Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2017

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 ☒ 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 ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filers," "accelerated filers," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 7, 2017 there were 11,595,744 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)

	June 30, 2017	September 30, 2016
	(dollars in thousands)	
Cash and due from banks	$ 27,023	$ 31,815
Interest-bearing deposits with other institutions	6,536	11,843
Total cash and cash equivalents	33,559	43,658
Certificates of deposit	1,000	1,250
Investment securities available for sale, at fair value	387,608	390,410
Loans receivable (net of allowance for loan losses of $9,221 and $9,056)	1,224,206	1,219,213
Regulatory stock, at cost	15,120	15,463
Premises and equipment, net	16,353	16,844
Bank-owned life insurance	37,368	36,593
Foreclosed real estate	2,859	2,659
Intangible assets, net	2,002	2,487
Goodwill	13,801	13,801
Deferred income taxes	11,231	11,885
Other assets	18,690	18,216
TOTAL ASSETS	$ 1,763,797	$ 1,772,479
LIABILITIES		
Deposits	$ 1,216,462	$ 1,214,820
Short-term borrowings	145,665	129,460
Other borrowings	198,168	230,601
Advances by borrowers for taxes and insurance	12,213	4,956
Other liabilities	10,738	16,298
TOTAL LIABILITIES	1,583,246	1,596,135
STOCKHOLDERS' EQUITY		
Preferred Stock ($0.01 par value; 10,000,000 shares authorized, none issued)		
Common stock ($0.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 11,592,699 and 11,393,558 outstanding at June 30, 2017 and September 30, 2016)	181	181
Additional paid in capital	180,772	181,900
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(8,834)	(9,174)
Retained earnings	90,100	87,638
Treasury stock, at cost; 6,540,396 and 6,739,537 shares outstanding at June 30, 2017 and September 30, 2016, respectively	(79,910)	(82,369)
Accumulated other comprehensive loss	(1,758)	(1,832)
TOTAL STOCKHOLDERS' EQUITY	180,551	176,344
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,763,797	$ 1,772,479

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands, except per share data)		(dollars in thousands, except per share data)	
INTEREST INCOME				
Loans receivable, including fees	$ 11,819	$ 12,377	$ 35,869	$ 36,756
Investment securities:				
Taxable	2,073	1,863	5,990	5,584
Exempt from federal income tax	295	277	907	776
Other investment income	221	206	671	581
Total interest income	14,408	14,723	43,437	43,697
INTEREST EXPENSE				
Deposits	2,186	1,903	6,267	5,692
Short-term borrowings	376	175	923	384
Other borrowings	686	786	2,151	2,386
Total interest expense	3,248	2,864	9,341	8,462
NET INTEREST INCOME	11,160	11,859	34,096	35,235
Provision for loan losses	750	600	2,250	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,410	11,259	31,846	33,435
NONINTEREST INCOME				
Service fees on deposit accounts	876	919	2,553	2,657
Services charges and fees on loans	285	272	912	849
Trust and investment fees	183	196	547	603
Gain on sale of investments	295	413	295	781
Earnings on Bank-owned life insurance	256	229	775	693
Insurance commissions	181	221	577	637
Other	44	46	102	170
Total noninterest income	2,120	2,296	5,761	6,390
NONINTEREST EXPENSE				
Compensation and employee benefits	6,096	5,930	18,329	17,511
Occupancy and equipment	1,106	1,340	3,387	3,871
Professional fees	570	588	2,150	1,713
Data processing	908	998	2,773	2,996
Advertising	254	297	800	537
Federal Deposit Insurance Corporation (FDIC) premiums	245	312	645	912
(Gain) loss on foreclosed real estate	(19)	(77)	(120)	74
Merger related costs	—	—	—	245
Amortization of intangible assets	158	191	485	588
Other	1,002	1,072	2,777	3,096
Total noninterest expense	10,320	10,651	31,226	31,543
Income before income taxes	2,210	2,904	6,381	8,282
Income taxes	448	792	1,051	2,084
NET INCOME	$ 1,762	$ 2,112	$ 5,330	$ 6,198
Earnings per share				
Basic	$ 0.16	$ 0.20	$ 0.50	$ 0.60
Diluted	$ 0.16	$ 0.20	$ 0.50	$ 0.59
Dividends per share	$ 0.09	$ 0.09	$ 0.27	$ 0.27

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Net income	$ 1,762	$ 2,112	$ 5,330	$ 6,198
Other comprehensive income:				
Investment securities available for sale:				
Unrealized holding gain (loss)	1,423	2,360	(7,625)	3,942
Tax effect	(483)	(802)	2,593	(1,341)
Reclassification of gains recognized in net income	(295)	(413)	(295)	(781)
Tax effect	100	141	100	266
Net of tax amount	745	1,286	(5,227)	2,086
Pension plan adjustment:				
Pension plan curtailment	—	—	7,143	—
Tax effect	—	—	(2,429)	—
Reclassification adjustment related to actuarial losses	23	119	182	358
Tax effect	(11)	(41)	(67)	(122)
Net of tax amount	12	78	4,829	236
Derivative and hedging activities adjustments:				
Changes in unrealized holding gain (loss) on derivative included in net income	(231)	—	873	—
Tax effect	78	—	(399)	—
Reclassification adjustment for gains on derivatives included in net income	3	—	(3)	—
Tax effect	(1)	—	1	—
Net of tax amount	(151)	—	472	—
Total other comprehensive income	606	1,364	74	2,322
Comprehensive income	$ 2,368	$ 3,476	$ 5,404	$ 8,520

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	Common Stock Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(dollars in thousands except per share data)							
Balance, September 30, 2016	11,393,558	$ 181	$ 181,900	$ (9,174)	$ 87,638	$ (82,369)	$ (1,832)	$ 176,344
Net income					5,330			5,330
Other comprehensive income							74	74
Cash dividends declared ($0.27 per share)					(2,868)			(2,868)
Stock based compensation			231					231
Allocation of ESOP stock			176	340				516
Allocation of treasury shares to incentive plan	23,971		(279)			293		14
Stock options exercised	175,170		(1,256)			2,166		910
Balance, June 30, 2017	11,592,699	$ 181	$ 180,772	$ (8,834)	$ 90,100	$ (79,910)	$ (1,758)	$ 180,551

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the nine months ended June 30, 2017	For the nine months ended June 30, 2016
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 5,330	$ 6,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,250	1,800
Provision for depreciation and amortization	997	1,314
Amortization and accretion of discounts and premiums, net	3,387	2,851
Gain on sale of investment securities	(295)	(781)
Compensation expense on ESOP	516	455
Stock based compensation	245	141
Increase in accrued interest receivable	(70)	(518)
Increase in accrued interest payable	143	218
Earnings on bank-owned life insurance	(775)	(693)
Deferred federal income taxes	(454)	(687)
Increase (decrease) in accrued pension liability	259	(105)
(Loss) gain on foreclosed real estate, net	(120)	74
Amortization of identifiable intangible assets	485	588
Other, net	2,682	2,945
Net cash provided by operating activities	14,580	13,800
INVESTING ACTIVITIES		
Certificates of deposit maturities	250	250
Investment securities available for sale:		
Proceeds from sale of investment securities	17,378	45,739
Proceeds from principal repayments and maturities	44,356	61,662
Purchases	(67,932)	(82,454)
Increase in loans receivable, net	(11,555)	(12,692)
Redemption of regulatory stock	16,409	11,867
Purchase of regulatory stock	(16,066)	(13,958)
Proceeds from sale of foreclosed real estate	2,221	1,375
Acquisition, net of cash acquired	—	(16,174)
Purchase of premises, equipment and software	(453)	(766)
Net cash used for investing activities	(15,392)	(5,151)
FINANCING ACTIVITIES		
Increase (decrease) in deposits, net	1,642	(79,687)
Net increase in short-term borrowings	16,205	61,823
Proceeds from other borrowings	43,057	92,300
Repayment of other borrowings	(75,490)	(80,800)
Increase in advances by borrowers for taxes and insurance	7,257	7,881
Purchase of treasury stock shares	—	(138)
Exercising of stock options	910	—
Dividends on common stock	(2,868)	(2,808)
Net cash used for financing activities	(9,287)	(1,429)
(Decrease) increase in cash and cash equivalents	(10,099)	7,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	43,658	18,758
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 33,559	$ 25,978
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid:		
Interest	$ 9,198	$ 8,180
Income taxes	(389)	600

Noncash items:		
Transfers from loans to foreclosed real estate	2,301	1,213
Pension plan curtailment	7,143	—
Unrealized holding (loss) gain	(7,920)	3,161
Acquisition of Eagle National Bank assets and liabilities		
Noncash assets acquired:		
Investment securities, available for sale	—	36,275
Loans receivable	—	123,380
Federal Home Loan Bank stock	—	889
Premises and equipment	—	945
Accrued interest receivable	—	185
Intangible assets	—	1,491
Goodwill	—	3,542
Deferred tax assets	—	715
Other assets	—	1,989
Liabilities assumed:		
Certificates of deposit	—	32,408
Deposits other than certificates of deposit	—	119,865
Accrued interest payable	—	64
Other liabilities	—	900
Net noncash assets acquired	—	16,174
Cash acquired	—	8,481

See accompanying notes to the unaudited consolidated financial statements.

