ESSA Bancorp, Inc.
Form 10-Q
May 11, 2015
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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 March 31, 2015

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 May 5, 2015 there were 11,434,378 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

ESSA Bancorp, Inc.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	March 31, 2015	September 30, 2014
	(dollars in thousands)	
Cash and due from banks	$ 13,392	$ 20,884
Interest-bearing deposits with other institutions	3,218	1,417
Total cash and cash equivalents	16,610	22,301
Certificates of deposit	1,752	1,767
Investment securities available for sale, at fair value	383,350	383,078
Loans receivable (net of allowance for loan losses of $8,668 and $8,634)	1,078,495	1,058,267
Regulatory stock, at cost	13,644	14,284
Premises and equipment, net	16,838	16,957
Bank-owned life insurance	30,190	29,720
Foreclosed real estate	2,479	2,759
Intangible assets, net	2,067	2,396
Goodwill	10,259	10,259
Deferred income taxes	9,978	12,027
Other assets	18,909	21,000
TOTAL ASSETS	$ 1,584,571	$ 1,574,815
LIABILITIES		
Deposits	$ 1,103,797	$ 1,133,889
Short-term borrowings	110,001	108,020
Other borrowings	179,960	151,300
Advances by borrowers for taxes and insurance	8,565	4,093
Other liabilities	9,743	10,204
TOTAL LIABILITIES	1,412,066	1,407,506
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; 11,434,378 and 11,590,378 outstanding at March 31, 2015 and September 30,	181	181

2014)		
Additional paid in capital	182,580	182,486
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(9,853)	(10,079)
Retained earnings	80,772	77,413
Treasury stock, at cost; 6,698,717 and 6,542,717 shares outstanding at March 31, 2015 and September 30, 2014, respectively	(81,916)	(80,113)
Accumulated other comprehensive income (loss)	741	(2,579)
TOTAL STOCKHOLDERS EQUITY	172,505	167,309
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,584,571	$ 1,574,815

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 March 31,		For the Six Months Ended March 31,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data)			
INTEREST INCOME				
Loans receivable, including fees	$ 11,100	$ 9,843	$ 22,549	$ 20,366
Investment securities:				
Taxable	1,799	1,523	3,688	3,050
Exempt from federal income tax	239	72	473	145
Other investment income	442	85	578	144
Total interest income	13,580	11,523	27,288	23,705
INTEREST EXPENSE				
Deposits	1,878	1,906	3,843	3,894
Short-term borrowings	103	27	206	50
Other borrowings	597	652	1,187	1,332
Total interest expense	2,578	2,585	5,236	5,276
NET INTEREST INCOME	11,002	8,938	22,052	18,429
Provision for loan losses	525	750	975	1,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,477	8,188	21,077	16,929
NONINTEREST INCOME				
Service fees on deposit accounts	757	722	1,584	1,514
Services charges and fees on loans	274	104	589	289
Trust and investment fees	204	230	442	441
Gain on sale of investments, net	204	236	204	236
Earnings on Bank-owned life insurance	231	225	470	453
Insurance commissions	217	227	399	420
Other	14	8	27	26
Total noninterest income	1,901	1,752	3,715	3,379

NONINTEREST EXPENSE				
Compensation and employee benefits	5,232	4,357	10,346	8,665
Occupancy and equipment	1,134	1,065	2,115	1,983
Professional fees	407	498	921	907
Data processing	892	769	1,705	1,449
Advertising	224	114	352	220
Federal Deposit Insurance Corporation (FDIC) premiums	289	235	581	464
Gain on foreclosed real estate	(137)	(93)	(175)	(51)
Merger related costs		88		346
Amortization of intangible assets	163	237	329	474
Other	894	614	1,890	1,175
Total noninterest expense	9,098	7,884	18,064	15,632
Income before income taxes	3,280	2,056	6,728	4,676
Income taxes	848	554	1,700	1,170
NET INCOME	$ 2,432	$ 1,502	$ 5,028	$ 3,506
Earnings per share				
Basic	$ 0.23	$ 0.14	$ 0.48	$ 0.32
Diluted	$ 0.23	$ 0.14	$ 0.48	$ 0.32
Dividends per share	$ 0.09	$ 0.07	$ 0.16	$ 0.12

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 March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(dollars in thousands)			
Net income	$ 2,432	$ 1,502	$ 5,028	$ 3,506
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gain (loss)	2,374	1,333	5,112	(703)
Tax effect	(807)	(453)	(1,737)	239
Reclassification of gains recognized in net income	(204)	(236)	(204)	(236)
Tax effect	69	80	69	80
Net of tax amount	1,432	724	3,240	(620)
Pension plan adjustment:				
Related to actuarial losses and prior service cost	60	7	120	14
Tax effect	(20)	(2)	(40)	(5)
Net of tax amount	40	5	80	9
Total other comprehensive income (loss)	1,472	729	3,320	(611)
Comprehensive income	$ 3,904	$ 2,231	$ 8,348	$ 2,895

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 Income (Loss)**	**Total Stockholders Equity**
				(dollars in thousands)				
Balance, September 30, 2014	11,590,378	$ 181	$ 182,486	$ (10,079)	$ 77,413	$ (80,113)	$ (2,579)	$ 167,309
Net income					5,028			5,028
Other comprehensive income							3,320	3,320
Cash dividends declared ($.16 per share)					(1,669)			(1,669)
Stock based compensation			51					51
Allocation of ESOP stock			43	226				269
Treasury shares purchased	(156,000)					(1,803)		(1,803)
Balance, March 31, 2015	11,434,378	$ 181	$ 182,580	$ (9,853)	$ 80,772	$ (81,916)	$ 741	$ 172,505

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 Six Months Ended March 31, 2015	2014
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 5,028	$ 3,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	975	1,500
Provision for depreciation and amortization	641	583
Amortization and accretion of discounts and premiums, net	145	467
Net gain on sale of investment securities	(204)	(236)
Compensation expense on ESOP	269	250
Stock based compensation	51	122
Decrease in accrued interest receivable	159	222
Decrease in accrued interest payable	(18)	(24)
Earnings on bank-owned life insurance	(470)	(453)
Deferred federal income taxes	(339)	(148)
Gain on foreclosed real estate, net	(175)	(51)
Amortization of identifiable intangible assets	329	474
Other, net	2,220	994
Net cash provided by operating activities	8,611	7,206
INVESTING ACTIVITIES		
Maturities of certificates of deposit	15	
Investment securities available for sale:		
Proceeds from sale of investment securities	3,319	8,065
Proceeds from principal repayments and maturities	30,318	37,245
Purchases	(29,317)	(45,221)
(Increase) decrease in loans receivable, net	(22,416)	20,065
Redemption of regulatory stock	7,441	1,484
Purchase of regulatory stock	(6,801)	(2,422)
Proceeds from sale of foreclosed real estate	2,031	1,367
Acquisition, including cash acquired		4,654
Capital improvements to foreclosed real estate	13	
Purchase of premises, equipment, and software	(454)	(267)
Net cash (used for) provided by investing activities	(15,851)	24,970

FINANCING ACTIVITIES				
Decrease in deposits, net		(30,092)		(51,381)
Net increase in short-term borrowings		1,981		15,000
Proceeds from other borrowings		37,860		30,500
Repayment of other borrowings		(9,200)		(14,210)
Increase in advances by borrowers for taxes and insurance		4,472		3,908
Purchase of treasury stock shares		(1,803)		(676)
Dividends on common stock		(1,669)		(1,303)
Net cash provided by (used for) financing activities		1,549		(18,162)
(Decrease) increase in cash and cash equivalents		(5,691)		14,014
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		22,301		26,648
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	16,610	$	40,662
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Cash Paid:				
Interest	$	5,253	$	5,300
Income taxes				2
Noncash items:				
Transfers from loans to foreclosed real estate		1,589		1,373
Acquisition of FNCB:				
Cash received				4,640
Noncash assets acquired				
Loans receivable and accrued interest receivable				1,033
Premises and equipment				1,626
Goodwill				1,442
Total non cash assets				4,101
Liabilities assumed:				
Certificates of deposit				3,069
Deposits other than certificates of deposit				5,683
Total liabilities				8,752
Net noncash assets acquired				(4,651)
Cash acquired				11

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), 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. On November 6, 2014, the Company converted its status from a savings and loan holding company to a bank holding company. In addition, the Bank converted from a Pennsylvania-chartered savings association to a Pennsylvania-chartered savings bank. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton, Lehigh, Lackawanna, and Luzerne counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities 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 and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania Corporation that provided title insurance services and is currently inactive. 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 six month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

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 and six month periods ended March 31, 2015 and 2014.

