Commercial	21,833	23,436	301	23,590	615
Commercial	722	731		1,034	9
Obligations of states and political subdivisions					
Home equity loans and lines of credit	382	683		373	3
Other				18	
Total Impaired Loans	$ 37,226	$ 41,084	$ 819	$ 37,386	$ 860

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.

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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, 2013 and September 30, 2013 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2013					
Commercial real estate loans	$ 131,743	$ 6,796	$ 21,066	$ 311	$ 159,916
Commercial	8,945	407	556		9,908
Obligations of states and political subdivisions	40,439				40,439
Total	$ 181,127	$ 7,203	$ 21,622	$ 311	$ 210,263

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2013					
Commercial real estate loans	$ 129,799	$ 9,440	$ 20,230	$	$ 159,469
Commercial	9,466	436	223		10,125
Obligations of states and political subdivisions	33,445				33,445
Total	$ 172,710	$ 9,876	$ 20,453	$	$ 203,039

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, 2013 and September 30, 2013 (in thousands):

	Performing	Non-performing	Total
December 31, 2013			
Real estate loans:			
Residential	$ 664,454	$ 9,845	$ 674,299
Construction	2,895		2,895
Home equity loans and lines of credit	40,407	391	40,798
Other	2,400		2,400
Total	$ 710,156	$ 10,236	$ 720,392

	Performing	Non-performing	Total
September 30, 2013			
Real estate loans:			
Residential	$ 675,706	$ 10,945	$ 686,651
Construction	2,288		2,288
Home equity loans and lines of credit	41,584	339	41,923
Other	2,393		2,393
Total	$ 721,971	$ 11,284	$ 733,255

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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, 2013 and September 30, 2013 (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, 2013							
Real estate loans							
Residential	$ 660,623	$ 2,616	$ 1,215	$	$ 9,845	$ 13,676	$ 674,299
Construction	2,895						2,895
Commercial	147,320	200	329		12,067	12,596	159,916
Commercial	8,650		58		1,200	1,258	9,908
Obligations of states and political subdivisions	40,439						40,439
Home equity loans and lines of credit	40,189	201	17		391	609	40,798
Other	2,350	7	43			50	2,400
Total	$ 902,466	$ 3,024	$ 1,662	$	$ 23,503	$ 28,189	$ 930,655

	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, 2013							
Real estate loans							
Residential	$ 671,850	$ 2,866	$ 990	$	$ 10,945	$ 14,801	$ 686,651
Construction	2,288						2,288
Commercial	146,062	2,589			10,818	13,407	159,469
Commercial	8,948				1,177	1,177	10,125
Obligations of states and political subdivisions	33,445						33,445

Home equity loans and lines of credit	41,380	127	77		339	543	41,923
Other	2,336	57				57	2,393
Total	$ 906,309	$ 5,639	$ 1,067	$	$ 23,279	$ 29,985	$ 936,294

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, 2013 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.

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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.

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, 2013 (in thousands):

	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
	Residential	Construction	Commercial						
ALL balance at September 30, 2013	$ 5,787	$ 20	$ 946	$ 337	$ 130	$ 430	$ 21	$ 393	$ 8,064
Charge-offs	(387)		(38)	(48)		(63)			(536)
Recoveries	77			11			3		91
Provision	426	6	103	30	(24)	124	(2)	87	750
ALL balance at December 31, 2013	$ 5,903	$ 26	$ 1,011	$ 330	$ 106	$ 491	$ 22	$ 480	$ 8,369

	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
	Residential	Construction	Commercial						
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	Unallocated	Total

	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans		
Individually evaluated for impairment	$ 545	$	$ 259	$	$	$	$	$	$ 804
Collectively evaluated for impairment	5,358	26	752	330	106	491	22	480	7,565
ALL balance at December 31, 2013	$ 5,903	$ 26	$ 1,011	$ 330	$ 106	$ 491	$ 22	$ 480	$ 8,369

	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Other Loans	Unallocated	Total
	Residential	Construction	Commercial						
Individually evaluated for impairment	$ 518	$	$ 301	$	$	$	$	$	$ 819
Collectively evaluated for impairment	5,269	20	645	337	130	430	21	393	7,245
ALL balance at September 30, 2013	$ 5,787	$ 20	$ 946	$ 337	$ 130	$ 430	$ 21	$ 393	$ 8,064

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 increased provisions to the residential real estate, commercial real estate and other loan segments for the three month period ending December 31, 2013 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, 2013 and 2012.