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, Delaware, Chester, Montgomery, 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 “FDIC”). 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 and 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. 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 three and nine month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2017.

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 nine month periods ended June 30, 2017 and 2016.

	Three Months Ended		Nine Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Weighted-average common shares outstanding	18,133,095	18,133,095	18,133,095	18,133,095
Average treasury stock shares	(6,547,695)	(6,753,180)	(6,629,264)	(6,780,144)
Average unearned ESOP shares	(876,964)	(922,238)	(888,324)	(933,598)
Average unearned non-vested shares	(29,580)	(31,373)	(43,801)	(36,174)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,678,856	10,426,304	10,571,706	10,383,179
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	332	297	—	—
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	63,820	126,538	68,519	125,297
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,743,008	10,553,139	10,640,225	10,508,476

At June 30, 2017 there were 50,310 shares of nonvested stock outstanding at an average weighted price of $14.38 per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At June 30, 2016 there were 43,692 shares of nonvested stock outstanding at an average weighted price of $12.93 per share that were not included in the computation of diluted earnings per share 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 from those estimates.

4. Recent Accounting Pronouncements

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. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, we do not expect the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a one percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815)*. The amendments in this Update apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a heading instrument under Topic 815. The standards in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, 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, 2017, and interim periods within fiscal years beginning after December 15, 2018. An entity has an option to apply the amendments in this Update on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815)*. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt host. An entity performing the assessment under the amendments in this Update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For entities other than public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*: *Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606)*, which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company's statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*, which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a "set") is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission ("SEC") filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2017, the FASB issued ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*. The amendments in this Update clarify what constitutes a financial asset within the scope of Subtopic 610-20. The amendments also clarify that entities should identify each distinct nonfinancial asset or in substance nonfinancial asset that is promised to a counterparty and to derecognize each asset when the counterparty obtains control. There is also additional guidance provided for partial sales of a nonfinancial asset and when derecognition, and the related gain or loss, should be recognized. The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715)*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For all other entities, the amendments in the Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)*. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718)*, which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivative and Hedging (Topic 815)*. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down-round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down-round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share ("EPS") in accordance with Topic 260 to recognize the effect of the down-round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down- round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, *Debt—Debt with Conversion and Other Options*), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Accounting Standards Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied either retrospectively to outstanding financial instruments with a down-round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective or retrospectively to outstanding financial instruments with a down-round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. This Update is not expected to have a significant impact on the Company's financial statements.

5. Investment Securities

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

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 120,165	$ 142	$ (1,413)	$ 118,894
Freddie Mac	96,592	138	(938)	95,792
Governmental National Mortgage Association	13,433	30	(189)	13,274
Total mortgage-backed securities	230,190	310	(2,540)	227,960
Obligations of states and political subdivisions	67,990	1,570	(581)	68,979
U.S. government agency securities	20,918	77	(6)	20,989
Corporate obligations	45,167	221	(634)	44,754
Other debt securities	25,250	57	(406)	24,901
Total debt securities	389,515	2,235	(4,167)	387,583
Equity securities - financial services	25	—	—	25
Total	$ 389,540	$ 2,235	$ (4,167)	$ 387,608

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 115,535	$ 1,891	$ (173)	$ 117,253
Freddie Mac	84,486	1,369	(85)	85,770
Governmental National Mortgage Association	16,091	76	(28)	16,139
Total mortgage-backed securities	216,112	3,336	(286)	219,162
Obligations of states and political subdivisions	71,323	2,432	(65)	73,690
U.S. government agency securities	25,669	272	—	25,941
Corporate obligations	38,331	599	(512)	38,418
Other debt securities	32,962	428	(216)	33,174
Total debt securities	384,397	7,067	(1,079)	390,385
Equity securities - financial services	25	—	—	25
Total	$ 384,422	$ 7,067	$ (1,079)	$ 390,410

The amortized cost and fair value of debt securities at June 30, 2017, 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	$ 16,479	$ 16,482
Due after one year through five years	34,410	34,501
Due after five years through ten years	87,054	87,206
Due after ten years	251,572	249,394
Total	$ 389,515	$ 387,583

For the three and nine months ended June 30, 2017, the Company realized gross gains of $299,000 and gross losses of $4,000 on proceeds from the sale of investment securities of $17.4 million. For the three months ended June 30, 2016, the Company realized gross gains of $413,000 and no gross losses on proceeds from the sale of investment securities of $16.7 million. For the nine months ended June 30, 2016, the Company realized gross gains of $781,000 on proceeds from the sale of investment securities of $45.7 million. During the first quarter of fiscal 2016, the Company sold $16.2 million of investment securities which were acquired in the merger with Eagle National Bancorp, Inc ("ENB"). The Company realized no gain or loss from the sale of these securities.

The following tables show 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):

	June 30, 2017						
	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	59	$ 75,369	$ (984)	$ 12,175	$ (429)	$ 87,544	$ (1,413)
Freddie Mac	42	53,831	(664)	8,775	(274)	62,606	(938)
Governmental National Mortgage Association	9	6,169	(156)	3,079	(33)	9,248	(189)
Obligations of states and political subdivisions	24	26,357	(518)	1,506	(63)	27,863	(581)
U.S. government agency securities	4	10,992	(6)	—	—	10,992	(6)
Corporate obligations	24	19,688	(381)	6,227	(253)	25,915	(634)
Other debt securities	19	12,782	(287)	8,637	(119)	21,419	(406)
Total	181	$ 205,188	$ (2,996)	$ 40,399	$ (1,171)	$ 245,587	$ (4,167)

	September 30, 2016						
	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	17	$ 6,841	$ (21)	$ 12,261	$ (152)	$ 19,102	$ (173)
Freddie Mac	11	7,457	(11)	6,375	(74)	13,832	(85)
Governmental National Mortgage Association	5	4,704	(16)	1,267	(12)	5,971	(28)
Obligations of states and political subdivisions	12	14,420	(65)	—	—	14,420	(65)
Corporate obligations	12	8,778	(172)	5,303	(340)	14,081	(512)
Other debt securities	13	6,582	(126)	6,914	(90)	13,496	(216)
Total	70	$ 48,782	$ (411)	$ 32,120	$ (668)	$ 80,902	$ (1,079)

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 and corporate debt obligations.

The Company reviews its position quarterly and has asserted that at June 30, 2017, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the above securities before their 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.

6. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	June 30, 2017	September 30, 2016
Real estate loans:		
Residential	$ 586,871	$ 596,645
Construction	4,404	1,733
Commercial	308,679	288,447
Commercial	40,713	39,978
Obligations of states and political subdivisions	58,264	56,923
Home equity loans and lines of credit	46,704	48,163
Auto Loans	184,688	193,078
Other	3,104	3,302
	1,233,427	1,228,269
Less allowance for loan losses	9,221	9,056
Net loans	$ 1,224,206	$ 1,219,213

Purchased loans acquired in a business combination are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses.

Upon acquisition, the Company evaluates whether each acquired loan (regardless of size) is within the scope of ASC 310-30, *Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. The Company acquired ENB on December 4, 2015. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of all purchased loans acquired with deteriorated credit quality was $4.9 million at June 30, 2017.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all loans evidencing credit impairment acquired in the ENB acquisition was $3.5 million and the estimated fair value of the loans was $2.0 million. Total contractually required payments on these loans, including interest, at the acquisition date was $4.2 million. However, the Company's preliminary estimate of expected cash flows was $2.2 million. At such date, the Company established a credit risk related non-accretable discount (a discount representing amounts which are not expected to be collected from the customer nor liquidation of collateral) of $2.0 million relating to these impaired loans, reflected in the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount of $240,000 on the acquisition date relating to these impaired loans.