	Three months ended		Six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014

Weighted-average common shares outstanding	18,133,095	18,133,095	18,133,095	18,133,095
Average treasury stock shares	(6,695,606)	(6,236,798)	(6,652,080)	(6,213,543)
Average unearned ESOP shares	(978,835)	(1,024,111)	(984,555)	(1,029,831)
Average unearned non-vested shares	(16,344)	(12,667)	(16,590)	(13,864)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,442,310	10,859,519	10,479,870	10,875,857
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	386			
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	78,451	184	42,727	8,214
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,521,147	10,859,703	10,522,597	10,884,071

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At March 31, 2015 and 2014 there were options to purchase 317,910 shares of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At March 31, 2015 and 2014 there were 15,290 and 8,886 shares, respectively, of nonvested stock outstanding at prices of $11.07 and $10.94 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:

Recent Accounting Pronouncements:

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 Update 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 Update is not expected to have a significant impact on the Company s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In June 2014, the FASB issued ASU 2014-10, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this Update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This Update is not expected to have a significant impact on the Company s financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period*. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This Update is not expected to have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40)*. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. 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. This Update is not expected to have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements -Going Concern (Subtopic* 205-40). The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).* This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Public business entities are required to implement the new requirements in fiscal years and interim periods within those fiscal years beginning after December 15, 2015. This Update is not expected to have a significant impact on the Company s financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement Extraordinary and Unusual Items,* as part of its initiative to reduce complexity in accounting standards. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company s financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation-Retirement Benefits (Topic 715),* as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangible Goodwill and Other Internal Use Software (Topic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the Board decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update 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):

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 134,955	$ 2,544	$ (461)	$ 137,038
Freddie Mac	92,541	1,343	(348)	93,536
Governmental National Mortgage Association	17,403	97	(75)	17,425
Other mortgage-backed securities	2,707		(17)	2,690
Total mortgage-backed securities	247,606	3,984	(901)	250,689
Obligations of states and political subdivisions	46,281	1,784	(147)	47,918
U.S. government agency securities	44,492	402	(9)	44,885
Corporate obligations	17,284	206	(36)	17,454
Trust-preferred securities	5,075	468		5,543
Other debt securities	14,695	164	(23)	14,836
Total debt securities	375,433	7,008	(1,116)	381,325
Equity securities - financial services	2,025			2,025
Total	$ 377,458	$ 7,008	$ (1,116)	$ 383,350

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 144,291	$ 1,327	$ (1,550)	$ 144,068
Freddie Mac	99,556	548	(1,277)	98,827
Governmental National Mortgage Association	19,446	92	(161)	19,377
Other mortgage-backed securities	2,795		(15)	2,780
Total mortgage-backed securities	266,088	1,967	(3,003)	265,052
Obligations of states and political subdivisions	41,375	1,654	(258)	42,771
U.S. government agency securities	47,821	192	(383)	47,630
Corporate obligations	13,140	236	(48)	13,328
Trust-preferred securities	5,027	594		5,621
Other debt securities	6,618	51	(18)	6,651

Total debt securities	380,069		4,694		(3,710)	381,053
Equity securities - financial services	2,025					2,025
Total	$ 382,094	$	4,694	$	(3,710)	$ 383,078

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The amortized cost and fair value of debt securities at March 31, 2015, 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	$ 6,009	$ 6,024
Due after one year through five years	48,926	49,516
Due after five years through ten years	59,415	60,601
Due after ten years	261,083	265,184
Total	$ 375,433	$ 381,325

For the three and six months ended March 31, 2015, the Company realized gross gains of $204,000 on proceeds from the sale of investment securities of $3.3 million. For the three and six months ended March 31, 2014, the Company realized gross gains of $247,000 and gross losses of $11,000 on proceeds from the sale of investment securities of $8.1 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 (dollars in thousands):

	March 31, 2015						
	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	20	$ 4,304	$ (18)	$ 26,087	$ (443)	$ 30,391	$ (461)
Freddie Mac	13	3,316	(8)	16,864	(340)	20,180	(348)
Governmental National Mortgage Association	6	2,579	(12)	2,674	(63)	5,253	(75)
Other mortgage-backed securities	3			2,690	(17)	2,690	(17)
Obligations of states and political subdivisions	10	5,282	(31)	4,652	(116)	9,934	(147)
U.S. government agency securities	2	2,011	(8)	999	(1)	3,010	(9)
Corporate obligations	4	1,971	(8)	972	(28)	2,943	(36)
Other debt securities	6	4,258	(13)	1,857	(10)	6,115	(23)

Total Debt Securities	64	23,721	(98)	56,795	(1,018)	80,516	(1,116)
Equity securities financial services							
Total	64	$ 23,721	$ (98)	$ 56,795	$ (1,018)	$ 80,516	$ (1,116)

	September 30, 2014						
	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	39	$ 34,377	$ (164)	$ 33,249	$ (1,386)	$ 67,626	$ (1,550)
Freddie Mac	36	38,210	(216)	29,269	(1,061)	67,479	(1,277)
Governmental National Mortgage Association	5	4,127	(22)	2,981	(139)	7,108	(161)
Other mortgage-backed securities	3			2,780	(15)	2,780	(15)
Obligations of states and political subdivisions	5			7,207	(258)	7,207	(258)
U.S. government agency securities	11	8,004	(25)	18,629	(358)	26,633	(383)
Corporate obligations	5	3,142	(32)	1,130	(16)	4,272	(48)
Equity securities-financial services	2	1,980	(18)			1,980	(18)
Total	106	$ 89,840	$ (477)	$ 95,245	$ (3,233)	$ 185,085	$ (3,710)

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, other mortgage backed securities, debt obligations of a U.S. state or political subdivision, corporate debt obligations and equity securities.

