ESSA Bancorp, Inc.
Form 10-Q
May 10, 2012

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, 2012

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania **(State or other jurisdiction of** **incorporation or organization)**	**20-8023072** **(I.R.S. Employer** **Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania **(Address of Principal Executive Offices)**	**18360** **(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 8, 2012 there were 12,109,622 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

ESSA Bancorp, Inc.

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	March 31, 2012	September 30, 2011
	(dollars in thousands)	
Cash and due from banks	$ 6,432	$ 9,801
Interest-bearing deposits with other institutions	16,633	31,893
Total cash and cash equivalents	23,065	41,694
Investment securities available for sale, at fair value	277,576	245,393
Loans receivable (net of allowance for loan losses of $8,098 and $8,170)	741,617	738,619
Federal Home Loan Bank stock, at cost	15,236	16,882
Premises and equipment, net	11,384	11,494
Bank-owned life insurance	23,650	23,256
Foreclosed real estate	1,914	2,356
Intangible assets, net	1,663	1,825
Goodwill	40	40
Other assets	18,059	15,921
TOTAL ASSETS	$ 1,114,204	$ 1,097,480
LIABILITIES		
Deposits	$ 675,870	$ 637,924
Short-term borrowings	10,000	4,000
Other borrowings	252,910	284,410
Advances by borrowers for taxes and insurance	5,209	1,381
Other liabilities	8,185	8,086
TOTAL LIABILITIES	952,174	935,801
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized, none issued)		
Common stock ($.01 par value; 40,000,000 shares authorized, 16,980,900 issued; 12,109,622 outstanding at March 31, 2012 and September 30, 2011)	170	170
Additional paid in capital	167,831	166,758
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(11,212)	(11,438)
Retained earnings	67,664	67,215
Treasury stock, at cost; 4,871,278 shares at March 31, 2012 and September 30, 2011	(61,612)	(61,612)
Accumulated other comprehensive (loss)/income	(811)	586
TOTAL STOCKHOLDERS EQUITY	162,030	161,679
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,114,204	$ 1,097,480

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, 2012	For the Three Months Ended March 31, 2011	For the Six Months Ended March 31, 2012	For the Six Months Ended March 31, 2011
	(dollars in thousands, except per share data)			
INTEREST INCOME				
Loans receivable, including fees	$ 9,145	$ 9,795	$ 18,486	$ 19,639
Investment securities:				
Taxable	1,628	2,016	3,266	3,938
Exempt from federal income tax	55	75	103	153
Other investment income	6	1	8	1
Total interest income	10,834	11,887	21,863	23,731
INTEREST EXPENSE				
Deposits	1,836	1,795	3,747	3,491
Short-term borrowings	6	23	11	45
Other borrowings	2,221	2,727	4,626	5,723
Total interest expense	4,063	4,545	8,384	9,259
NET INTEREST INCOME	6,771	7,342	13,479	14,472
Provision for loan losses	650	650	1,150	1,130
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,121	6,692	12,329	13,342
NONINTEREST INCOME				
Service fees on deposit accounts	661	729	1,388	1,491
Services charges and fees on loans	200	145	384	355
Trust and investment fees	207	195	422	406
Gain on sale of investments, net	147	115	147	115
Gain on sale of loans, net	8		8	3
Earnings on Bank-owned life insurance	196	131	394	268
Insurance commissions	195		386	
Other	9	8	18	20
Total noninterest income	1,623	1,323	3,147	2,658
NONINTEREST EXPENSE				
Compensation and employee benefits	3,980	3,933	7,916	7,813
Occupancy and equipment	776	796	1,532	1,573
Professional fees	403	420	744	849
Data processing	507	481	989	930
Advertising	67	183	153	369
Federal Deposit Insurance Corporation (FDIC) premiums	167	222	329	406
(Gain)/Loss on foreclosed real estate	40	(94)	107	12
Merger related costs	227		376	
Amortization of intangible assets	81		162	

Other	626	514	1,228	1,141
Total noninterest expense	6,874	6,455	13,536	13,093
Income before income taxes	870	1,560	1,940	2,907
Income taxes	211	345	395	680
NET INCOME	$ 659	$ 1,215	$ 1,545	$ 2,227
Earnings per share				
Basic	$ 0.06	$ 0.10	$ 0.14	$ 0.19
Diluted	$ 0.06	$ 0.10	$ 0.14	$ 0.19
Dividends per share	$ 0.05	$ 0.05	$ 0.10	$ 0.10

See accompanying notes to the unaudited consolidated financial statements.