The carrying value of the loans acquired and accounted for in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, was determined by projecting discounted contractual cash flows. The table below presents the components of the purchase accounting adjustments related to the purchased impaired loans acquired in the ENB acquisition as of December 4, 2015 (in thousands):

Unpaid principal balance	$ 3,468
Interest	717
Contractual cash flows	4,185
Non-accretable discount	(1,973)
Expected cash flows	2,212
Accretable discount	(240)
Estimated fair value	$ 1,972

Changes in the accretable yield for purchased credit-impaired loans were as follows, since acquisition, for the three and nine month periods ended June 30, 2017 and June 30, 2016 (in thousands):

	For the Three Months Ended June 30,	
	2017	2016
Balance at beginning of period	$ 460	$ 365
Reclassification, new additions and other	33	153
Accretion	(32)	(66)
Balance at end of period	$ 461	$ 452

	For the Nine Months Ended June 30,	
	2017	2016
Balance at beginning of period	$ 478	$ 258
Reclassification, new additions and other	151	240
Accretion	(168)	(46)
Balance at end of period	$ 461	$ 452

The following table presents additional information regarding loans acquired and accounted for in accordance with ASC 310-30 (in thousands):

	June 30, 2017	September 30, 2016
	Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)	Acquired Loans with Specific Evidence or Deterioration in Credit Quality (ASC 310-30)
Outstanding balance	$ 6,083	$ 6,893
Carrying amount	$ 4,911	$ 5,563

The following tables show the amount of loans in each category that were individually and collectively evaluated for impairment at the dates indicated (in thousands):

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
June 30, 2017				
Real estate loans:				
Residential	$ 586,871	$ 6,683	$ —	$ 580,188
Construction	4,404	—	—	4,404
Commercial	308,679	7,633	4,264	296,782
Commercial	40,713	1,501	318	38,894
Obligations of states and political subdivisions	58,264	—	—	58,264
Home equity loans and lines of credit	46,704	216	329	46,159
Auto loans	184,688	523	—	184,165
Other	3,104	23	—	3,081
Total	$ 1,233,427	$ 16,579	$ 4,911	$ 1,211,937

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2016				
Real estate loans:				
Residential	$ 596,645	$ 8,721	$ —	$ 587,924
Construction	1,733	—	—	1,733
Commercial	288,447	11,237	4,615	272,595
Commercial	39,978	1,698	411	37,869
Obligations of states and political sub divisions	56,923	—	—	56,923
Home equity loans and lines of credit	48,163	361	537	47,265
Auto loans	193,078	526	—	192,552
Other	3,302	22	—	3,280
Total	$ 1,228,269	$ 22,565	$ 5,563	$ 1,200,141

The Company maintains 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. The Company does 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 that it would not otherwise consider because of the borrower’s financial condition. 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 at the time of modification may be removed from TDR status after one year of performance.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount at the dates indicated, if applicable (in thousands):

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
June 30, 2017			
With no specific allowance recorded:			
Real estate loans			
Residential	$ 4,796	$ 6,344	$ —
Construction	—	—	—
Commercial	6,963	9,650	—
Commercial	1,501	1,673	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	212	290	—
Auto loans	434	443	—
Other	23	29	—
Total	13,929	18,429	—
With an allowance recorded:			
Real estate loans			
Residential	1,887	2,179	197
Construction	—	—	—
Commercial	670	688	147
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	4	4	4
Auto loans	89	218	179
Other	—	—	—
Total	2,650	3,089	527
Total:			
Real estate loans			
Residential	6,683	8,523	197
Construction	—	—	—
Commercial	7,633	10,338	147
Commercial	1,501	1,673	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	216	294	4
Auto loans	523	661	179
Other	23	29	—
Total Impaired Loans	$ 16,579	$ 21,518	$ 527

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
September 30, 2016			
With no specific allowance recorded:			
Real Estate Loans			
Residential	$ 6,721	$ 9,016	$ —
Construction	—	—	—
Commercial	10,939	12,928	—
Commercial	1,698	1,725	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	361	432	—
Auto Loans	253	365	—
Other	22	22	—
Total	19,994	24,488	—
With an allowance recorded:			
Real Estate Loans			
Residential	2,000	2,151	198
Construction	—	—	—
Commercial	298	303	36
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	—	—	—
Auto Loans	273	273	113
Other	—	—	—
Total	2,571	2,727	347
Total:			
Real Estate Loans			
Residential	8,721	11,167	198
Construction	—	—	—
Commercial	11,237	13,231	36
Commercial	1,698	1,725	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	361	432	—
Auto Loans	526	638	113
Other	22	22	—
Total Impaired Loans	$ 22,565	$ 27,215	$ 347

The following tables represent 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):

	For the Three Months Ended June 30,			
	2017	2016	2017	2016
	Average Recorded Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 4,800	$ 7,365	$ 9	$ 17
Construction	—	—	—	—
Commercial	8,502	11,590	61	117
Commercial	1,584	1,839	30	37
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	208	502	—	—
Auto loans	144	241	—	—
Other	8	13	—	—
Total	15,246	21,550	100	171
With an allowance recorded:				
Real estate loans				
Residential	1,384	2,214	—	3
Construction	—	—	—	—
Commercial	302	1,565	—	—
Commercial	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	4	98	—	—
Auto loans	298	291	1	5
Other	—	—	—	—
Total	1,988	4,168	1	8
Total:				
Real estate loans				
Residential	6,184	9,579	9	20
Construction	—	—	—	—
Commercial	8,804	13,155	61	117
Commercial	1,584	1,839	30	37
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	212	600	—	—
Auto loans	442	532	1	5
Other	8	13	—	—
Total Impaired Loans	$ 17,234	$ 25,718	$ 101	$ 179

	For the Nine Months Ended June 30,			
	2017	2016	2017	2016
	Average Recorded Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 5,633	$ 7,815	$ 30	$ 65
Construction	—	—	—	—
Commercial	9,428	12,469	233	424
Commercial	1,638	1,513	92	89
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	243	615	—	2
Auto loans	127	250	—	2
Other	8	5	—	—
Total	17,077	22,667	355	582
With an allowance recorded:				
Real estate loans				
Residential	1,811	2,495	—	12
Construction	—	—	—	—
Commercial	330	1,171	—	—
Commercial	40	3	—	—
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	4	77	—	—
Auto loans	268	217	7	8
Other	—	—	—	—
Total	2,453	3,963	7	20
Total:				
Real estate loans				
Residential	7,444	10,310	30	77
Construction	—	—	—	—
Commercial	9,758	13,640	233	424
Commercial	1,678	1,516	92	89
Obligations of states and political subdivisions	—	—	—	—
Home equity loans and lines of credit	247	692	—	2
Auto loans	395	467	7	10
Other	8	5	—	—
Total Impaired Loans	$ 19,530	$ 26,630	$ 362	$ 602

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 more than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses inherent in loans classified as Substandard with the added characteristic that their 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.

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 recommendation for 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 $750,000 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 or Loss within the internal risk rating system at June 30, 2017 and September 30, 2016 (in thousands):

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
June 30, 2017					
Commercial real estate loans	$ 290,187	$ 4,479	$ 14,013	$ —	$ 308,679
Commercial	37,598	164	2,951	—	40,713
Obligations of states and political subdivisions	58,264	—	—	—	58,264
Total	$ 386,049	$ 4,643	$ 16,964	$ —	$ 407,656

	Pass	Special Mention	Substandard	Doubtful or Loss	Total
September 30, 2016					
Commercial real estate loans	$ 260,088	$ 8,886	$ 19,473	$ —	$ 288,447
Commercial	36,684	180	3,114	—	39,978
Obligations of states and political subdivisions	56,923	—	—	—	56,923
Total	$ 353,695	$ 9,066	$ 22,587	$ —	$ 385,348

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 June 30, 2017 and September 30, 2016 (in thousands):

	Performing	Non-performing	Purchased Credit Impaired	Total
June 30, 2017				
Real estate loans:				
Residential	$ 579,567	$ 7,304	$ —	$ 586,871
Construction	4,404	—	—	4,404
Home equity loans and lines of credit	46,101	274	329	46,704
Auto loans	184,020	668	—	184,688
Other	3,064	40	—	3,104
Total	$ 817,156	$ 8,286	$ 329	$ 825,771

	Performing	Non-performing	Purchased Impaired Credit	Total
September 30, 2016				
Real estate loans:				
Residential	$ 587,673	$ 8,972	$ —	$ 596,645
Construction	1,733	—	—	1,733
Home equity loans and lines of credit	47,213	413	537	48,163
Auto loans	192,734	344	—	193,078
Other	3,271	31	—	3,302
Total	$ 832,624	$ 9,760	$ 537	$ 842,921

The Company 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 June 30, 2017 and September 30, 2016 (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	Purchased Credit Impaired	Total Loans
June 30, 2017								
Real estate loans								
Residential	$ 576,780	$ 2,091	$ 696	$ —	$ 7,304	$ 10,091	$ —	$ 586,871
Construction	4,404	—	—	—	—	—	—	4,404
Commercial	300,069	157	—	—	4,189	4,346	4,264	308,679
Commercial	39,820	19	—	—	556	575	318	40,713
Obligations of states and political subdivisions	58,264	—	—	—	—	—	—	58,264
Home equity loans and lines of credit	45,812	289	—	—	274	563	329	46,704
Auto loans	183,290	700	30	—	668	1,398	—	184,688
Other	2,780	284	—	—	40	324	—	3,104
Total	$ 1,211,219	$ 3,540	$ 726	$ —	$ 13,031	$ 17,297	$ 4,911	$ 1,233,427

	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	Purchased Credit Impaired	Total Loans
September 30, 2016								
Real estate loans								
Residential	$ 585,517	$ 1,496	$ 660	$ —	$ 8,972	$ 11,128	$ —	$ 596,645
Construction	1,733	—	—	—	—	—	—	1,733
Commercial	279,019	1,093	191	—	3,529	4,813	4,615	288,447
Commercial	38,862	185	57	—	463	705	411	39,978
Obligations of states and political subdivisions	56,923	—	—	—	—	—	—	56,923
Home equity loans and lines of credit	47,026	40	147	—	413	600	537	48,163
Auto loans	191,785	717	232	—	344	1,293	—	193,078
Other	3,264	7	—	—	31	38	—	3,302
Total	$ 1,204,129	$ 3,538	$ 1,287	$ —	$ 13,752	$ 18,577	$ 5,563	$ 1,228,269

The 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. The 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 June 30, 2017 was 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.