The Company reviews its position quarterly and has asserted that at March 31, 2015, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

7. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	March 31, 2015	September 30, 2014
Real estate loans:		
Residential	$ 629,034	$ 654,152
Construction	1,489	1,367
Commercial	197,137	190,536
Commercial	36,923	25,807
Obligations of states and political subdivisions	47,054	49,177
Home equity loans and lines of credit	40,857	41,387
Auto Loans	131,570	100,571
Other	3,099	3,904
	1,087,163	1,066,901
Less allowance for loan losses	8,668	8,634
Net loans	$ 1,078,495	$ 1,058,267

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
March 31, 2015				
Real estate loans:				
Residential	$ 629,034	$ 12,057	$ 110	$ 616,867
Construction	1,489			1,489
Commercial	197,137	16,281	4,504	176,352

Commercial	36,923	234	96	36,593
Obligations of states and political subdivisions	47,054			47,054
Home equity loans and lines of credit	40,857	430		40,427
Auto loans	131,570	190		131,380
Other	3,099			3,099
Total	$ 1,087,163	$ 29,192	$ 4,710	$ 1,053,261

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	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2014				
Real estate loans:				
Residential	$ 654,152	$ 13,528	$ 110	$ 640,514
Construction	1,367			1,367
Commercial	190,536	17,517	4,727	168,292
Commercial	25,807	456	263	25,088
Obligations of states and political subdivisions	49,177			49,177
Home equity loans and lines of credit	41,387	266	(3)	41,124
Auto loans	100,571	101		100,470
Other	3,904			3,904
Total	$ 1,066,901	$ 31,868	$ 5,097	$ 1,029,936

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 one year 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 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
March 31, 2015			
With no specific allowance recorded:			
Real estate loans			
Residential	$ 9,715	$ 11,523	$
Construction			
Commercial	20,637	21,864	
Commercial	330	341	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	389	391	
Auto loans	166	230	
Other			
Total	31,237	34,349	
With an allowance recorded:			
Real estate loans			
Residential	2,452	2,729	280
Construction			
Commercial	148	175	4
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	41	66	40
Auto loans	24	24	12
Other			
Total	2,665	2,994	336
Total:			
Real estate loans			
Residential	12,167	14,252	280
Construction			
Commercial	20,785	22,039	4
Commercial	330	341	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	430	457	40
Auto loans	190	254	12
Other			

Total Impaired Loans	$ 33,902	$ 37,343	$ 336

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	Recorded Investment	Unpaid Principal Balance	Associated Allowance
September 30, 2014			
With no specific allowance recorded:			
Real Estate Loans			
Residential	$ 11,030	$ 13,225	$
Construction			
Commercial	21,587	22,428	
Commercial	719	777	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	210	377	
Auto Loans	101	101	
Other			
Total	33,647	36,908	
With an allowance recorded:			
Real Estate Loans			
Residential	2,608	2,997	334
Construction			
Commercial	657	677	84
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	53	76	50
Auto Loans			
Other			
Total	3,318	3,750	468
Total:			
Real Estate Loans			
Residential	13,638	16,222	334
Construction			
Commercial	22,244	23,105	84
Commercial	719	777	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	263	453	50
Auto Loans	101	101	
Other			
Total Impaired Loans	$ 36,965	$ 40,658	$ 468

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The following table represents 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 (in thousands).

	Three months ended March 31,			
	2015 Average Recorded Investment	2014 Average Recorded Investment	2015 Interest Income Recognized	2014 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 10,551	$ 9,630	$ 64	$ 94
Construction				
Commercial	21,044	21,144	190	183
Commercial	454	1,211	2	3
Obligations of states and political subdivisions				
Home equity loans and lines of credit	286	300		
Auto loans	55		1	
Other				
Total	32,390	32,285	257	280
With an allowance recorded:				
Real estate loans				
Residential	2,411	3,468	19	23
Construction				
Commercial	313	1,896		
Commercial				
Obligations of states and political subdivisions				
Home equity loans and lines of credit	39	13		
Auto loans	67		1	
Other				
Total	2,830	5,377	20	23
Total:				
Real estate loans				
Residential	12,962	13,098	83	117
Construction				
Commercial	21,357	23,040	190	183
Commercial	454	1,211	2	3
Obligations of states and political subdivisions				
Home equity loans and lines of credit	325	313		

Auto loans	122		2	
Other				
Total Impaired Loans	$ 35,220	$ 37,662	$ 277	$ 303

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	Six months ended March 31,			
	2015 Average Recorded Investment	2014 Average Recorded Investment	2015 Interest Income Recognized	2014 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 10,740	$ 9,855	$ 163	$ 150
Construction				
Commercial	21,017	20,041	384	374
Commercial	672	1,002	4	6
Obligations of states and political subdivisions				
Home equity loans and lines of credit	244	319	2	2
Auto loans	53		1	
Other				
Total	32,726	31,217	554	532
With an allowance recorded:				
Real estate loans				
Residential	2,453	3,235	43	58
Construction				
Commercial	442	2,355		
Commercial				
Obligations of states and political subdivisions				
Home equity loans and lines of credit	26	6		
Auto loans	101		3	
Other				
Total	3,022	5,596	46	58
Total:				
Real estate loans				
Residential	13,193	13,090	206	208
Construction				
Commercial	21,459	22,396	384	374
Commercial	672	1,002	4	6
Obligations of states and political subdivisions				
Home equity loans and lines of credit	270	325	2	2
Auto loans	154		4	
Other				
Total Impaired Loans	$ 35,748	$ 36,813	$ 600	$ 590

The Company 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 fundamentally sound yet, exhibit potentially unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company s credit position at some future date. 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. Loans in the Doubtful category have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the Loss category are considered uncollectible and of little value that their continuance as bankable assets is not warranted. Certain residential real estate loans, construction loans, home equity loans and lines of credit, auto loans and other consumer 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.

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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 $500,000 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 $1,000,000 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.

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 March 31, 2015 and September 30, 2014 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2015					
Commercial real estate loans	$ 169,768	$ 5,253	$ 21,823	$ 293	$ 197,137
Commercial	36,394	97	432		36,923
Obligations of states and political subdivisions	47,054				47,054
Total	$ 253,216	$ 5,350	$ 22,255	$ 293	$ 281,114

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2014					
Commercial real estate loans	$ 160,749	$ 8,020	$ 21,469	$ 298	$ 190,536
Commercial	24,874	345	588		25,807
Obligations of states and political subdivisions	49,177				49,177
Total	$ 234,800	$ 8,365	$ 22,057	$ 298	$ 265,520

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 March 31, 2015 and September 30, 2014 (in thousands):

	Performing	Non-performing	Total
March 31, 2015			
Real estate loans:			
Residential	$ 618,364	$ 10,670	$ 629,034
Construction	1,489		1,489
Home equity loans and lines of credit	40,446	411	40,857
Auto loans	131,396	174	131,570
Other	3,087	12	3,099
Total	$ 794,782	$ 11,267	$ 806,049

	Performing	Non-performing	Total
September 30, 2014			
Real estate loans:			
Residential	$ 644,374	$ 9,778	$ 654,152
Construction	1,367		1,367
Home equity loans and lines of credit	41,128	259	41,387
Auto loans	100,571		100,571
Other	3,884	20	3,904
Total	$ 791,324	$ 10,057	$ 801,381

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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 March 31, 2015 and September 30, 2014 (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
March 31, 2015							
Real estate loans							
Residential	$ 615,872	$ 2,052	$ 440	$	$ 10,670	$ 13,162	$ 629,034
Construction	1,489						1,489
Commercial	185,477	896	83		10,681	11,660	197,137
Commercial	34,892	1,735	54		242	2,031	36,923
Obligations of states and political subdivisions	47,054						47,054
Home equity loans and lines of credit	39,897	463	86		411	960	40,857
Auto loans	130,585	654	157		174	985	131,570
Other	3,055	16	16		12	44	3,099
Total	$ 1,058,321	$ 5,816	$ 836	$	$ 22,190	$ 28,842	$ 1,087,163

	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, 2014							
Real estate loans							
Residential	$ 640,583	$ 2,398	$ 1,393	$	$ 9,778	$ 13,569	$ 654,152
Construction	1,367						1,367
Commercial	179,319	516	89		10,612	11,217	190,536
Commercial	24,424	110	30		1,243	1,383	25,807
Obligations of states and political subdivisions	49,159	18				18	49,177