	For the Three Months Ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	4	$ 599	$ 599
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Other			
Total	4	$ 599	$ 599

Of the four new troubled debt restructurings granted for the three months ended December 31, 2013, two loans totaling $469,000 were granted terms concessions and two loans totaling $130,000 were granted terms and rate concessions.

	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

One loan for $130,000 was granted terms and rate concessions for the three months ended December 31, 2012.

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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, 2013	
	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	1	98
Other		
Total	$ 1	$ 98

There were no troubled debt restructurings that defaulted within one year of modification for the twelve months ended December 31, 2012.

8. Deposits

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

	December 31, 2013	September 30, 2013
Non-interest bearing demand accounts	$ 59,110	$ 58,795
NOW accounts	93,141	99,857
Money market accounts	137,300	138,049
Savings and club accounts	111,317	110,189
Certificates of deposit	595,523	634,169
Total	$ 996,391	$ 1,041,059

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, 2013 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,	
	2013	2012
Service Cost	$ 144	$ 176
Interest Cost	191	179
Expected return on plan assets	(290)	(258)
Amortization of unrecognized loss	7	97
Net periodic benefit cost	$ 52	$ 194

The Bank plans to contribute $550,000 to its pension plan in 2014.

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. Certain officers were granted in aggregate 30,000 shares of restricted stock on April 1, 2013. In accordance with generally accepted accounting principles, the Company expenses the fair value of all share-based compensation grants over the requisite service periods.

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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 2013 restricted shares vest over an 18-month 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.

For the three months ended December 31, 2013 and 2012, the Company recorded $55,000 and $527,000 of share-based compensation expense, respectively, comprised of restricted stock expense of $55,000 for the December 31, 2013 period and stock option expense of $172,000 and restricted stock expense of $356,000 for the December 31, 2012 period. Expected future compensation expense relating to the 14,995 restricted shares at December 31, 2013, is $164,000 over the remaining vesting period of 0.75 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, 2013.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2013	1,458,379	$ 12.35	4.67	$
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2013	1,458,379	$ 12.35	4.42	$
Exercisable at December 31, 2013	1,458,379	$ 12.35	4.42	$

The weighted-average grant date fair value of the Company s non-vested options as of December 31, 2013 and 2012 was $12.35.

The following is a summary of the status of the Company s restricted stock as of December 31, 2013, and changes therein during the three month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2013	14,995	$ 10.94
Granted		
Vested		
Forfeited		
Nonvested at December 31, 2013	14,995	$ 10.94

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.

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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, 2013 and September 30, 2013 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, 2013

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, 2013
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 214,261	$	$ 214,261
Obligations of states and political subdivisions		24,012		24,012
U.S. government agencies		51,953		51,953
Corporate obligations		12,734		12,734
Trust-preferred securities		3,627	1,840	5,467
Other debt securities		5,377		5,377
Equity securities-financial services	2,025			2,025
Total debt and equity securities	$ 2,025	$ 311,964	$ 1,840	$ 315,829
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,618	$ 2,618
Impaired loans measured on a non-recurring basis	$	$	$ 36,275	$ 36,275

Fair Value Measurement at September 30, 2013

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, 2013
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 217,837	$	$ 217,837
Obligations of states and political subdivisions		23,909		23,909
U.S. government agencies		52,520		52,520
Corporate obligations		12,773		12,773
Trust-preferred securities		3,614	1,800	5,414
Other debt securities		1,154		1,154

Equity securities-financial services	2,015			2,015
Total debt and equity securities	$ 2,015	$ 311,807	$ 1,800	$ 315,622
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,111	$ 2,111
Impaired loans measured on a non-recurring basis	$	$	$ 36,407	$ 36,407

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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, 2013 and September 30, 2013.

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	December 31, 2013	September 30, 2013
Beginning balance	$ 1,800	$ 1,740
Purchases, sales, issuances, settlements, net		
Total unrealized gain:		
Included in earnings		
Included in other comprehensive income	40	60
Transfers in and/or out of Level III		
Ending balance	$ 1,840	$ 1,800

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.

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, 2013, 224 impaired loans with a carrying value of $37.1 million were reduced by specific valuation allowance totaling $804,000 resulting in a net fair value of $36.3 million based on Level 3 inputs.

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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 (Weighted Average)**
December 31, 2013:				
Impaired loans	36,275	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30% (23.0%)
Foreclosed real estate owned	2,618	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	20% to 40% (21.9%)

	Quantitative Information about Level 3 Fair Value Measurements			
(unaudited, in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
September 30, 2013:				
Impaired loans	36,407	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30% (23.5%)
Foreclosed real estate owned	2,111	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	20% to 40% (20.4%)

(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.