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 allowance for loan losses (“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 changes in the primary segments of the ALL for the three and nine month periods ending June 30, 2017 and 2016 (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 March 31, 2017	$ 4,130	$ 30	$ 1,038	$ 951	$ 244	$ 445	$ 1,908	$ 24	$ 596	$ 9,366
Charge-offs	(23)	—	(649)	—	—	—	(460)	—	—	(1,132)
Recoveries	11	—	9	1	—	2	213	1	—	237
Provision	88	3	968	34	2	47	205	(2)	(595)	750
ALL balance at June 30, 2017	$ 4,206	$ 33	$ 1,366	$ 986	$ 246	$ 494	$ 1,866	$ 23	$ 1	$ 9,221
ALL balance at March 31, 2016	$ 4,655	$ 24	$ 968	$ 738	$ 196	$ 389	$ 1,925	$ 25	$ 495	$ 9,415
Charge-offs	(259)	—	(61)	(5)	—	(11)	(369)	—	—	(705)
Recoveries	34	—	—	5	—	2	37	2	—	80
Provision	57	2	(2)	96	5	29	494	(2)	(79)	600
ALL balance at June 30, 2016	$ 4,487	$ 26	$ 905	$ 834	$ 201	$ 409	$ 2,087	$ 25	$ 416	$ 9,390
ALL balance at September 30, 2016	$ 4,426	$ 13	$ 852	$ 882	$ 215	$ 455	$ 1,880	$ 25	$ 308	$ 9,056
Charge-offs	(390)	—	(867)	(20)	—	(6)	(1,521)	(4)	—	(2,808)
Recoveries	18	—	19	1	—	5	673	7	—	723
Provision	152	20	1,362	123	31	40	834	(5)	(307)	2,250
ALL balance at June 30, 2017	$ 4,206	$ 33	$ 1,366	$ 986	$ 246	$ 494	$ 1,866	$ 23	$ 1	$ 9,221
ALL balance at September 30, 2015	$ 5,140	$ 7	$ 671	$ 693	$ 189	$ 461	$ 1,570	$ 27	$ 161	$ 8,919
Charge-offs	(657)	—	(70)	(8)	—	(110)	(746)	—	—	(1,591)
Recoveries	37	—	52	7	—	6	154	6	—	262
Provision	(33)	19	252	142	12	52	1,109	(8)	255	1,800
ALL balance at June 30, 2016	$ 4,487	$ 26	$ 905	$ 834	$ 201	$ 409	$ 2,087	$ 25	$ 416	$ 9,390

The Company allocated increased provisions to commercial real estate loans for the three month period ending June 30, 2017 due to increased charge off activity and increased loan balances. Charge offs increased for the quarter ended June 30, 2017 due primarily to the charge off of $414,000 on one commercial real estate loan. The Company allocated increased provisions in auto loans due to increased charge off activity and increased non-performing loans.

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 two categories, the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2017 and September 30, 2016 (in thousands):

	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other Loans	Unallocated	Total
	Residential	Construction	Commercial							
Individually evaluated for impairment	$ 197	$ —	$ 147	$ —	$ —	$ 4	$ 179	$ —	$ —	$ 527
Collectively evaluated for impairment	4,009	33	1,219	986	246	490	1,687	23	1	8,694
ALL balance at June 30, 2017	$ 4,206	$ 33	$ 1,366	$ 986	$ 246	$ 494	$ 1,866	$ 23	$ 1	$9,221
Individually evaluated for impairment	$ 198	$ —	$ 36	$ —	$ —	$ —	$ 113	$ —	$ —	$ 347
Collectively evaluated for impairment	4,228	13	816	882	215	455	1,767	25	308	8,709
ALL balance at September 30, 2016	$ 4,426	$ 13	$ 852	$ 882	$ 215	$ 455	$ 1,880	$ 25	$ 308	$9,056

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. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The following is a summary of troubled debt restructuring granted during the three months ended June 30, 2017 and 2016 (dollars in thousands):

	For the Three Months Ended June 30, 2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	2	$ 529	$ 529
Construction	—	—	—
Commercial	—		—
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	—	—	—
Auto loans	1	13	13
Other	—	—	—
Total	3	$ 542	$ 542

	For the Three Months Ended June 30, 2016				
	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings					
Real estate loans:					
Residential	3	$	248	$	248
Construction	—		—		—
Commercial	1		1,612		1,612
Commercial	—		—		—
Obligations of states and political subdivisions	—		—		—
Home equity loans and lines of credit	1		7		7
Auto loans	—		—		—
Other	—		—		—
Total	5	$	1,867	$	1,867

Of the three new troubled debt restructurings granted for the three months ended June 30, 2017, two loans for $206,000 were granted terms and rate concessions and one loan for $336,000 was granted interest rate concessions.

Of the five new troubled debt restructurings granted for the three months ended June 30, 2016, two loans totaling $118,000, were granted term and rate concessions, two loan totaling $1.7 million were granted term concessions and one loan totaling $7,000 was granted a rate concession.

The following is a summary of troubled debt restructuring granted during the nine months ended June 30, 2017 and 2016 (dollars in thousands):

	For the Nine Months Ended June 30, 2017				
	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings					
Real estate loans:					
Residential	5	$	902	$	902
Construction	—		—		—
Commercial	1		93		93
Commercial	—		—		—
Obligations of states and political subdivisions	—		—		—
Home equity loans and lines of credit	—		—		—
Auto loans	1		13		13
Other	1		21		21
Total	8	$	1,029	$	1,029

	For the Nine Months Ended June 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	7	$ 916	$ 916
Construction	—	—	—
Commercial	2	1,689	1,689
Commercial	—	—	—
Obligations of states and political subdivisions	—	—	—
Home equity loans and lines of credit	1	7	7
Auto loans	—	—	—
Other	—	—	—
Total	10	$ 2,612	$ 2,612

Of the eight new troubled debt restructurings granted for the nine months ended June 30, 2017, one loan totaling $133,000 was granted terms concessions, two loans totaling $357,000 were granted interest rate concessions, and five loans totaling $539,000 were granted terms and rate concessions.

Of the ten new troubled debt restructurings granted for the nine months ended June 30, 2016, four loans totaling $690,000 were granted term and rate concessions, four loans totaling $1.8 million were granted term concessions and two loan totaling $84,000 were granted a rate concession.

For the three and nine months ended June 30, 2017 and 2016 no loans defaulted on a restructuring agreement within one year of modification.

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in the Consolidated Balance Sheet. As of June 30, 2017 and September 30, 2016, included with other assets are $2.9 million and $2.7 million, of foreclosed assets, respectively. As of June 30, 2017, included within the foreclosed assets is $1.9 million of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of June 30, 2017, the Company has initiated formal foreclosure proceedings on $2.0 million of consumer residential mortgages which have not yet been transferred into foreclosed assets.

7. Deposits

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

	June 30, 2017	September 30, 2016
Non-interest bearing demand accounts	$ 154,705	$ 142,924
Interest bearing demand accounts	156,395	167,259
Money market accounts	244,650	249,947
Savings and club accounts	147,260	142,021
Certificates of deposit	513,452	512,669
Total	$ 1,216,462	$ 1,214,820

8. Net Periodic Benefit Cost-Defined Benefit Plan

For a detailed disclosure on the Bank’s pension and employee benefits plans, please refer to Note 12 of the Company’s Consolidated Financial Statements for the year ended September 30, 2016 included in the Company’s Annual Report on Form 10-K.

The following table comprises the components of net periodic benefit cost for the three and nine month periods ended June 30, 2017 and 2016 (in thousands):

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2017	2016	2017	2016
Service Cost	$ 69	$ 249	$ 447	$ 747
Interest Cost	208	246	651	736
Expected return on plan assets	(348)	(311)	(1,037)	(933)
Amortization of unrecognized loss	23	119	182	358
Net periodic benefit cost	$ (48)	$ 303	$ 243	$ 908

The Company's board of directors adopted resolutions to freeze the status of the Defined Benefit Plan ("the plan") effective February 28, 2017 ("the freeze date"). Accordingly, no additional participants will enter the plan after February 28, 2017; no additional years of service for benefit accrual purposes will be credited after the freeze date under the plan; and compensation earned by participants after the freeze date will not be taken into account under the plan.