Home equity loans and lines of credit	40,870	225	33		259	517	41,387
Auto loans	100,112	426	33			459	100,571
Other	3,884				20	20	3,904
Total	$ 1,039,718	$ 3,693	$ 1,578	$	$ 21,912	$ 27,183	$ 1,066,901

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 March 31, 2015 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 and Securities, 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 tables summarize changes in the primary segments of the ALL for the three and six month periods ending March 31, 2015 and 2014 (in thousands):

	Real Estate Loans									
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
ALL balance at December 31, 2014	$ 5,571	$ 13	$ 676	$ 515	$ 145	$ 545	$ 674	$ 26	$ 351	$ 8,516
Charge-offs	(251)		(42)				(125)			(418)
Recoveries	4		20	9		4	8			45
Provision	(35)	4	189	111	(58)	(81)	466	4	(75)	525
ALL balance at March 31, 2015	$ 5,289	$ 17	$ 843	$ 635	$ 87	$ 468	$ 1,023	$ 30	$ 276	$ 8,668
December 31, 2013	$ 5,903	$ 26	$ 1,011	$ 330	$ 106	$ 491	$	$ 22	$ 480	$ 8,369
Charge-offs	(536)		(11)							(547)
Recoveries	1		83	1				5		90
Provision	552		(80)	38		9		(1)	232	750
ALL balance at March 31, 2014	$ 5,920	$ 26	$ 1,003	$ 369	$ 106	$ 500	$	$ 26	$ 712	$ 8,662

	Real Estate Loans									
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
ALL balance at September 30, 2014	$ 5,573	$ 11	$ 663	$ 528	$ 163	$ 470	$ 459	$ 32	$ 735	$ 8,634
Charge-offs	(760)		(53)	(27)		(19)	(165)			(1,024)

Recoveries	22		31	9		12	9			83
Provision	454	6	202	125	(76)	5	720	(2)	(459)	975
ALL balance at March 31, 2015	$ 5,289	$ 17	$ 843	$ 635	$ 87	$ 468	$ 1,023	$ 30	$ 276	$ 8,668
September 30, 2013	$ 5,787	$ 20	$ 946	$ 337	$ 130	$ 430	$	$ 21	$ 393	$ 8,064
Charge-offs	(923)		(50)	(48)		(63)				(1,084)
Recoveries	78		83	12				9		182
Provision	978	6	24	68	(24)	133		(4)	319	1,500
ALL balance at March 31, 2014	$ 5,920	$ 26	$ 1,003	$ 369	$ 106	$ 500	$	$ 26	$ 712	$ 8,662

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Acquired loans are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

The following table summarizes the primary segments of the ALL, segregated into amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of March 31, 2015 (in thousands):

	Real Estate Loans									
	Residential	Construction	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
Individually evaluated for impairment	$ 280	$	$ 4	$	$	$ 40	$ 12	$	$	$ 336
Collectively evaluated for impairment	5,009	17	839	635	87	428	1,011	30	276	8,332
ALL Balance at March 31, 2015	$ 5,289	$ 17	$ 843	$ 635	$ 87	$ 468	$ 1,023	$ 30	$ 276	$ 8,668
Individually evaluated for impairment	$ 334	$	$ 84	$	$	$ 50	$	$	$	$ 468
Collectively evaluated for impairment	5,239	11	579	528	163	420	459	32	735	8,166
ALL balance at September 30, 2014	$ 5,573	$ 11	$ 663	$ 528	$ 163	$ 470	$ 459	$ 32	$ 735	$ 8,634

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 decreased provisions to obligations of state and political subdivisions, home equity loans and lines of credit for the six month period ending March 31, 2015 due to declining loan balances and impairment evaluations in those segments. The Company allocated increased provisions to commercial real estate, commercial loans, and auto loans for the six month period ending March 31, 2015 due primarily to increased loan balances. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

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The following is a summary of troubled debt restructuring granted during the three and six months ended March 31, 2015 and 2014 (dollars in thousands).

	For the Three Months Ended March 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	2	$ 408	$ 408
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	150	150
Auto loans			
Other			
Total	3	$ 558	$ 558

Of the three new troubled debt restructurings granted for the three months ended March 31, 2015, two loans totaling $408,000 were granted terms and rate concessions and one loan totaling $150,000 was granted terms concessions (dollars in thousands).

	For the Three Months Ended March 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	3	$ 473	$ 473
Construction			
Commercial	1	197	197
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Auto loans			

Other					
Total	4	$	670	$	670

Of the four new troubled debt restructurings granted for the three months ended March 31, 2014, three loans totaling $473,000 were granted terms and rate concessions and one loan totaling $197,000 was granted terms concessions (dollars in thousands).

	For the Six Months Ended March 31, 2015				
	Number of Contracts		**Pre-Modification Outstanding Recorded Investment**		**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings					
Real estate loans:					
Residential	9	$	1,474	$	1,474
Construction					
Commercial					
Commercial					
Obligations of states and political subdivisions					
Home equity loans and lines of credit	1		150		150
Auto loans					
Other					
Total	10	$	1,624	$	1,624

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Of the ten new troubled debt restructurings granted for the six months ended March 31, 2015, five loans totaling $762,000 were granted terms and rate concessions, three loans totaling $496,000 were granted terms concessions and two loans totaling $366,000 were granted rate concessions (dollars in thousands).

	For the Six Months Ended March 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	7	$ 1,066	$ 1,066
Construction			
Commercial	1	197	197
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit			
Other			
Total	8	$ 1,263	$ 1,263

Of the eight new troubled debt restructurings granted for the six months ended March 31, 2014, five loans totaling $603,000 were granted terms and rate concessions and three loans totaling $660,000 were granted terms concessions.

For the three months ended March 31, 2015, three residential real estate loans totaling $521,000 defaulted on a restructuring agreement within one year of modification. For the six months ended March 31, 2015, four residential real estate loans totaling $677,000 defaulted on a restructuring agreement within one year of modification. There were no troubled debt restructurings that have subsequently defaulted within one year of modification for the three and six months ended March 31, 2014.

8. Deposits

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

	March 31, 2015	September 30, 2014
Non-interest bearing demand accounts	$ 103,134	$ 70,048
Interest bearing demand accounts	97,040	163,936
Money market accounts	210,500	170,158
Savings and club accounts	129,464	122,734
Certificates of deposit	563,659	607,013
Total	$ 1,103,797	$ 1,133,889

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, 2014 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 March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Service Cost	$ 218	$ 145	$ 436	$ 289
Interest Cost	206	190	412	381
Expected return on plan assets	(308)	(291)	(616)	(581)
Amortization of unrecognized loss	60	7	120	14
Net periodic benefit cost	$ 176	$ 51	$ 352	$ 103

The Bank plans to contribute $500,000 to its pension plan in 2015.

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 on May 23, 2008. Certain officers were granted in aggregate 30,000 shares of restricted stock on April 1, 2013 and 19,880 of restricted stock on July 22, 2014. In accordance with generally accepted accounting principles, the Company expenses the fair value of all share-based compensation grants over the requisite service periods.

The Company classifies share-based compensation for employees and outside directors within Compensation and employee benefits in the consolidated statement of income to correspond with the same line item as compensation paid. Additionally, generally accepted accounting principles require the Company to report: (1) the expense associated with the grants as an adjustment to operating cash flows and (2) any benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense as a financing cash flow.

Stock options vest over a five-year service period and expire ten years after grant date. The Company recognizes compensation expense for the fair values of these awards, which vest on a straight-line basis over the requisite service period of the awards.

The 2008 restricted shares vested over a five-year service period. The 2013 restricted stock shares vested over an 18-month service period. The 2014 restricted shares vest over a 39 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.