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, 2013

	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 14,817	$ 14,817	$	$	$ 14,817
Investment and mortgage backed securities available for sale	315,829	2,025	311,964	1,840	315,829
Loans receivable, net	922,286			943,403	943,403
Accrued interest receivable	4,307	4,307			4,307
FHLB stock	10,024	10,024			10,024
Mortgage servicing rights	371			371	371
Bank owned life insurance	29,025	29,025			29,025
Financial liabilities:					
Deposits	$ 996,391	$ 377,386	$	$ 598,669	976,055
Short-term borrowings	33,000	33,000			33,000
Other borrowings	145,760			145,630	145,630
Advances by borrowers for taxes and insurance	7,360	7,360			7,360
Accrued interest payable	1,142	1,142			1,142

	September 30, 2013				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 26,648	$ 26,648	$	$	$ 26,648
Investment and mortgage backed securities available for sale	315,622	2,015	311,807	1,800	315,622
Loans receivable, net	928,230			951,120	951,120
Accrued interest receivable	4,413	4,413			4,413
FHLB stock	9,415	9,415			9,415
Mortgage servicing rights	382			382	382
Bank owned life insurance	28,797	28,797			28,797
Financial liabilities:					
Deposits	$ 1,041,059	$ 406,890	$	$ 638,510	1,045,400
Short-term borrowings	23,000	23,000			23,000
Other borrowings	129,260			124,504	124,504
Advances by borrowers for taxes and insurance	4,962	4,962			4,962
Accrued interest payable	833	833			833

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.

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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.

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.

12. Accumulated Other Comprehensive Income

The activity in accumulated other comprehensive income for the three months ended December 31, 2013 and 2012 is as follows:

	Accumulated Other Comprehensive Income/(Loss) (1)		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Total
Balance at September 30, 2013	$ (1,306)	$ 71	$ (1,235)
Other comprehensive loss before reclassifications		(1,345)	(1,345)
Amounts reclassified from accumulated other comprehensive income	5		5
Period change	5	(1,345)	(1,340)

Balance at December 31, 2013	$ (1,301)	$ (1,274)	$ (2,575)
Balance at September 30, 2012	$ (4,450)	$ 6,208	$ 1,758
Other comprehensive loss before reclassifications		(614)	(614)
Amounts reclassified from accumulated other comprehensive income	64	(20)	44
Period change	64	(634)	(570)
Balance at December 31, 2012	$ (4,386)	$ 5,574	$ 1,188

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximating 34%.

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	Amount Reclassified from Accumulated Other Comprehensive Income (1)		
	Accumulated Other Comprehensive Income for the Three Months Ended December 31,		Affected Line Item in the Consolidated Statement of Income
	2013	2012	
Securities available for sale:			
Net securities gains reclassified into earnings	$	$ 30	Gain on sale of investments, net
Related income tax expense		(10)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period		20	Net of tax
Defined benefit pension plan:			
Amortization of net loss and prior service costs	(7)	(97)	Compensation and employee benefits
Related income tax expense	$ 2	$ 33	Provision for income taxes
Net effect on accumulated other	(5)	(64)	Net of tax
Total reclassification for the period	$ (5)	$ (44)	Net of tax

(1) Amounts in parentheses indicate debits.

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.

Comparison of Financial Condition at December 31, 2013 and September 30, 2013

Total Assets. Total assets decreased by $17.1 million, or 1.3%, to $1,355 million at December 31, 2013 from $1,372 million at September 30, 2013. Decreases in cash and due from banks and loans receivable were the primary reasons for the decline.

Cash and Due from Banks. Cash and due from banks declined $11.1 million to $11.3 million at December 31, 2013 from $22.4 million at September 30, 2013. The primary reason for the decline was a decline in the Company s Federal Reserve account of $9.8 million.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions decreased $731,000, or 17.2%, to $3.5 million at December 31, 2013 from $4.3 million at September 30, 2013.

Net Loans. Net loans decreased $5.9 million, or 0.6%, to $922.3 million at December 31, 2013 from $928.2 million at September 30, 2013. During this period, residential real estate loans outstanding decreased by $12.4 million to $674.3 million. Commercial loans decreased $217,000 to $9.9 million, and home equity loans and lines of credit decreased $1.1 million to $40.8 million. These decreases were partially offset by increases in construction loans outstanding of $607,000 to $2.9 million, commercial real estate loans of $447,000 to $159.9 million, other loans of $7,000 to $2.4 million and obligations of states and political subdivisions of $7.0 million to $40.4 million.