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, 2011	12,109,622	$ 170	$ 166,758	$ (11,438)	$ 67,215	$ (61,612)	$ 586	$ 161,679
Net income					1,545			1,545
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of income tax benefit of $801							(1,554)	(1,554)
Change in unrecognized pension cost, net of income taxes of $81							157	157
Cash dividends declared ($.10 per share)					(1,096)			(1,096)
Stock based compensation			1,065					1,065
Allocation of ESOP stock			8	226				234
Balance, March 31, 2012	12,109,622	$ 170	$ 167,831	$ (11,212)	$ 67,664	$ (61,612)	$ (811)	$ 162,030

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended March 31, 2012	2011
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 1,545	$ 2,227
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,150	1,130
Provision for depreciation and amortization.	483	572
Amortization of discounts and premiums, net	812	668
Net gain on sale of investment securities	(147)	(115)
Gain on sale of loans, net	(8)	(3)
Origination of mortgage loans sold	(1,247)	(97)
Proceeds from sale of mortgage loans originated for sale	1,255	100
Compensation expense on ESOP	234	291
Stock based compensation	1,065	1,094
Decrease in accrued interest receivable	277	194
Increase in accrued interest payable	(79)	(164)
Earnings on bank-owned life insurance	(394)	(268)
Deferred federal income taxes	392	(628)
Decrease in prepaid FDIC premiums	298	372
Loss on foreclosed real estate, net	107	224
Amortization of intangible assets	162	
Other, net	629	(434)
Net cash provided by operating activities	6,534	5,163
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sale of investment securities	8,072	6,209
Proceeds from principal repayments and maturities	39,421	53,701
Purchases	(82,676)	(64,739)
Investment securities held to maturity:		
Proceeds from sale of investment securities		643
Proceeds from principal repayments and maturities		2,174
Increase in loans receivable, net	(4,712)	(15,895)
Redemption of FHLB stock	1,646	2,021
Purchase of bank owned life insurance		(2,000)
Investment in limited partnership	(2,619)	
Proceeds from sale of foreclosed real estate	879	192
Capital improvements to foreclosed real estate		(20)
Purchase of premises, equipment, and software	(352)	(271)
Net cash used for investing activities	(40,431)	(17,985)
FINANCING ACTIVITIES		
Increase in deposits, net	37,946	91,803
Net increase/(decrease) in short-term borrowings	6,000	(14,719)
Proceeds from other borrowings	1,250	8,300
Repayment of other borrowings	(32,750)	(57,000)

Increase in advances by borrowers for taxes and insurance	3,828	2,951
Purchase of treasury shares.		(8,004)
Dividends on common stock	(1,096)	(1,190)
Net cash provided by financing activities	15,178	22,141
Increase (decrease) in cash and cash equivalents	(18,629)	9,319
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,694	10,890
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 23,065	$ 20,209
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 8,463	$ 9,423
Income taxes	200	1,775
Noncash items:		
Transfers from loans to foreclosed real estate	513	1,508
Treasury stock payable	$	$ 472

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The unaudited, consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), and its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank s wholly owned subsidiaries, ESSACOR Inc, Pocono Investment Company and ESSA Advisory Services, LLC. The primary purpose of the Company is to act as a holding company for the Bank. The Company is subject to regulation and supervision as a savings and loan holding company by the Federal Reserve Board. The Bank is a Pennsylvania chartered savings association located in Stroudsburg, Pennsylvania. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton and Lehigh counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Banking Department and the Federal Deposit Insurance Corporation. The investment in subsidiary on the parent company s financial statements is carried at the parent company s equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that is currently inactive. 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. All intercompany transactions have been eliminated in consolidation.

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

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, 2012 and 2011.

	Three months ended		Six Months Ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Weighted-average common shares outstanding	16,980,900	16,980,900	16,980,900	16,980,900
Average treasury stock shares	(4,871,278)	(3,870,623)	(4,871,278)	(3,763,624)
Average unearned ESOP shares	(1,114,661)	(1,159,939)	(1,120,351)	(1,165,659)
Average unearned non-vested shares	(154,357)	(274,148)	(160,244)	(278,867)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,840,604	11,676,190	10,829,027	11,772,750
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share				
Additional common stock equivalents (stock options) used to calculate diluted earnings per share		9,690		6,273
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,840,604	11,685,880	10,829,027	11,779,023

At March 31, 2012 and 2011 there were options to purchase 1,458,379 and 317,910 shares, respectively, of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At March 31, 2012 and 2011 there were 134,322 and 253,960 shares, respectively, of nonvested stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles (GAAP) and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

4. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended March 31		Six Months Ended March 31	
	2012	2011	2012	2011
Net income	$ 659	$ 1,215	$ 1,545	$ 2,227
Unrealized loss on securities available for sale	(336)	(385)	(2,207)	(4,638)
Realized gains included in net income	(147)	(115)	(147)	(115)
Change in unrecognized pension cost	118	103	237	206
Other comprehensive loss before tax benefit	(365)	(397)	(2,117)	(4,547)
Income tax benefit related to comprehensive loss	(125)	(135)	(720)	(1,546)
Other comprehensive loss	(240)	(262)	(1,397)	(3,001)
Comprehensive income (loss)	$ 419	$ 953	$ 148	$ (774)

5. Recent Accounting Pronouncements:

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-03, *Transfers and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU did not have a significant impact on the Company s financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has presented the necessary disclosures in Note 12, herein.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company s financial statements.

In September 2011, the FASB issued ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer s Participation in a Multiemployer Plan*. The amendments in this Update will require additional disclosures about an employer s participation in a multiemployer pension plan to enable users of financial statements to assess the potential cash flow implications relating to an employer s participation in multiemployer pension plans. The disclosures also will indicate the financial health of all of the significant plans in which the employer participates and assist a financial statement user to access additional information that is available outside the financial statements. For public entities, the amendments in this Update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. For nonpublic entities, the amendments are effective for annual periods of fiscal years ending after December 15, 2012, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. This ASU is not expected to have a significant impact on the Company s financial.

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification.* The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

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

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This ASU is not expected to have a significant impact on the Company s financial statements.

6. Investment Securities

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

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 121,399	$ 3,236	$ (23)	$ 124,612
Freddie Mac	49,515	1,631	(65)	51,081
Governmental National Mortgage Association	33,922	781	(36)	34,667
Total mortgage-backed securities	204,836	5,648	(124)	210,360
Obligations of states and political subdivisions	18,634	655	(43)	19,246
U.S. government agency securities	39,210	214	(73)	39,351
Corporate obligations	8,653	76	(134)	8,595
Total debt securities	271,333	6,593	(374)	277,552
Equity securities - financial services	12	12		24
Total	$ 271,345	$ 6,605	$ (374)	$ 277,576

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 118,945	$ 4,618	$ (11)	$ 123,552
Freddie Mac	47,449	2,207		49,656
Governmental National Mortgage Association	30,247	802	(48)	31,001
Total mortgage-backed securities	196,641	7,627	(59)	204,209
Obligations of states and political subdivisions	13,760	789	(50)	14,499
U.S. government agency securities	21,797	289	(3)	22,083
Corporate obligations	4,598	26	(40)	4,584
Total debt securities	236,796	8,731	(152)	245,375
Equity securities - financial services	11	7		18
Total	$ 236,807	$ 8,738	$ (152)	$ 245,393

The amortized cost and fair value of debt securities at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,588	$ 2,607
Due after one year through five years	23,440	23,546
Due after five years through ten years	61,507	62,608
Due after ten years	183,798	188,791
Total	$ 271,333	$ 277,552

For the three and six months ended March 31, 2012, the Company realized gross gains of $147,000 and proceeds from the sale of investment securities of $8.1 million. For the three and six months ended March 31, 2011, the Company realized gross gains of $148,000 and gross losses of $33,000 and proceeds from the sale of investment securities of $6.9 million.

7. Unrealized Losses on Securities

The following table shows the Company s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (in thousands):

	March 31, 2012						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	4	$ 6,648	$ (23)	$	$	$ 6,648	$ (23)
Freddie Mac	4	7,548	(65)			7,548	(65)
Governmental National Mortgage Association	4	4,710	(24)	1,884	(12)	6,594	(36)
Obligations of states and political subdivisions	5	2,962	(43)			2,962	(43)
U.S. government agency securities	8	14,598	(73)			14,598	(73)
Corporate obligations	8	3,931	(134)			3,931	(134)

Total	33	$	40,397	$	(362)	$	1,884	$	(12)	$	42,281	$	(374)

	September 30, 2011						
		Less than Twelve Months		Twelve Months or Greater		Total	
	Number of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	$ 5,156	$ (11)	$	$	$ 5,156	$ (11)
Governmental National Mortgage Association	4	2,723	(11)	4,440	(37)	7,163	(48)
Obligations of states and political subdivisions	2	1,403	(50)			1,403	(50)
U.S. government agency securities	2	3,045	(3)			3,045	(3)
Corporate obligations	3	1,460	(40)			1,460	(40)
Total	14	$ 13,787	$ (115)	$ 4,440	$ (37)	$ 18,227	$ (152)

The Company s investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, debt obligations of a U.S. state or political subdivision and corporate debt obligations.