As a result of the freeze, the Company's projected benefit obligation decreased by $7.1 million and there was a tax effected $4.7 million increase to accumulated other comprehensive income in the quarter ended March 31, 2017.

9. Equity Incentive Plan

The Company previously maintained the ESSA Bancorp, Inc. 2007 Equity Incentive Plan (the "Plan"). The Plan provided for a total of 2,377,326 shares of common stock for issuance upon the grant or exercise of awards. Of the shares that were available under the Plan, 1,698,090 were available to be issued in connection with the exercise of stock options and 679,236 were available to be issued as restricted stock. The Plan allowed for the granting of non-qualified stock options ("NSOs"), incentive stock options ("ISOs"), and restricted stock. Options granted under the plan were granted at no less than the fair value of the Company's common stock on the date of the grant. As of the effective date of the 2016 Equity Incentive Plan (detailed below), no further grants will be made under the Plan and forfeitures of outstanding awards under the Plan will be added to the shares available under the 2016 Equity Incentive Plan.

The Company replaced the 2007 Equity Incentive Plan with the ESSA Bancorp, Inc. 2016 Equity Incentive Plan (the "2016 Plan") which was approved by shareholders on March 3, 2016. The 2016 Plan provides for a total of 250,000 shares of common stock for issuance upon the grant or exercise of awards. The 2016 Plan allows for the granting of restricted stock, restricted stock units, ISOs and NSOs.

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, 19,880 shares of restricted stock on July 22, 2014, 21,843 shares of restricted stock on May 20, 2015, 23,491 shares of restricted stock on March 4, 2016, 20,675 shares of restricted stock on December 13, 2016 and 3,296 shares of restricted stock on March 29, 2017. 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.

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

The 2013 restricted stock shares vested over an 18 month service period. The 2014 restricted shares vest over a 39 month service period. The 2015 restricted shares vest over a 40 month service period. The March 4, 2016 restricted shares vest over a 43 month service period. The December 13, 2016 restricted shares vest over a 46 month service period. The March 29, 2017 restricted shares vest over 42 months for 1,296 shares and over 18 months for 2,000 shares. 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.

For the nine months ended June 30, 2017 and 2016, the Company recorded $231,000 and $325,000 of share-based compensation expense, respectively, comprised of restricted stock expense. Expected future compensation expense relating to the restricted shares issued in 2014, at June 30, 2017 is $16,000 over the remaining vesting period of 0.25 years. Expected future compensation expense relating to the restricted shares issued in 2015, at June 30, 2017 is $102,000 over the remaining vesting period of 1.25 years. Expected future compensation expense relating to the restricted shares issued in March 2016, at June 30, 2017 is $192,000 over the remaining vesting period of 2.25 years. Expected future compensation expense relating to the restricted shares issued in December 2016, at June 30, 2017 is $290,000 over the remaining vesting period of 3.25 years. Expected future compensation expense relating to the restricted shares (1,296) issued in March 2017, at June 30, 2017 is $24,000 over the remaining vesting period of 1.25 years. Expected future compensation expense relating to the restricted shares (2,000) issued in March 2017, at June 30, 2017 is $17,000 over the remaining vesting period of 3.25 years.

The following is a summary of the Company's stock option activity and related information for its option grants for the nine month period ended June 30, 2017.

	Number of Stock Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2016	905,987	$ 12.35	1.67	$ 1,341
Granted	—	—	—	—
Exercised	544,341	12.35	0.92	—
Forfeited	—	—	—	—
Outstanding June 30, 2017	361,646	$ 12.35	0.92	$ 857
Exercisable at June 30, 2017	361,646	$ 12.35	0.92	$ 857

The following is a summary of the status of the Company's restricted stock as of June 30, 2017, and changes therein during the nine month period then ended:

	Number of Restricted Stock	Weighted-average Grant Date Fair Value
Nonvested at September 30, 2016	31,896	$ 13.01
Granted	23,971	16.28
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2017	55,867	$ 14.50

10. 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.

The following tables present information about the Company's securities, derivatives, other real estate owned, impaired loans and mortgage servicing rights measured at fair value as of June 30, 2017 and September 30, 2016 and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value:

	Fair Value Measurement at June 30, 2017			
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 June 30, 2017**
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$ —	$ 227,960	$ —	$ 227,960
Obligations of states and political subdivisions	—	68,979	—	68,979
U.S. government agencies	—	20,989	—	20,989
Corporate obligations	—	36,040	8,714	44,754
Other debt securities	—	24,901	—	24,901
Equity securities-financial services	25	—	—	25
Total debt and equity securities	$ 25	$ 378,869	$ 8,714	$ 387,608
Derivatives	$ —	$ 1,169	$ —	$ 1,169
Assets measured at fair value on a nonrecurring basis:				
Foreclosed real estate	$ —	$ —	$ 2,859	$ 2,859
Impaired loans	$ —	$ —	$ 16,052	$ 16,052
Mortgage servicing rights	$ —	$ —	$ 284	$ 284

	Fair Value Measurement at September 30, 2016			
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, 2016**
Securities available-for-sale measured on a recurring basis				
Mortgage backed securities	$ —	$ 219,162	$ —	$ 219,162
Obligations of states and political subdivisions	—	73,690	—	73,690
U.S. government agencies	—	25,941	—	25,941
Corporate obligations	—	31,433	6,985	38,418
Other debt securities	—	32,674	500	33,174
Equity securities-financial services	25	—	—	25
Total debt and equity securities	$ 25	$ 382,900	$ 7,485	$ 390,410
Derivatives	$ —	$ 453	$ —	$ 453
Assets measured at fair value on a nonrecurring basis:				
Foreclosed real estate	$ —	$ —	$ 2,659	$ 2,659
Impaired loans	$ —	$ —	$ 22,218	$ 22,218
Mortgage Servicing rights	$ —	$ —	$ 398	$ 398

The following tables present a summary of changes in the fair value of the Company’s Level III investments for the three and nine month periods ended June 30, 2017 and 2016 (in thousands).

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	Three Months Ended	
	June 30, 2017	June 30, 2016
Beginning balance	$ 8,735	$ 7,136
Purchases, sales, issuances, settlements, net	—	3,000
Total unrealized gain (loss):		
Included in earnings	—	—
Included in other comprehensive income	(21)	76
Transfers in and/or out of Level III	—	—
	$ 8,714	$ 10,212

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	Nine Months Ended	
	June 30, 2017	June 30, 2016
Beginning balance	$ 7,485	$ 4,211
Purchases, sales, issuances, settlements, net	756	6,000
Total unrealized gain (loss):		
Included in earnings	—	—
Included in other comprehensive income	473	1
Transfers in and/or out of Level III	—	—
	$ 8,714	$ 10,212

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 Company 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. A few securities are valued using Level 3 inputs, all of these are classified as available for sale and are reported at fair value using Level 3 inputs. Mortgage servicing rights are also valued by an independent pricing service. 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 June 30, 2017, 161 impaired loans with a carrying value of $16.6 million were reduced by specific valuation allowance totaling $527,000 resulting in a net fair value of $16.1 million based on Level 3 inputs. At September 30, 2016, 205 impaired loans with a carrying value of $22.6 million were reduced by a specific valuation totaling $347,000 resulting in a net fair value of $22.2 million based on Level 3 inputs.

The following tables present 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
June 30, 2017				
Impaired loans	$ 16,052	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 57% (24.1%)
Foreclosed real estate owned	2,859	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	20% to 50% (21.9%)
Mortgage servicing rights	284	Discounted cash flow	Discount rate	11% to 16% (11.6%)
			Prepayment speeds	10% to 30% (15.7%)

	Quantitative Information about Level 3 Fair Value Measurements			
(in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
September 30, 2016:				
Impaired loans	$ 22,218	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 50% (23.0%)
Foreclosed real estate owned	2,659	Appraisal of collateral (1), (3)	Appraisal adjustments (2)	20% to 50% (22.1%)
Mortgage servicing rights	398	Discounted cash flow	Discount rate	12% (12.0%)
			Prepayment speeds	8% to 33% (17.2%)

(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.

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

Disclosures about Fair Value of Financial Instruments

The fair values presented represent the Company's best estimate of fair value using the methodologies discussed below (in thousands).