Other Assets. Other assets decreased $1.3 million, or 6.0%, to $20.2 million at December 31, 2013 from $21.5 million at September 30, 2013.

Deposits. Deposits decreased $44.7 million, or 4.3%, to $996.4 million at December 31, 2013 from $1.0 billion at September 30, 2013. At December 31, 2013 compared to September 30, 2013, certificate of deposit accounts decreased $38.6 million to $595.5 million, NOW accounts decreased $6.7 million to $93.1 million, and money market accounts decreased $749,000 million to $137.3 million. These decreases were offset, in part, during the same period by an increase in non-interest bearing demand accounts of $315,000 million to $59.1 million and savings and club accounts of $1.1 million to $111.3 million. Included in the certificates of deposit at December 31, 2013 was a decrease in brokered certificates of $32.5 million to $200.9 million. Brokered certificates declined primarily because FHLBank Pittsburgh borrowings were a less costly funding alternative.

Borrowed Funds. Borrowed funds increased by $26.5 million, or 17.4%, to $178.8 million at December 31, 2013, from $152.3 million at September 30, 2013. The increase in borrowed funds was primarily due to increases in short term FHLBank Pittsburgh borrowings of $10.0 million and other borrowings of $16.5 million.

Stockholders Equity. Stockholders equity increased by $103,000, or 0.1%, to $166.5 million at December 31, 2013 from $166.5 million at September 30, 2013. This increase was primarily the result of net income of $2.0 million which was partially offset by an increase in accumulated other comprehensive loss of $1.3 million to $2.6 million at December 31, 2013 from $1.2 million at September 30, 2013.

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Average Balance Sheets for the Three Months Ended December 31, 2013 and 2012

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,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
			(dollars in thousands)			
Interest-earning assets:						
Loans (1)	$ 928,643	$ 10,523	4.50%	$ 953,090	$ 12,237	5.09%
Investment securities						
Taxable (2)	87,136	426	1.94%	96,785	422	1.73%
Exempt from federal income tax (2) (3)	13,685	73	3.21%	10,038	54	3.23%
Total investment securities	100,821	499	2.11%	106,823	476	1.87%
Mortgage-backed securities	217,736	1,101	2.01%	218,612	1,208	2.19%
Federal Home Loan Bank stock	9,729	55	2.24%	19,914	24	0.48%
Other	7,989	4	0.20%	5,657	5	0.35%
Total interest-earning assets	1,264,918	12,182	3.83%	1,304,096	13,950	4.25%
Allowance for loan losses	(7,993)			(7,408)		
Noninterest-earning assets	104,109			102,046		
Total assets	$ 1,361,034			$ 1,398,734		
Interest-bearing liabilities:						
NOW accounts	$ 90,559	11	0.05%	$ 95,415	13	0.05%
Money market accounts	137,745	70	0.20%	153,302	116	0.30%
Savings and club accounts	107,367	14	0.05%	100,692	12	0.05%
Certificates of deposit	614,547	1,893	1.22%	578,902	1,830	1.25%
Borrowed funds	170,358	703	1.64%	228,709	1,260	2.19%
Total interest-bearing liabilities	1,120,576	2,691	0.95%	1,157,020	3,231	1.11%
Non-interest bearing NOW accounts	58,412			48,791		
Noninterest-bearing liabilities	13,988			15,586		
Total liabilities	1,192,976			1,221,397		
Equity	168,058			177,337		

Total liabilities and equity	$ 1,361,034		$ 1,398,734	
Net interest income	$ 9,491		$ 10,719	
Interest rate spread		2.88%		3.14%
Net interest-earning assets	$ 144,342		$ 147,076	
Net interest margin (4)		2.98%		3.26%
Average interest-earning assets to average interest-bearing liabilities	112.88%		112.71%	

(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.

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Comparison of Operating Results for the Three Months Ended December 31, 2013 and December 31, 2012

Net Income. Net income decreased $875,000, or 30.4%, to $2.0 million for the three months ended December 31, 2013 compared to net income of $2.9 million for the comparable period in 2012. The decrease was due primarily to decreases in net interest income and noninterest income along with an increase in noninterest expenses.