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For the six months ended March 31, 2015 and 2014, the Company recorded $51,000 and $122,000 of share-based compensation expense, respectively, comprised of restricted stock expense. Expected future compensation expense relating to the 14,906 restricted shares at March 31, 2015 is $169,000 over the remaining vesting period of 2.50 years.

The following is a summary of the Company s stock option activity and related information for its option grants for the six month period ended March 31, 2015.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, September 30, 2014	1,443,379	$ 12.35	3.67	$
Granted				
Exercised				
Forfeited	(123,799)	12.35	3.17	
Outstanding, March 31, 2015	1,319,580	$ 12.35	3.17	$ 620,000
Exercisable at March 31, 2015	1,319,580	$ 12.35	3.17	$ 620,000

The following is a summary of the status of the Company s restricted stock as of March 31, 2015, and changes therein during the six month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2014	14,906	$ 11.07
Granted		
Vested		
Forfeited		
Nonvested at March 31, 2015	14,906	$ 11.07

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 March 31, 2015 and September 30, 2014 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

	Fair Value Measurement at March 31, 2015			
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 March 31, 2015
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 250,689	$	$ 250,689
Obligations of states and political subdivisions		47,918		47,918
U.S. government agencies		44,885		44,885
Corporate obligations		15,454	2,000	17,454
Trust-preferred securities		3,803	1,740	5,543
Other debt securities		14,336	500	14,836
Equity securities-financial services	2,025			2,025
Total debt and equity securities	$ 2,025	$ 377,085	$ 4,240	$ 383,350
Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,479	$ 2,479
Impaired loans measured on a non-recurring basis	$	$	$ 33,566	$ 33,566

	Fair Value Measurement at September 30, 2014			
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, 2014
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$	$ 265,052	$	$ 265,052
Obligations of states and political subdivisions		42,771		42,771
U.S. government agencies		47,630		47,630
Corporate obligations		13,328		13,328
Trust-preferred securities		3,891	1,730	5,621
Other debt securities		6,151	500	6,651
Equity securities-financial services	2,025			2,025
Total debt and equity securities	$ 2,025	$ 378,823	$ 2,230	$ 383,078

Foreclosed real estate owned measured on a non-recurring basis	$	$	$ 2,759	$ 2,759
Impaired loans measured on a non-recurring basis	$	$	$ 36,497	$ 36,497

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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 three and six month periods ended March 31, 2015 and March 31, 2014 (in thousands).

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	Three months ended	
	March 31, 2015	March 31, 2014
Beginning balance	$ 2,200	$ 1,840
Purchases, sales, issuances, settlements, net	2,000	
Total unrealized gain:		
Included in earnings		
Included in other comprehensive income	40	(10)
Transfers in and/or out of Level III		
	$ 4,240	$ 1,830

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	Six months ended	
	March 31, 2015	March 31, 2014
Beginning balance	$ 2,230	$ 1,800
Purchases, sales, issuances, settlements, net	2,000	
Total unrealized gain:		
Included in earnings		
Included in other comprehensive income	10	30
Transfers in and/or out of Level III		
	$ 4,240	$ 1,830

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 March 31, 2015, 257 impaired loans with a carrying value of $33.9 million were reduced by specific valuation allowance totaling $336,000 resulting in a net fair value of $33.6 million based on Level 3 inputs. At September 30, 2014, 264 impaired loans with a carrying value of $37.0 million were reduced by a specific valuation totaling $468,000 resulting in a net fair value of $36.5 million based on Level 3 inputs.

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

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
March 31, 2015:				
Impaired loans	$ 33,566	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 30% (23.0%)
Foreclosed real estate owned	2,479	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	20% to 40% (21.3%)

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
September 30, 2014:				
Impaired loans	$ 36,497	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 35% (23.0%)
Foreclosed real estate owned	2,759	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	19% to 35% (21.2%)

(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.

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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.

	March 31, 2015				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 16,610	$ 16,610	$	$	$ 16,610
Investment and mortgage backed securities available for sale	383,350	2,025	377,085	4,240	383,350
Loans receivable, net	1,078,495			1,099,741	1,099,741
Accrued interest receivable	4,902	4,902			4,902
Regulatory stock	13,644	13,644			13,644
Mortgage servicing rights	554			554	554
Bank owned life insurance	30,190	30,190			30,190
Financial liabilities:					
Deposits	$ 1,103,797	$ 540,138	$	$ 568,047	1,108,185
Short-term borrowings	110,001	110,001			110,001
Other borrowings	179,960			181,331	181,331
Advances by borrowers for taxes and insurance	8,565	8,565			8,565
Accrued interest payable	813	813			813

	September 30, 2014				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 22,301	$ 22,301	$	$	$ 22,301
Investment and mortgage backed securities available for sale	383,078	2,025	378,823	2,230	383,078
Loans receivable, net	1,058,267			1,077,585	1,077,585
Accrued interest receivable	5,061	5,061			5,061
Regulatory stock	14,284	14,284			14,284
Mortgage servicing rights	688			688	688
Bank owned life insurance	29,720	29,720			29,720
Financial liabilities:					
Deposits	$ 1,133,889	$ 526,876	$	$ 608,936	1,135,812
Short-term borrowings	108,020	108,020			108,020
Other borrowings	151,300			151,617	151,617
Advances by borrowers for taxes and insurance	4,093	4,093			4,093
Accrued interest payable	831	831			831

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. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management s best estimate is used. Management s best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

Loans Receivable

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

Mortgage Servicing Rights

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

Deposits

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.

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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/(Loss)

The activity in accumulated other comprehensive income/(loss) for the three and six months ended March 31, 2015 and 2014 is as follows (in thousands):

	Accumulated Other Comprehensive Income/(Loss)		
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Total
Balance at December 31, 2014	$ (3,188)	$ 2,457	$ (731)
Other comprehensive income before reclassifications		1,567	1,567
Amounts reclassified from accumulated other comprehensive income, net of tax	40	(135)	(95)
Period change	40	1,432	1,472
Balance at March 31, 2015	$ (3,148)	$ 3,889	$ 741
Balance at December 31, 2013	$ (1,302)	$ (1,273)	$ (2,575)
Other comprehensive loss before reclassifications		880	880
Amounts reclassified from accumulated other comprehensive income, net of tax	5	(156)	(151)
Period change	5	724	729
Balance at March 31, 2014	$ (1,297)	$ (549)	$ (1,846)

	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income/(Loss) Unrealized Gains (Losses) on Securities Available for Sale	Total
Balance at September 30, 2014	$ (3,228)	$ 649	$ (2,579)
Other comprehensive income (loss) before reclassifications		3,375	3,375
Amounts reclassified from accumulated other comprehensive income	80	(135)	(55)
Period change	80	3,240	3,320
Balance at March 31, 2015	$ (3,148)	$ 3,889	$ 741
Balance at September 30, 2013	$ (1,306)	$ 71	$ (1,235)
Other comprehensive income (loss) before reclassifications		(464)	(464)
Amounts reclassified from accumulated other comprehensive income	9	(156)	(147)
Period change	9	(620)	(611)
Balance at March 31, 2014	$ (1,297)	$ (549)	$ (1,846)

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	Amount Reclassified from Accumulated Other Comprehensive Income Accumulated Other Comprehensive Income for the Three Months Ended March 31,		Affected Line Item in the Consolidated Statement of Income
	2015	2014	
Securities available for sale:			
Net securities gains reclassified into earnings	$ 204	$ 236	Gain on sale of investments, net
Related income tax expense	(69)	(80)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	135	156	Net of tax
Defined benefit pension plan:			
Amortization of net loss and prior service costs	(60)	(7)	Compensation and employee benefits
Related income tax expense	20	2	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	$ (40)	$ (5)	Net of tax
Total reclassification for the period	$ 95	$ 151	Net of tax

	Amount Reclassified from Accumulated Other Comprehensive Income Accumulated Other Comprehensive Income for the Six Months Ended March 31,		Affected Line Item in the Consolidated Statement of Income
	2015	2014	
Securities available for sale:			
Net securities gains reclassified into earnings	$ 204	$ 236	Gain on sale of investments, net
Related income tax expense	(69)	(80)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	135	156	Net of tax

Defined benefit pension plan:			
Amortization of net loss and prior service costs	(121)	(14)	Compensation and employee benefits
Related income tax expense	41	5	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	$ (80)	$ (9)	Net of tax
Total reclassification for the period	$ 55	$ 147	Net of tax

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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 March 31, 2015 and September 30, 2014

Total Assets. Total assets increased by $9.8 million, or 0.6%, to $1.58 billion at March 31, 2015 from $1.57 billion at September 30, 2014. An increase in loans receivable of $20.2 million, which was partially offset by declines in cash and due from banks of $7.5 million, deferred income taxes of $2.0 million and other assets of $2.1 million was the primary reasons for the increase.