	June 30, 2017				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 33,559	$ 33,559	$ —	$ —	$ 33,559
Certificates of deposit	1,000	—	—	1,006	1,006
Investment and mortgage backed securities available for sale	387,608	25	378,869	8,714	387,608
Loans receivable, net	1,224,206	—	—	1,221,711	1,221,711
Accrued interest receivable	5,839	5,839	—	—	5,839
Regulatory stock	15,120	15,120	—	—	15,120
Mortgage servicing rights	284	—	—	284	284
Derivatives	1,169	—	1,169	—	1,169
Bank owned life insurance	37,368	37,368	—	—	37,368
Financial liabilities:					
Deposits	$ 1,216,462	$ 703,010	$ —	$ 514,284	$ 1,217,294
Short-term borrowings	145,665	145,665	—		145,665
Other borrowings	198,168	—	—	198,203	198,203
Advances by borrowers for taxes and insurance	12,213	12,213	—	—	12,213
Accrued interest payable	1,189	1,189	—	—	1,189

	September 30, 2016				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 43,658	$ 43,658	$ —	$ —	$ 43,658
Certificates of deposit	1,250	—	—	1,269	1,269
Investment and mortgage backed securities available for sale	390,410	25	382,900	7,485	390,410
Loans receivable, net	1,219,213	—	—	1,237,759	1,237,759
Accrued interest receivable	5,769	5,769	—	—	5,769
Regulatory stock	15,463	15,463	—	—	15,463
Mortgage servicing rights	398	—	—	398	398
Derivatives	453	—	453	—	453
Bank owned life insurance	36,593	36,593	—	—	36,593
Financial liabilities:					
Deposits	$ 1,214,820	$ 702,151	$ —	$ 516,743	$ 1,218,894
Short-term borrowings	129,460	129,460	—	—	129,460
Other borrowings	230,601	—	—	231,911	231,911
Advances by borrowers for taxes and insurance	4,956	4,956	—	—	4,956
Accrued interest payable	1,046	1,046	—	—	1,046

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 Regulatory 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 Regulatory 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, Net

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.

Derivatives

Fair values of interest rate cap and interest rate swap contracts are based on dealer quotes.

Deposits (including Certificates of Deposit)

The fair values disclosed for demand, savings, and money market deposit accounts are valued at the amount payable on demand as of quarter-end. Fair values for time deposits are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits of similar remaining maturities.

Other Borrowings

Fair values for other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for other borrowings of similar remaining maturities.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure.

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the three and nine month periods ended June 30, 2017 and 2016 is as follows (in thousands):

	Accumulated Other Comprehensive Loss			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Derivatives	Total
Balance at March 31, 2017	$ (1,266)	$ (2,020)	$ 922	$ (2,364)
Other comprehensive income (loss) before reclassifications	—	940	(153)	787
Amounts reclassified from accumulated other comprehensive loss, net of tax	12	(195)	2	(181)
Period change	12	745	(151)	606
Balance at June 30, 2017	$ (1,254)	$ (1,275)	$ 771	$ (1,758)
Balance at March 31, 2016	$ (5,167)	$ 3,730	$ —	$ (1,437)
Other comprehensive income before reclassifications	—	1,558	—	1,558
Amounts reclassified from accumulated other comprehensive loss, net of tax	78	(272)	—	(194)
Period change	78	1,286	—	1,364
Balance at June 30, 2016	$ (5,089)	$ 5,016	$ —	$ (73)

	Accumulated Other Comprehensive Income/(Loss)			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Derivatives	Total
Balance at September 30, 2016	$ (6,083)	$ 3,952	$ 299	$ (1,832)
Other comprehensive income (loss) before reclassifications	4,714	(5,032)	474	156
Amounts reclassified from accumulated other comprehensive loss, net of tax	115	(195)	(2)	(82)
Period change	4,829	(5,227)	472	74
Balance at June 30, 2017	$ (1,254)	$ (1,275)	$ 771	$ (1,758)
Balance at September 30, 2015	$ (5,325)	$ 2,930	$ —	$ (2,395)
Other comprehensive income before reclassifications	—	2,601	—	2,601
Amounts reclassified from accumulated other comprehensive loss, net of tax	236	(515)	—	(279)
Period change	236	2,086	—	2,322
Balance at June 30, 2016	$ (5,089)	$ 5,016	$ —	$ (73)

The following tables present significant amounts reclassified out of each component of accumulated other comprehensive loss for the three and nine month periods ended June 30, 2017 and 2016 (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Loss		
	Accumulated Other Comprehensive Loss for the Three Months Ended June 30,		Affected Line Item in the Consolidated Statement of Income
	2017	2016	
Securities available for sale:			
Securities gains reclassified into earnings	$ 295	$ 413	Gain on sale of investments
Related income tax expense	(100)	(141)	Income taxes
Net effect on accumulated other comprehensive loss for the period	195	272	
Defined benefit pension plan:			
Amortization of net loss	(23)	(119)	Compensation and employee benefits
Related income tax expense	11	41	Income taxes
Net effect on accumulated other comprehensive loss for the period	(12)	(78)	
Derivatives and hedging activities:			
Interest expense, effective portion	(3)	—	Interest expense
Related income tax expense	1	—	Income taxes
Net effect on accumulated other comprehesive loss for the period	(2)	—	
Total reclassification for the period	$ 181	$ 194	

	Amount Reclassified from Accumulated Other Comprehensive Loss		
	Accumulated Other Comprehensive Loss For the Nine Months Ended June 30,		Affected Line Item in the Consolidated Statement of Income
	2017	2016	
Securities available for sale:			
Securities gains reclassified into earnings	$ 295	$ 781	Gain on sale of investments
Related income tax expense	(100)	(266)	Income taxes
Net effect on accumulated other comprehensive loss for the period	195	515	
Defined benefit pension plan:			
Amortization of net loss	(182)	(358)	Compensation and employee benefits
Related income tax expense	67	122	Income taxes
Net effect on accumulated other comprehensive loss for the period	(115)	(236)	
Derivative and hedging activities:			
Interest expense, effective portion	3	—	Interest expense
Related income tax expense	(1)	—	Income taxes
Net effect on accumulated other comprehensive loss for the period	2	—	
Total reclassification for the period	$ 82	$ 279	

12. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings.

Fair Values of Derivative Instruments on the Consolidated Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of June 30, 2017 and September 30, 2016 (in thousands).

	Fair Values of Derivative Instruments Asset Derivatives			
	As of June 30, 2017		As of September 30, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest Rate Products	Other Assets	$ 1,169	Other Assets	$ 453

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed payments. As of June 30, 2017, the Company had three interest rate swaps with a notional principal amount of $50 million associated with the Company's cash outflows associated with various FHLB advances.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the period ended June 30, 2017.

Amounts reported in accumulated other comprehensive loss related to derivatives that will be reclassified to interest income/expense as interest payments are made/received on the Company's variable-rate assets/liabilities. During the three months ended June 30, 2017, the Company had $3,000 of gains reclassified to interest expense. During the nine months ended June 30, 2017, the Company had $3,000 of losses reclassified to interest expense. During the next twelve months, the Company estimates that $0 will be reclassified as a decrease in interest expense.

The tables below present the pre-tax net gains (losses) of the Company's cash flow hedges for the three and nine month periods ended June 30, 2017 and 2016, respectively, and where they were recorded in the Consolidated Statement of Income, (in thousands).

Derivatives in Cash Flow Hedging Relationships	Loss Recognized in OCI on Derivative (Effective Portion) Three Months Ended June 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended June 30,		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Three Months Ended June 30,	
	2017	2016		2017	2016		2017	2016
Interest Rate Products	$ 153	$ —	Interest expense	$ 3	$ —	Other non-interest income	$ —	$ —
Ending balance of OCI								
Total	$ 153	$ —		$ 3	$ —		$ —	$ —

Derivatives in Cash Flow Hedging Relationships	Gain Recognized in OCI on Derivative (Effective Portion) Nine Months Ended June 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	(Loss)Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended June 30,		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion) Nine Months Ended June 30,	
	2017	2016		2017	2016		2017	2016
Interest Rate Products	$ 474	$ —	Interest expense	$ (3)	$ —	Other non-interest income	$ —	$ —
Ending balance of OCI								
Total	$ 474	$ —		$ (3)	$ —		$ —	$ —

Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

The Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well / adequately capitalized institution, then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of June 30, 2017 the Company had no derivatives in a net liability position and was not required to post collateral against its obligations under these agreements. If the Company had breached any of these provisions at June 30, 2017, it could have been required to settle its obligations under the agreements at the termination value.

13. Contingent Liabilities

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 results of operations.

The Bank was named as the defendant in an action commenced on September 13, 2016 by one plaintiff that is pending in the court of Common Pleas of Philadelphia County, Pennsylvania. The plaintiff alleges that the Bank repossessed motor vehicles, sold the vehicles and sought to collect deficiency balances in a manner that did not comply with the notice requirements of the Pennsylvania Uniform Commercial Code (UCC). The plaintiff seeks to pursue the action as a class action on behalf of the named plaintiff and other similarly situated plaintiffs who had their automobiles repossessed and seek to recover damages under the UCC. The Bank denies the plaintiff's allegations and intends to vigorously defend against such allegations. To the extent that pending or threatened litigation could result in exposure to the Bank, the amount of such exposure is not currently estimable.