The Company reviews its position quarterly and has asserted that at March 31, 2012, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

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

8. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	March 31, 2012	September 30, 2011
Real Estate Loans:		
Residential	$ 590,299	$ 583,599
Construction	1,904	691
Commercial	79,424	79,362
Commercial	8,580	14,766
Obligations of states and political subdivisions	29,175	25,869
Home equity loans and lines of credit	38,261	40,484
Other	2,072	2,018
	749,715	746,789
Less allowance for loan losses	8,098	8,170
Net loans	$ 741,617	$ 738,619

	Real Estate Loans							
	Residential	Construction (dollars in thousands)	Commercial	Commercial Loans	Obligations of States and Political Subdivisions	Home Equity and Lines of Credit	Other Loans	Total
March 31, 2012								
Total Loans	$ 590,299	$ 1,904	$ 79,424	$ 8,580	$ 29,175	$ 38,261	$ 2,072	$ 749,715

Individually evaluated for impairment	5,902		12,296	355		208		18,761
Collectively evaluated for impairment	584,397	1,904	67,128	8,225	29,175	38,053	2,072	730,954

	Real Estate Loans				Obligations of States and Political Subdivisions	Home Equity and Lines of Credit	Other Loans	Total
	Residential	Construction (dollars in thousands)	Commercial	Commercial Loans				
September 30, 2011								
Total Loans	$ 583,599	$ 691	$ 79,362	$ 14,766	$ 25,869	$ 40,484	$ 2,018	$ 746,789
Individually evaluated for impairment	5,441		11,916	490		314	58	18,219
Collectively evaluated for impairment	578,158	691	67,446	14,276	25,869	40,170	1,960	728,570

We maintain a loan review system, that allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

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

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

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2012					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 1,974	$ 1,975	$	$ 4,131	$
Construction					
Commercial	10,076	10,039		10,486	
Commercial	181	181		202	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	195	195		261	
Other				41	
Total	12,426	12,390		15,121	
With an allowance recorded:					
Real Estate Loans					
Residential	3,928	3,937	380	1,344	
Construction					
Commercial	2,220	2,216	713	2,147	
Commercial	174	173	98	135	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	13	13	6	14	
Other					
Total	6,335	6,339	1,197	3,640	
Total:					
Real Estate Loans					
Residential	5,902	5,912	380	5,475	
Construction					
Commercial	12,296	12,255	713	12,633	
Commercial	355	354	98	337	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	208	208	6	275	
Other				41	
Total Impaired Loans	$ 18,761	$ 18,729	$ 1,197	$ 18,761	$

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011					
With no specific allowance recorded:					
Real Estate Loans					
Residential	$ 2,623	$ 2,621	$	$ 3,397	$
Construction					
Commercial	9,557	9,501		3,375	41
Commercial	225	220		123	5
Obligations of states and political subdivisions					
Home equity loans and lines of credit	126	126		95	
Other	58	58		58	
Total	12,589	12,526		7,048	46
With an allowance recorded:					
Real Estate Loans					
Residential	2,818	2,811	475	2,257	
Construction					
Commercial	2,359	2,297	466	1,279	60
Commercial	265	263	101	36	3
Obligations of states and political subdivisions					
Home equity loans and lines of credit	188	188	118	98	
Other					
Total	5,630	5,559	1,160	3,670	63
Total:					
Real Estate Loans					
Residential	5,441	5,432	475	5,654	
Construction					
Commercial	11,916	11,798	466	4,654	101
Commercial	490	483	101	159	8
Obligations of states and political subdivisions					
Home equity loans and lines of credit	314	314	118	193	
Other	58	58		58	
Total Impaired Loans	$ 18,219	$ 18,085	$ 1,160	$ 10,718	$ 109

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

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

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, 2012 and September 30, 2011 (in thousands):

March 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	$ 66,920	$	$ 11,791	$ 713	$ 79,424
Commercial	8,227		255	98	8,580
Obligations of states and political subdivisions	29,175				29,175
Total	$ 104,322	$	$ 12,046	$ 811	$ 117,179

September 30, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	$ 65,214	$	$ 13,682	$ 466	$ 79,362
Commercial	13,781	48	806	131	14,766
Obligations of states and political subdivisions	25,869				25,869
Total	$ 104,864	$ 48	$ 14,488	$ 597	$ 119,997

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, 2012 and September 30, 2011 (in thousands):

	Performing	Non-performing	Total
March 31, 2012			
Real estate loans:			
Residential	$ 579,893	$ 10,406	$ 590,299
Construction	1,904		1,904
Home Equity loans and lines of credit	37,810	451	38,261
Other	2,072		2,072
Total	$ 621,679	$ 10,857	$ 632,536