Total Cash and Cash Equivalents. Total cash and cash equivalents decreased $5.7 million, or 25.5%, to $16.6 million at March 31, 2015 from $22.3 million at September 30, 2014. Declines in cash and due from banks of $7.5 million were partially offset by increase in interest bearing deposits with other institutions of $1.8 million. The decrease in cash and due from banks was due to normal fluctuations in cash held at the Federal Reserve Bank.

Net Loans. Net loans increased $20.2 million, or 1.9%, to $1.08 billion at March 31, 2015 from $1.06 billion at September 30, 2014. During this period, commercial real estate loans increased $6.6 million to $197.1 million, commercial loans increased $11.1 million to $36.9 million, construction loans increased $122,000 to $1.5 million and auto loans increased $31.0 million to $131.6 million. These increases were partially offset by decreases in residential loans of $25.1 million to $629.0 million, obligations of states and political subdivisions outstanding of $2.1 million to $47.1 million, home equity loans and lines of credit of $530,000 to $40.9 million and other loans of $805,000 to $3.1 million.

Investment Securities Available for Sale. Investment securities available for sale increased $272,000, or 0.1%, to $383.4 million at March 31, 2015 from $383.1 million at September 30, 2014. The increase was due primarily to increases in obligations of states and political subdivisions of $5.1 million and other debt securities of $8.2 million offset in part by decreases in mortgage backed securities of $14.4 million.

Deposits. Deposits decreased $30.1 million, or 2.7%, to $1.10 billion at March 31, 2015 from $1.13 billion at September 30, 2014, primarily as a result of declines in interest bearing demand accounts, and certificates of deposit, offset in part by increases in non-interest bearing demand accounts, money market and savings accounts. At March 31, 2015, compared to September 30, 2014, certificate of deposit accounts decreased $43.4 million to $563.7 million, interest bearing demand accounts decreased $66.9 million to $97.0 million, non-interest bearing demand accounts increased $33.1 million to $103.1 million, money market accounts increased $40.3 million to $210.5 million and savings and club accounts increased $6.7 million to $129.5 million. Included in the certificates of deposit at March 31, 2015 was a decrease in brokered certificates of $6.3 million to $212.0 million. During the fiscal second quarter approximately $24.0 million of interest bearing demand accounts that were earning 0.00% in interest were reclassified to non-interest bearing demand accounts.

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Borrowed Funds. Borrowed funds increased by $30.6 million, or 11.8%, to $290.0 million at March 31, 2015, from $259.3 million at September 30, 2014. The increase in borrowed funds was primarily due to increases in short term borrowings of $2.0 million and other borrowings of $28.7 million.

Stockholders Equity. Stockholders equity increased by $5.2 million, or 3.1%, to $172.5 million at March 31, 2015 from $167.3 million at September 30, 2014. Increases resulting from net income and the change to accumulated other comprehensive income were partially offset by the payment of dividends and the repurchase of common stock.

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Average Balance Sheets for the Three and Six Months Ended March 31, 2015 and 2014

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 March 31,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Yield/Cost	Average Balance	Interest Income/ Expense	Yield/Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans[1]	$ 1,074,394	$ 11,100	4.19%	$ 921,678	$ 9,843	4.33%
Investment Securities						
Taxable[2]	80,644	433	2.18%	82,023	413	2.04%
Exempt from federal income tax[2][3]	36,377	239	4.04%	13,706	72	3.23%
Total investment securities	117,021	672	2.76%	95,729	485	2.21%
Mortgage-backed securities	264,753	1,366	2.09%	218,860	1,110	2.06%
Regulatory stock	12,643	438	14.05%	10,179	81	3.23%
Other	4,699	4	0.35%	9,827	4	0.17%
Total interest-earning assets	1,473,510	13,580	3.77%	1,256,273	11,523	3.73%
Allowance for loan losses	(8,545)			(8,337)		
Noninterest-earning assets	106,933			107,682		
Total assets	$ 1,571,898			$ 1,355,618		
Interest-bearing liabilities:						
NOW accounts	$ 103,235	$ 22	0.09%	$ 90,054	11	0.05%
Money market accounts	209,839	62	0.12%	139,703	62	0.18%
Savings and club accounts	121,161	15	0.05%	111,819	14	0.05%
Certificates of deposit	576,393	1,779	1.25%	590,813	1,819	1.25%
Borrowed funds	286,935	700	0.99%	177,706	679	1.55%
Total interest-bearing liabilities	1,297,563	2,578	0.81%	1,110,095	2,585	0.94%
Non-interest-bearing NOW accounts	84,513			60,611		
Non-interest-bearing liabilities	17,710			16,302		
Total liabilities	1,399,786			1,187,008		
Equity	172,112			168,610		
Total liabilities and equity	$ 1,571,898			$ 1,355,618		

Net interest income		$ 11,002	2.96%		$ 8,938	2.79%
Interest rate spread						
Net interest-earning assets	$ 175,947		3.03%	$ 146,178		2.89%
Net interest margin						
Average interest-earning assets to average interest-bearing liabilities		113.56%			113.17%	

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	For the Six months Ended March 31,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Yield/Cost	Average Balance	Interest Income/ Expense	Yield/Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans(1)	$ 1,070,817	$ 22,549	4.22%	$ 925,160	$ 20,366	4.41%
Investment Securities						
Taxable(2)	80,779	938	2.33%	84,579	839	1.99%
Exempt from federal income tax(2)(3)	35,493	473	4.05%	13,696	145	3.22%
Total investment securities	116,272	1,411	2.85%	98,275	984	2.16%
Mortgage-backed securities	266,433	2,750	2.07%	218,298	2,211	2.03%
Regulatory stock	12,657	568	9.00%	9,954	136	2.74%
Other	4,033	10	0.50%	8,908	8	0.18%
Total interest-earning assets	1,470,212	27,288	3.76%	1,260,595	23,705	3.78%
Allowance for loan losses	(8,555)			(8,165)		
Noninterest-earning assets	109,488			105,896		
Total assets	$ 1,571,145			$ 1,358,326		
Interest-bearing liabilities:						
NOW accounts	$ 116,958	$ 48	0.08%	$ 90,306	22	0.05%
Money market accounts	203,311	262	0.26%	138,724	132	0.19%
Savings and club accounts	119,789	30	0.05%	109,593	28	0.05%
Certificates of deposit	584,878	3,503	1.20%	602,680	3,712	1.24%
Borrowed funds	282,421	1,393	0.99%	174,032	1,382	1.59%
Total interest-bearing liabilities	1,307,357	5,236	0.80%	1,115,335	5,276	0.95%
Non-interest-bearing NOW accounts	76,377			59,512		
Non-interest-bearing liabilities	16,392			15,145		
Total liabilities	1,400,126			1,189,992		
Equity	171,019			168,334		
Total liabilities and equity	$ 1,571,145			$ 1,358,326		
Net interest income		$ 22,052	2.96%		$ 18,429	2.83%
Interest rate spread						
Net interest-earning assets	$ 162,855		3.01%	$ 145,260		2.93%
Net interest margin						
Average interest-earning assets to average interest-bearing liabilities		112.46%			113.02%	

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(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 March 31, 2015 and March 31, 2014

Net Income. Net income increased $930,000, or 61.9%, to $2.4 million for the three months ended March 31, 2015 compared to net income of $1.5 million for the comparable period in 2014. The increase was due primarily to increases in net interest income and noninterest income, offset in part by an increase in noninterest expenses. Year over year comparisons reflect contributions from the acquisition of Franklin Security Bancorp, which closed in the Company s fiscal 2014 third quarter.