Net Interest Income. Net interest income decreased $1.2 million, or 11.5%, to $9.5 million for the three months ended December 31, 2013 from $10.7 million for the comparable period in 2012. The decrease was primarily attributable to a decrease in the Company s interest rate spread to 2.88% for the three months ended December 31, 2013, from 3.14% for the comparable period in 2012, along with a decrease of $2.7 million in the Company s average net earnings assets.

Interest Income. Interest income decreased $1.8 million, or 12.7%, to $12.2 million for the three months ended December 31, 2013 from $14.0 million for the comparable 2012 period. The decrease resulted primarily from a decline in the yield on interest earning assets. Average interest earning assets decreased $39.2 million and the average yield on interest earning assets decreased forty-two basis points. The average yield on interest earning assets was 3.83% for the three months ended December 31, 2013, as compared to 4.25% for the comparable 2012 period. Loans decreased on average $24.4 million between the two periods. In addition, average investment securities decreased $6.0 million, mortgage-backed securities decreased $876,000, FHLBank Pittsburgh stock decreased $10.2 million and other interest earning assets increased $2.3 million. The increase in other interest earning assets was primarily due to a corresponding increase in the average balance of cash held at FHLBank Pittsburgh. Interest income for the three months ended December 31, 2013 included approximately $77,000 of net accretion of fair market value adjustments for credit and yield applied to First Star loans at the acquisition closing date of July 31, 2012 compared to $424,000 for the comparable 2012 period. In addition, interest income for the quarter included approximately $541,000 of the recapture of fair value adjustments to loans acquired as part of the First Star acquisition that were either fully or partially repaid during the quarter compared to $973,000 of similar repayments for the comparable 2012 period.

Interest Expense. Interest expense decreased $540,000, or 16.7%, to $2.7 million for the three months ended December 31, 2013 from $3.2 million for the comparable 2012 period. The decrease resulted from a 16 basis point decrease in the overall cost of interest bearing liabilities to 0.95% for the three months ended December 31, 2013 from 1.11% for the comparable 2012 period, along with a $36.4 million decrease in average interest-bearing liabilities. Average interest bearing liabilities decreased primarily as a result of declines in borrowed funds of $58.4 million, money market accounts of $15.6 million and NOW accounts of $4.9 million offset, in part, by an increase in certificates of deposit of $35.6 million and savings and club accounts of $6.7 million.

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 $750,000 for the three month period ended December 31, 2013 as compared to $1.0 million for the three month period ended December 31, 2012. The allowance for loan losses was $8.4 million, or 0.90% of loans outstanding, at December 31, 2013, compared to $8.1 million, or 0.86% of loans outstanding at September 30, 2013.

Non-interest Income. Non-interest income decreased $399,000, or 19.7%, to $1.6 million for the three months ended December 31, 2013 from $2.0 million for the comparable period in 2012. The primary reasons for the decrease were decreases in gain on sale of loans, net of $334,000, service fees on loans of $44,000 and gain on sale of investments of $30,000 during the three months ended December 31, 2013. 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 quarter ended December 31, 2013.

Non-interest Expense. Non-interest expense increased $243,000, or 3.2%, to $7.7 million for the three months ended December 31, 2013 from $7.5 million for the comparable period in 2012. The primary reasons for the increase were increases in (gain) loss on foreclosed real estate of $268,000, merger related costs of $258,000 and professional fees of $97,000. These increases were partially offset by decreases in compensation and employee benefits of $248,000 and occupancy and equipment of $31,000 and amortization of intangible assets of $145,000.

Income Taxes. Income tax expense decreased $745,000 to $616,000 for the three months ended December 31, 2013 from $1.4 million for the comparable 2012 period. The decrease was primarily a result of a decrease in income before taxes of $1.6 million for the three months ended December 31, 2013. The effective tax rate was 23.5% for the three months ended December 31, 2013, compared to 32.1% for the 2012 period. The decrease in the effective tax rate was primarily due to the increase in low income housing tax credits for the three months ended December 31, 2013 compared to the 2012 period and to the decrease in the portion of pre-tax income derived from non-taxable loan and investment income for the 2013 period compared to the 2012 period.