The Bank was named as a defendant in an action commenced on December 8, 2016 by one plaintiff who will also seek to pursue this action as a class action on behalf of the entire class of people similarly situated. The plaintiff alleges that a bank previously acquired by ESSA Bancorp, Inc., in the process of making loans, received unearned fees and kickbacks in violation of the Real Estate Settlement Procedures Act. The Bank intends to vigorously defend against such allegations. To the extent that pending or threatened litigation could result in exposure to the Bank, the amount of such exposure is not currently estimable.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q 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 Quarterly 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 June 30, 2017 and September 30, 2016

Total Assets. Total assets decreased by $8.7 million, or 0.5%, to $1.76 billion at June 30, 2017 from $1.77 billion at September 30, 2016.

Total Cash and Cash Equivalents. Total cash and cash equivalents decreased $10.1 million, or 23.1%, to $33.6 million at June 30, 2017 from $43.7 million at September 30, 2016. Decreases in interest bearing deposits with other institutions of $5.3 million, and cash and due from banks of $4.8 million, were the reasons for the net decrease of $10.1 million.

Net Loans. Net loans increased $5.0 million, or 0.41%, to $1.22 billion at June 30, 2017 from September 30, 2016. During this period, residential loans decreased $9.8 million to $586.9 million, construction loans increased $2.7 million to $4.4 million, commercial real estate loans increased $20.2 million to $308.7 million, commercial loans increased $735,000 to $40.7 million, obligations of states and political subdivisions increased $1.3 million to $58.3 million, home equity loans and lines of credit decreased $1.5 million to $46.7 million, auto loans decreased $8.4 million to $184.7 million, and other loans decreased $198,000 to $3.1 million.

Investment Securities Available for Sale. Investment securities available for sale decreased $2.8 million, or 0.7%, to $387.6 million at June 30, 2017 from $390.4 million at September 30, 2016. The decrease was due primarily to decreases in obligations of states and political subdivisions of $4.7 million, U.S. government agency securities of $5.0 million and other debt securities of $8.3 million offset in part by increases in mortgage backed securities of $8.8 million and corporate obligations of $6.3 million. The

Company realized a gain on the sale of investment securities for the nine months ended June 30, 2017 of $295,000 and proceeds from the sale of investment securities of $17.4 million.

Deposits. Deposits increased $1.6 million, or 0.4%, to $1.22 billion at June 30, 2017 from $1.21 billion at September 30, 2016. Increases in certificates of deposit of $783,000, non interest bearing demand accounts of $11.8 million and savings and club accounts of $5.2 million were offset in part by decreases in interest bearing demand accounts of $10.9 million and money market accounts of $5.3 million. The increase in certificates of deposit, which increased to $513.5 million at June 30, 2017, included a decrease in brokered certificates of $33.9 million to $164.7 million.

Borrowed Funds. Borrowed funds decreased by $16.2 million, or 4.5%, to $343.8 million at June 30, 2017, from $360.1 million at September 30, 2016. The decrease in borrowed funds was due to a decrease in other borrowings of $32.4 million offset in part by an increase in short term borrowings of $16.2 million. All borrowings at June 30, 2017 represent advances from the Pittsburgh FHLB.

Stockholders' Equity. Stockholders' equity increased by $4.2 million, or 2.4%, to $180.6 million at June 30, 2017 from $176.3 million at September 30, 2016. The increase in stockholders' equity was primarily due to net income of $5.3 million offset, in part by dividends paid of $2.9 million.

Average Balance Sheets for the Three and Nine months Ended June 30, 2017 and 2016

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 June 30,					
	2017			2016		
	Average Balance	Interest Income/ Expense	Yield/Cost	Average Balance	Interest Income/ Expense	Yield/Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans[1]	$ 1,219,591	$ 11,819	3.89%	$ 1,241,756	$ 12,377	4.00%
Investment Securities						
Taxable[2]	88,069	668	3.05%	87,126	553	2.55%
Exempt from federal income tax[2][3]	50,299	295	3.55%	42,847	277	3.93%
Total investment securities	138,368	963	3.23%	129,973	830	3.00%
Mortgage-backed securities	254,563	1,405	2.21%	258,275	1,310	2.03%
Regulatory stock	14,341	174	4.87%	15,764	190	4.83%
Other	7,999	47	2.36%	3,102	16	2.07%
Total interest-earning assets	1,634,862	14,408	3.57%	1,648,870	14,723	3.62%
Allowance for loan losses	(9,487)			(9,365)		
Noninterest-earning assets	128,215			118,549		
Total assets	$ 1,753,590			$ 1,758,054		
Interest-bearing liabilities:						
Interest bearing demand accounts	$ 149,386	$ 51	0.14%	$ 113,322	$ 30	0.11%
Money market accounts	249,047	315	0.51%	201,854	164	0.33%
Savings and club accounts	140,723	21	0.06%	138,505	17	0.05%
Certificates of deposit	532,499	1,799	1.36%	589,465	1,692	1.15%
Borrowed funds	329,872	1,062	1.29%	364,214	961	1.06%
Total interest-bearing liabilities	1,401,527	3,248	0.93%	1,407,360	2,864	0.82%
Non-interest-bearing demand accounts	149,366			150,163		
Non-interest-bearing liabilities	21,256			24,210		
Total liabilities	1,572,149			1,581,733		
Equity	181,441			176,321		
Total liabilities and equity	$ 1,753,590			$ 1,758,054		
Net interest income		$ 11,160			$ 11,859	
Interest rate spread			2.64%			2.80%
Net interest-earning assets	$ 233,335			$ 241,510		
Net interest margin[4]			2.74%			2.88%
Average interest-earning assets to average interest-bearing liabilities		115.30%			117.16%	

(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.

	For the Nine Months Ended June 30,					
	2017			2016		
	Average Balance	Interest Income/ Expense	Yield/Cost	Average Balance	Interest Income/ Expense	Yield/Cost
	(dollars in thousands)					
Interest-earning assets:						
Loans(1)	$ 1,224,255	$ 35,869	3.92%	$ 1,208,557	$ 36,756	4.05%
Investment Securities						
Taxable(2)	87,959	1,956	2.97%	84,856	1,581	2.48%
Exempt from federal income tax(2)(3)	51,286	907	3.58%	42,847	776	3.66%
Total investment securities	139,245	2,863	3.20%	127,703	2,357	2.88%
Mortgage-backed securities	252,265	4,034	2.14%	259,884	4,003	2.05%
Regulatory stock	15,158	547	4.82%	14,904	548	4.90%
Other	8,536	124	1.94%	3,631	33	1.21%
Total interest-earning assets	1,639,459	43,437	3.58%	1,614,679	43,697	3.64%
Allowance for loan losses	(9,335)			(9,213)		
Noninterest-earning assets	131,024			116,615		
Total assets	$ 1,761,148			$ 1,722,081		
Interest-bearing liabilities:						
Interest bearing demand accounts	$ 155,717	$ 164	0.14%	$ 104,754	$ 82	0.10%
Money market accounts	251,173	957	0.51%	196,163	425	0.29%
Savings and club accounts	138,720	56	0.05%	133,788	50	0.05%
Certificates of deposit	521,328	5,090	1.31%	611,063	5,134	1.12%
Borrowed funds	349,553	3,074	1.18%	343,246	2,771	1.08%
Total interest-bearing liabilities	1,416,491	9,341	0.88%	1,389,014	8,462	0.81%
Non-interest-bearing demand accounts	144,956			137,203		
Non-interest-bearing liabilities	22,626			21,570		
Total liabilities	1,584,073			1,547,787		
Equity	177,075			174,294		
Total liabilities and equity	$ 1,761,148			$ 1,722,081		
Net interest income		$ 34,096			$ 35,235	
Interest rate spread			2.70%			2.83%
Net interest-earning assets	$ 222,968			$ 225,665		
Net interest margin			2.78%			2.91%
Average interest-earning assets to average interest-bearing liabilities		115.74%			116.25%	

(1) Non-accruing loans are included in the outstanding loan balances.

(2) Available for sale securities are reported at fair value.

(3) Yields on tax exempt securities have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.

(4) Represents the difference between interest earned and interest paid, divided by average total interest earning assets.

Comparison of Operating Results for the Three Months Ended June 30, 2017 and June 30, 2016

Net Income. Net income decreased $350,000, or 16.6%, to $1.8 million for the three months ended June 30, 2017 compared to the comparable period in 2016. The decrease was due primarily to decreases in net interest income and non-interest income and an increase in the provision for loan losses partially offset by a decline in non-interest expense.

Net Interest Income. Net interest income decreased $699,000, or 5.9%, to $11.2 million for the three months ended June 30, 2017 from $11.9 million for the comparable period in 2016. The decrease was primarily attributable to a 16 basis point decrease in the Company's interest rate spread to 2.64% for the three months ended June 30, 2017 from 2.80% for the comparable period in 2016.