Net Interest Income. Net interest income increased $2.1 million, or 23.1%, to $11.0 million for the three months ended March 31, 2015 from $8.9 million for the comparable period in 2014. The increase was primarily attributable to an increase in the Company s interest rate spread to 2.96% for the three months ended March 31, 2015, from 2.79% for the comparable period in 2014, and an increase of $29.8 million in the Company s average net interest-earnings assets.

Interest Income. Interest income increased $2.1 million, or 17.9%, to $13.6 million for the three months ended March 31, 2015 from $11.5 million for the comparable 2014 period. Included in interest income for the three months ended March 31, 2015 was a one-time special dividend on FHLB stock totaling $311,000. The increase resulted primarily from an increase in interest earning assets of $217.2 million along with a increase in the yield on interest earning assets of 4 basis points. The average yield on interest earning assets was 3.77% for the three months ended March 31, 2015, as compared to 3.73% for the comparable 2014 period. Loans increased on average $152.7 million between the two periods. In addition, average investment securities increased $21.3 million, mortgage-backed securities increased $45.9 million, regulatory stock increased $2.5 million and other interest earning assets decreased $5.1 million.

Interest Expense. Interest expense decreased $7,000, or 0.3%, to $2.6 million for the three months ended March 31, 2015. The decrease resulted from a $187.5 million increase in average interest bearing liabilities for the three months ended March 31, 2015, offset by a 13 basis point decrease in the overall cost of interest bearing liabilities to 0.81% for the three months ended March 31, 2015 from 0.94% for the comparable 2014 period. Increases in all interest bearing accounts as a result of the Franklin Security Bancorp merger was the primary reason for the increase in average interest bearing liabilities.

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 $525,000 for the three month period ended March 31, 2015 as compared to $750,000 for the three month period ended March 31, 2014. The allowance for loan losses was $8.7 million, or 0.80% of loans outstanding, at March 31, 2015, compared to $8.6 million, or 0.81% of loans outstanding at September 30, 2014.

Non-interest Income. Non-interest income increased $149,000, or 8.5%, to $1.9 million for the three months ended March 31, 2015 from $1.8 million for the comparable period in 2014. The primary reason for the increase was an increase in service charges and fees on loans of $170,000.

Non-interest Expense. Non-interest expense increased $1.2 million, or 15.4%, to $9.1 million for the three months ended March 31, 2015 from $7.9 million for the comparable period in 2014. The primary reasons for the increase were increases in compensation and employee benefits of $875,000 and other expenses of $280,000 due to increased expenses since the acquisition of Franklin Security Bank.

Income Taxes. Income tax expense increased $294,000 to $848,000 for the three months ended March 31, 2015 from $554,000 for the comparable 2014 period. The increase was primarily a result of the increase in income before taxes of $1.2 million for the three months ended March 31, 2015. The effective tax rate was 25.9% for the three months ended March 31, 2015, compared to 26.9% for the 2014 period.

Comparison of Operating Results for the Six Months Ended March 31, 2015 and March 31, 2014

Net Income. Net income increased $1.5 million, or 43.4%, to $5.0 million for the six months ended March 31, 2015 compared to net income of $3.5 million for the comparable period in 2014. The increase was due primarily to increases in net interest income and noninterest income, offset in part by an increase in noninterest expenses.

Net Interest Income. Net interest income increased $3.6 million, or 19.7%, to $22.1 million for the six months ended March 31, 2015 from $18.4 million for the comparable period in 2014. The increase was primarily attributable to an increase in the Company s interest rate spread to 2.96% for the six months ended March 31, 2015, from 2.83% for the comparable period in 2014, and an increase of $17.6 million in the Company s average net interest-earnings assets.

Interest Income. Interest income increased $3.6 million, or 15.1%, to $27.3 million for the six months ended March 31, 2015 from $23.7 million for the comparable 2014 period. The increase resulted primarily from an increase in interest earning assets of $209.6 million offset in part by a decline in the yield on interest earning assets of two basis points. The average yield on interest earning assets was 3.76% for the six months ended March 31, 2015, as compared to 3.78% for the comparable 2014 period. Loans increased on average $145.7 million between the two periods. In addition, average investment securities increased $18.0 million, mortgage-backed securities increased $48.1 million, regulatory stock increased $2.7 million and other interest earning assets decreased $4.9 million.

Interest Expense. Interest expense decreased $40,000, or 0.8%, to $5.2 million for the six months ended March 31, 2015 from $5.3 million for the comparable 2014 period. The decrease resulted from a $192.0 million increase in average interest bearing liabilities for the six months ended March 31, 2015, offset by a 15 basis point decrease in the overall cost of interest bearing liabilities to 0.80% for the six months ended March 31, 2015 from 0.95% for the comparable 2014 period. Increases in all interest bearing accounts as a result of the Franklin Security Bancorp merger was the primary reason for the increase in average interest bearing liabilities.

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 $975,000 for the six month period ended March 31, 2015 as compared to $1.5 million for the six month period ended March 31, 2014. The allowance for loan losses was $8.7 million, or 0.80% of loans outstanding, at March 31, 2015, compared to $8.6 million, or 0.81% of loans outstanding at September 30, 2014.

Non-interest Income. Non-interest income increased $336,000, or 9.9%, to $3.7 million for the six months ended March 31, 2015 from $3.4 million for the comparable period in 2014. The primary reason for the increase was an increase in service charges and fees on loans of $300,000.

Non-interest Expense. Non-interest expense increased $2.4 million, or 15.6%, to $18.1 million for the six months ended March 31, 2015 from $15.6 million for the comparable period in 2014. The primary reasons for the increase were increases in compensation and employee benefits of $1.7 million and other expenses of $715,000 due to increased expenses since the acquisition of Franklin Security Bank.