	Performing	Non-performing	Total
September 30, 2011			
Real estate loans:			
Residential	$ 576,745	$ 6,854	$ 583,599
Construction	691		691
Home Equity loans and lines of credit	40,236	248	40,484
Other	1,957	61	2,018
Total	$ 619,629	$ 7,163	$ 626,792

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, 2012 and September 30, 2011 (in thousands):

	00000000	00000000	00000000	00000000	00000000	00000000	00000000
	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, 2012							
Real estate loans							
Residential	$ 578,407	$ 418	$ 1,068	$	$ 10,406	$ 11,892	$ 590,299
Construction	1,904						1,904
Commercial	76,205	98			3,121	3,219	79,424
Commercial	8,304				276	276	8,580
Obligations of states and political subdivisions	29,175						29,175
Home equity loans and lines of credit	37,543	266	1		451	718	38,261
Other	2,060	5	7			12	2,072
Total	$ 733,598	$ 787	$ 1,076	$	$ 14,254	$ 16,117	$ 749,715

	00000000	00000000	00000000	00000000	00000000	00000000	00000000
	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, 2011							
Real estate loans							
Residential	$ 573,229	$ 2,588	$ 928	$	$ 6,854	$ 10,370	$ 583,599
Construction	691						691
Commercial	75,438	422			3,502	3,924	79,362
Commercial	14,459		1		306	307	14,766
Obligations of states and political subdivisions	25,869						25,869
Home equity loans and lines of credit	39,952	97	187		248	532	40,484
Other	1,950	5	2		61	68	2,018
Total	$ 731,588	$ 3,112	$ 1,118	$	$ 10,971	$ 15,201	$ 746,789

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, 2012 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the FDIC and the Pennsylvania Department of Banking, as an integral part of their examination process, have periodically reviewed our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on its analysis and review of information available to it at the time of its examination.

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

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

	Real Estate Loans								
	Residential	**Construction**	**Commercial**	**Commercial Loans**	**Obligations of States and Political Subdivisions**	**Home Equity Loans and Lines of Credit**	**Other Loans**	**Unallocated**	**Total**
ALL balance at September 30, 2011	$ 5,220	$ 8	$ 1,255	$ 500	$ 74	$ 622	$ 80	$ 411	$ 8,170
Charge-offs	(682)		(345)			(246)	(9)		(1,282)
Recoveries	33		5	20			2		60
Provision	1,048		517	(177)	7	93	62	(400)	1,150
ALL balance at March 31, 2012	$ 5,619	$ 8	$ 1,432	$ 343	$ 81	$ 469	$ 135	$ 11	$ 8,098
ALL balance at September 30, 2010	4,462	15	1,556	204		569	22	620	7,448
Charge-offs	(314)			(132)		(101)			(547)
Recoveries	83			1		14			98
Provision	811	(7)	(135)	274		152	2	33	1,130
ALL balance at March 31, 2011	$ 5,042	$ 8	$ 1,421	$ 347	$	$ 634	$ 24	$ 653	$ 8,129
Individually evaluated for impairment	380		713	98		6			1,197
Collectively evaluated for impairment	5,239	8	719	245	81	463	135	11	6,901
ALL balance at March 31, 2012	$ 5,619	$ 8	$ 1,432	$ 343	$ 81	$ 469	$ 135	$ 11	$ 8,098
Individually evaluated for impairment	475		466	101		118			1,160
Collectively evaluated for impairment	4,745	8	789	399	74	504	80	411	7,010
ALL balance at September 30, 2011	$ 5,220	$ 8	$ 1,255	$ 500	$ 74	$ 622	$ 80	$ 411	$ 8,170

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated increased provisions to the residential real estate, commercial real estate, other loans and home equity loans and lines of credit segments for the six month period ending March 31, 2012 due to increased charge off activity in those segments. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The following is a summary of troubled debt restructuring granted during the past three and six months.

	For the Three Months Ended March 31, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	6	$ 965	$ 879
Construction			
Commercial	1	147	146
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	42	42
Other			
Total	8	$ 1,154	$ 1,067

	For the Six Months Ended March 31, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	7	$ 1,284	$ 1,198
Construction			
Commercial	6	1,761	1,745
Commercial	3	217	212
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	42	42
Other			
Total	17	$ 3,304	$ 3,197

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

	For the Twelve Months Ended March 31, 2012	
	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
Real estate loans:		
Residential	1	$ 88
Construction		
Commercial	2	98
Commercial		
Obligations of states and political subdivisions		
Home equity loans and lines of credit	1	36
Other		
Total	4	$ 222

9. Deposits

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