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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, 2013	September 30, 2013
Non-performing assets:		
Non-accruing loans	$ 23,503	$ 23,279
Troubled debt restructures	713	585
Total non-performing loans	24,216	23,864
Foreclosed real estate	2,618	2,111
Total non-performing assets	$ 26,834	$ 25,975
Ratio of non-performing loans to total loans	2.60%	2.55%
Ratio of non-performing loans to total assets	1.79%	1.74%
Ratio of non-performing assets to total assets	1.98%	1.89%
Ratio of allowance for loan losses to total loans	0.90%	0.86%

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 $860,000 to $26.8 million at December 31, 2013 from $26.0 million at September 30, 2013. Non-performing loans increased $352,000 to $24.2 million at December 31, 2013 from $23.9 million at September 30, 2013. The increase was primarily due to an increase of $1.2 million in nonperforming commercial loans and was offset, in part, by a decline in residential mortgage loans of $1.1 million. The increase in commercial loans was primarily due to the addition of one commercial real estate loan. At December 31, 2013 the outstanding balance of this loan was $1.7 million. The number of nonperforming residential loans decreased to 86 at December 31, 2013, from 89 at September 30, 2013. The $23.5 million of non-accruing loans at December 31, 2013 included 82 residential loans with an aggregate outstanding balance of $8.9 million that were past due 90 or more days at December 31, 2013, 52 commercial and commercial real estate loans with aggregate outstanding balances of $4.8 million and 18 consumer loans with aggregate balances of $310,000. Within the residential loan balance are $927,000 of loans less than 90 days past due. In the quarter ended December 31, 2013, the Company identified seven residential loans which, although paying as agreed, have a high probability of default. Foreclosed real estate increased $507,000 to $2.6 million at December 31, 2013 from $2.1 million at September 30, 2013. Foreclosed real estate consists of 24 residential properties, two building lots and four commercial properties.

At December 31, 2013, the principal balance of troubled debt restructures was $7.7 million as compared to $7.8 million at September 30, 2013. Of the $7.7 million of troubled debt restructures at December 31, 2013, $4.4 million are performing loans and $3.3 million are non-accrual loans. An additional $713,000 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 59 loans that comprise our troubled debt restructures at December 31, 2013, no loans were granted a rate concession at a below market interest rate. Nineteen loans with balances totaling $2.8 million were granted market rate and terms concessions, and 40 loans with balances totaling $4.9 million were granted term concessions.

As of December 31, 2013, troubled debt restructures were comprised of 42 residential loans totaling $6.0 million, 11 commercial and commercial real estate loans totaling $1.5 million, and six consumer (home equity loans, home equity lines and credit, and other) totaling $197,000.

For the three month period ended December 31, 2013, one loan totaling $357,000 paid off and was removed from TDR status.

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, 2013, we modified 11 loans ($957,000) 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 eight such loans in the three months ended December 31, 2013 with an aggregate balance of approximately $7.1 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, 2013, $14.8 million of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the maturities of investment securities, principal repayments of mortgage-backed securities and increases in deposit accounts. Short-term investment securities (maturing in one year or less) totaled $2.9 million at December 31, 2013. As of December 31, 2013, we had $168.8 million in borrowings outstanding from FHLBank Pittsburgh and $10.0 million in borrowings through repurchase agreements with other financial institutions. We have access to additional FHLBank Pittsburgh advances of up to approximately $592.9 million.

At December 31, 2013, we had $59.8 million in loan commitments outstanding, which included, in part, $19.3 million in undisbursed construction loans and land development loans, $31.8 million in unused home equity lines of credit, $3.5 million in commercial lines of credit and commitments to originate commercial loans, $4.5 million in performance standby letters of credit and $4.2 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, 2013 totaled $254.2 million, or 42.5% 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, 2014. 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 $3.2 million and $6.1 million for the three months ended December 31, 2013 and 2012, 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 in investing activities was $1.5 million and $8.2 million for the three months ended December 31, 2013 and 2012, 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 $16.5 million and $9.9 million for the three months ended December 31, 2013 and 2012, 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.

Contractual Obligations

During the first three months of fiscal 2014, the Company s contractual obligations did not change materially from those discussed in the Company s Financial Statements for the year ended September 30, 2013.

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, 2013.

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.

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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

There have been no material changes in the Risk Factors as disclosed in the Company s response to Item 1A to Part I of Form 10-K for the year ended September 30, 2013 filed on December 16, 2013.

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, 2013.

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, 2013		$		
November 30, 2013				
December 31, 2013	17,600	11.14	17,600	
Total	17,600	$ 11.14	17,600	41,626

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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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.

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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 10, 2014	/s/ Gary S. Olson Gary S. Olson President and Chief Executive Officer
Date: February 10, 2014	/s/ Allan A. Muto Allan A. Muto Executive Vice President and Chief Financial Officer