Income Taxes. Income tax expense increased $530,000 to $1.7 million for the six months ended March 31, 2015 from $1.2 million for the comparable 2014 period. The increase was primarily a result of the increase in income before taxes of $2.1 million for the six months ended March 31, 2015. The effective tax rate was 25.3% for the six months ended March 31, 2015, compared to 25.0% for the 2014 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)

	March 31, 2015	September 30, 2014
Non-performing assets:		
Non-accruing loans	$ 22,190	$ 21,912
Troubled debt restructures		238
Total non-performing loans	22,190	22,150
Foreclosed real estate	2,479	2,759
Other repossessed assets	64	69
Total non-performing assets	$ 24,733	$ 24,978
Ratio of non-performing loans to total loans	2.04%	2.08%
Ratio of non-performing loans to total assets	1.40%	1.41%
Ratio of non-performing assets to total assets	1.56%	1.58%
Ratio of allowance for loan losses to total loans	0.80%	0.81%

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 decreased $245,000 to $24.7 million at March 31, 2015 from $25.0 million at September 30, 2014. Non-performing loans increased $39,000 to $22.2 million at March 31, 2015 from $22.2 million at September 30, 2014. The year to date increase was primarily due to increases of $654,000 in non-performing mortgage loans and $318,000 in non-performing commercial loans offset, in part, by a decrease of $932,000 in non-performing commercial loans. The number of nonperforming residential loans decreased to 95 at March 31, 2015, from 96 at September 30, 2014. The $22.2 million of non-accruing loans at March 31, 2015 included 95 residential loans with an aggregate outstanding balance of $10.7 million, 67 commercial and commercial real estate loans with aggregate outstanding balances of $10.9 million and 36 consumer loans with aggregate balances of $597,000. Within the residential loan balance are $3.3 million of loans less than 90 days past due. In the quarter ended March 31, 2015, the Company identified 25 residential loans which, although paying as agreed, have a high probability of default. Foreclosed real estate decreased $280,000 to $2.5 million at March 31, 2015 from $2.8 million at September 30, 2014. Foreclosed real estate consists of 24 residential properties, three building lots and three commercial properties.

At March 31, 2015, the principal balance of troubled debt restructures was $7.9 million as compared to $6.8 million at September 30, 2014. Of the $7.9 million of troubled debt restructures at March 31, 2015, $2.1 million are performing loans and $5.8 million are non-accrual loans.

Of the 61 loans that comprise our troubled debt restructures at March 31, 2015, no loans were granted a rate concession at a below market interest rate. Twenty-two loans with balances totaling $3.1 million were granted market rate and terms concessions, 11 loans totaling $1.0 million were granted an interest rate concession and 28 loans with balances totaling $3.7 million were granted term concessions.

As of March 31, 2015, troubled debt restructures were comprised of 50 residential loans totaling $6.3 million, 9 commercial and commercial real estate loans totaling $1.3 million, and two consumer (home equity loans, home equity lines and credit, and other) loans totaling $246,000.

For the three month period ended March 31, 2015, three loans totaling $297,000 were removed from non-performing TDR status due to completion of one year of consecutive on time payments, one loan for $198,000 was removed due to paying off and one loan was foreclosed for $34,000. For the six months ended March 31, 2015 one loan for $198,000 was paid off, six loans totaling $572,000 were removed for consecutive on-time payments and one loan for $34,000 was transferred to foreclosed real estate.

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 March 31, 2015, we modified 24 loans ($3.0 million) in this fashion. For the six months ended March 31, 2015, we modified 36 loans ($4.7 million) in this fashion. With regard to commercial loans, including commercial real estate loans, there were six loans in the three months ended March 31, 2015 totaling $3.0 million. There were thirteen such loans in the six months ended March 31, 2015 with an aggregate balance of approximately $10.4 million.

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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 March 31, 2015, $16.6 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 $6.0 million at March 31, 2015. As of March 31, 2015, we had $290.0 million in borrowings outstanding from FHLBank Pittsburgh. We have access to total FHLBank advances of up to approximately $559.4 million.

At March 31, 2015, we had $102.5 million in loan commitments outstanding, which included, in part, $18.8 million in undisbursed construction loans and land development loans, $31.8 million in unused home equity lines of credit, $44.9 million in commercial lines of credit and commitments to originate commercial loans, $3.2 million in performance standby letters of credit and $3.8 million in other unused commitments which are primarily to originate residential mortgage loans and multifamily loans. Certificates of deposit due within one year of March 31, 2015 totaled $237.2 million, or 42.1% 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 March 31, 2016. 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 $8.6 million and $7.2 million for the six months ended March 31, 2015 and 2014, 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 (used for) provided by investing activities was ($15.9) million and $25.0 million for the six months ended March 31, 2015 and 2014, 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 provided by (used for) of $1.5 million and ($18.2) million for the six months ended March 31, 2015 and 2014, 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.

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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.

Goodwill and Intangible Assets. Goodwill is not amortized, but it is tested at least annually for impairment in the fourth quarter, or more frequently if indicators of impairment are present. If the estimated current fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. The Company uses market capitalization and multiples of tangible book value methods to determine the estimated current fair value of its reporting unit. Based on this analysis, no impairment was recorded in 2015 or 2014.

The other intangibles assets are assigned useful lives, which are amortized on an accelerated basis over their weighted-average lives. The Company periodically reviews the intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Based on these reviews, no impairment was recorded in 2015 and 2014.

Employee Benefit Plans. The Bank maintains a noncontributory, defined benefit pension plan for all employees who have met age and length of service requirements. The Bank also maintains a defined contribution Section 401(k) plan covering eligible employees. The Company created an ESOP for the benefit of employees who meet certain eligibility requirements. The Company makes cash contributions to the ESOP on an annual basis.

The Company maintains an equity incentive plan to provide for issuance or granting of shares of common stock for stock options or restricted stock. The Company has recorded stock-based employee compensation cost using the fair value method as allowed under generally accepted accounting principles. Management estimated the fair values of all option grants using the Black-Scholes option-pricing model. Management estimated the expected life of the options using the simplified method as allowed under generally accepted accounting principles. The risk-free rate was determined utilizing the treasury yield for the expected life of the option contract.

Fair Value Measurements. We group our assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level I Valuation is based upon quoted prices for identical instruments traded in active markets.

Level II Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset.

We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in generally accepted accounting principles.

Fair value measurements for most of our assets are obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid, and other market information. Subsequently, all of our financial instruments use either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. In certain cases, however, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of financial instruments. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

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 that 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 six months of fiscal 2015, the Company s contractual obligations did not change materially from those discussed in the Company s Financial Statements for the year ended September 30, 2014.

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, 2014.

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) and 15d-15(f) under the Securities Exchange Act of 1934) or in other factors that have materially affected, 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 1 of Form 10-K for the year ended September 30, 2014 filed on December 15, 2014.

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 March 31, 2015.

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
January 31, 2015	10,000	$ 11.79	10,000	
February 28, 2015				
March 31, 2015				
Total	10,000	$ 11.79	10,000	128,300

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	Articles of Incorporation of ESSA Bancorp, Inc.*
3.2	Bylaws of ESSA Bancorp, Inc.*
4	Form of Common Stock Certificate of ESSA Bancorp, Inc.*
10.1	Amended and Restated Employment Agreement for Gary S. Olson**
10.2	Amended and Restated Employment Agreement for Allan A. Muto**
10.3	Amended and Restated Employment Agreement for Diane K. Reimer **
10.4	Amended and Restated Employment Agreement for V. Gail Bryant (Warner)**
10.5	Supplemental Executive Retirement Plan**
10.6	Endorsement Split Dollar Life Insurance Agreement for Gary S. Olson**
10.7	Endorsement Split Dollar Life Insurance Agreement for Allan A. Muto **
10.8	Endorsement Split Dollar Life Insurance Agreement for Diane K. Reimer **
10.9	Endorsement Split Dollar Life Insurance Agreement for V. Gail Bryant (Warner)**
10.10	ESSA Bancorp, Inc. 2007 Equity Incentive Plan***
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.

*** Incorporated by reference to Appendix A to the Proxy Statement for the Annual Meeting of Stockholders of ESSA Bancorp, Inc. (file no. 001-33384), filed by ESSA Bancorp, Inc. under the Exchange Act on April 4, 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: May 11, 2015	/s/ Gary S. Olson Gary S. Olson President and Chief Executive Officer
Date: May 11, 2015	/s/ Allan A. Muto Allan A. Muto Executive Vice President and Chief Financial Officer