Interest Income. Interest income decreased $315,000, or 2.1%, to $14.4 million for the three months ended June 30, 2017 from $14.7 million for the comparable 2016 period. The decrease resulted primarily from a decrease in the average yield on interest earning assets of five basis points to 3.57% for the three months ended June 30, 2017 from 3.62% in the comparable 2016 period and a decrease in the average balance of interest earning assets of $14.0 million. The average balance of loans decreased $22.2 million between the two periods. In addition, the average balance of investment securities increased $8.4 million, mortgage-backed securities decreased $3.7 million, regulatory stock decreased $1.4 million and other interest earning assets increased $4.9 million.

Interest Expense. Interest expense increased $384,000, or 13.4%, to $3.2 million for the three months ended June 30, 2017 from $2.9 million for the comparable 2016 period. The increase resulted from and an increase in the cost of interest bearing liabilities of 11 basis points offset in part by a decrease in the average balance of interest bearing liabilities of $5.8 million between the two periods. For the three months ended June 30, 2017 and 2016 the average cost of interest bearing liabilities was 0.93% and 0.82%, respectively.

Provision for Loan Losses. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are subject to interpretation and revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision for loan losses of $750,000 for the three month period ended June 30, 2017 compared to $600,000 for the three month period ended June 30, 2016. The allowance for loan losses was $9.2 million, or 0.75% of loans outstanding, at June 30, 2017, compared to $9.1 million, or 0.74% of loans outstanding, at September 30, 2016.

Non-interest Income. Non-interest income decreased $176,000, or 7.7%, to $2.1 million for the three months ended June 30, 2017 from $2.3 million for the comparable period in 2016. Decreases in gain on sale of investments net of $118,000, service fees on deposit accounts of $43,000 and insurance commissions of $40,000 were the primary reason for the decline.

Non-interest Expense. Non-interest expense decreased $331,000, or 3.1%, to $10.3 million for the three months ended June 30, 2017 from $10.7 million for the comparable period in 2016. The primary reasons for the decrease were decreases in occupancy and equipment of $234,000, data processing of $90,000, FDIC premiums of $67,000, professional fees of $18,000, advertising expenses of $43,000, other expense of $70,000 and a decrease in the gain on foreclosed real estate of $58,000 which were offset in part by an increase in compensation and employee benefits of $166,000.

Income Taxes. Income tax expense decreased $344,000 to $448,000 for the three months ended June 30, 2017 from $792,000 for the comparable 2016 period. The decrease was primarily a result of lower income before taxes and the adoption of ASU 2016-09, which resulted in recognition of all excess tax benefits for share-based payment awards to be recognized in income taxes. Previously such tax benefits were recognized in additional paid in capital. The effective tax rate for the three months ended June 30, 2017 was 20.3%, compared to 27.3% for the 2016 period.

Comparison of Operating Results for the Nine Months Ended June 30, 2017 and June 30, 2016

Net Income. Net income decreased $868,000, or 14.0%, to $5.3 million for the nine months ended June 30, 2017 compared to the comparable period in 2016. The decrease was due primarily to decreases in net interest income and non-interest income, and an increase in the provision for loan losses, partially offset by a decrease in noninterest expense.

Net Interest Income. Net interest income decreased $1.1 million, or 3.2%, to $34.1 million for the nine months ended June 30, 2017 from $35.2 million for the comparable period in 2016. The decrease was primarily attributable to a 13 basis point decrease in the Company's interest rate spread to 2.70% for the nine months ended June 30, 2017 from 2.83% for the comparable period in 2016.

Interest Income. Interest income decreased $260,000, or 0.6%, to $43.4 million for the nine months ended June 30, 2017. The decrease resulted primarily from a decline of six basis points in the average yield on interest earning assets offset in part by an increase in the average balance of interest earning assets of $24.8 million. The average yield on interest earning assets was 3.58% for the nine months ended June 30, 2017, compared to 3.64% for the comparable 2016 period. The average balance of loans increased $15.7 million between the two periods. In addition, the average balance of investment securities increased $11.5 million, mortgage-backed securities decreased $7.6 million, regulatory stock increased $254,000 and other interest earning assets increased $4.9 million.

Interest Expense. Interest expense increased $879,000, or 10.4%, to $9.3 million for the nine months ended June 30, 2017 from $8.5 million for the comparable 2016 period. The increase resulted from an increase in the average balance of total interest bearing liabilities of $27.5 million and an increase in the cost of interest bearing liabilities of seven basis points between the two periods. For the nine months ended June 30, 2017 and 2016 the average cost of interest bearing liabilities was 0.88% and 0.81%, respectively.

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 $2.3 million for the nine month period ended June 30, 2017 compared to $1.8 million for the nine month period ended June 30, 2016. The allowance for loan losses was $9.2 million, or 0.75% of loans outstanding, at June 30, 2017, compared to $9.1 million, or 0.74% of loans outstanding at September 30, 2016.

Non-interest Income. Non-interest income decreased $629,000, or 9.8%, to $5.8 million for the nine months ended June 30, 2017 from $6.4 million for the comparable period in 2016. Decreases in gain on sale of investments net of $486,000 and service fees on deposit accounts of $104,000 were the primary reasons for the decline.

Non-interest Expense. Non-interest expense decreased $317,000, or 1.0%, to $31.2 million for the nine months ended June 30, 2017 compared to the comparable period in 2016. Declines in occupancy and equipment of $484,000, data processing of $223,000, foreclosed real estate of $194,000, merger related costs of $245,000, FDIC premiums of $267,000, and amortization of intangible assets of $103,000 were offset in part by increases in compensation and employee benefits of $818,000, professional fees of $437,000 and advertising of $263,000.

Income Taxes. Income tax expense decreased $1.0 million to $1.1 million for the nine months ended June 30, 2017 from $2.1 million for the comparable 2016 period. The decrease was primarily a result of lower income before taxes and the adoption of ASU 2016-09, which resulted in recognition of all excess tax benefits for share-based payment awards to be recognized in income taxes. Previously such tax benefits were recognized in additional paid in capital. The effective tax rate for the nine months ended June 30, 2017 was 16.5%, compared to 25.2% for the 2016 period.

Non-Performing Assets

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

	June 30, 2017	September 30, 2016
Non-performing assets:		
Non-accruing loans	$ 13,031	$ 13,752
Non-accruing purchased credit impaired loans	4,911	5,563
Total non-performing loans	17,942	19,315
Foreclosed real estate	2,859	2,659
Other repossessed assets	9	9
Total non-performing assets	$ 20,810	$ 21,983
Ratio of non-performing loans to total loans	1.45%	1.57%
Ratio of non-performing loans to total assets	1.02%	1.09%
Ratio of non-performing assets to total assets	1.18%	1.24%
Ratio of allowance for loan losses to total loans	0.75%	0.74%

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 $1.2 million to $20.8 million at June 30, 2017 from $22.0 million at September 30, 2016. Non-performing loans decreased $1.4 million to $17.9 million at June 30, 2017 from $19.3 million at September 30, 2016. The number of nonperforming residential loans was 82 at June 30, 2017 compared to 92 at September 30, 2016. The $17.9 million of non-accruing loans at June 30, 2017 included 82 residential loans with an aggregate outstanding balance of $7.3 million, 46 commercial and commercial real estate loans with aggregate outstanding balances of $9.3 million and 78 consumer loans with aggregate balances of $1.3 million. Within the residential loan balance are $4.7 million of loans less than 90 days past due. In the quarter ended June 30, 2017, the Company identified 44 residential loans which, although paying as agreed, have a high probability of default. Foreclosed real estate increased $200,000 to $2.9 million at June 30, 2017 from $2.7 million at September 30, 2016. Foreclosed real estate consists of 20 residential properties, two building lots and six commercial properties.

At June 30, 2017, the principal balance of troubled debt restructures was $4.5 million as compared to $7.8 million at September 30, 2016. Of the $4.5 million of troubled debt restructures at June 30, 2017, $334,000 are performing loans and $4.0 million are non-accrual loans.

As of June 30, 2017, troubled debt restructures were comprised of 33 residential loans totaling $3.7 million, five commercial and commercial real estate loans totaling $626,000, and one consumer (home equity loans, home equity lines and credit, indirect auto and other) loan totaling $76,000.

For the three month period ended June 30, 2017, 5 loans totaling $1.9 million were removed from non-performing TDR status due to completion of one year of consecutive timely payments and one loan totaling $7,000 was removed from non-performing TDR status due to payoff.

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 June 30, 2017, we modified six loans totaling $1.1 million in this fashion. For the nine months ended June 30, 2017, we modified 17 loans totaling $2.5 million. With regard to commercial loans, including commercial real estate loans, we modified three loans totaling $2.8 million for the three months ended June 30, 2017. For the nine months ended June 30, 2017, we modified five loans totaling $3.5 million in this fashion.

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 FHLB 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 June 30, 2017, $33.6 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 $16.5 million at June 30, 2017. As of June 30, 2017, we had $343.8 million in borrowings outstanding from FHLB. We have access to total FHLB advances of up to approximately $602.7 million.

At June 30, 2017, we had $132.4 million in loan commitments outstanding, which included, in part, $58.3 million in undisbursed construction loans and land development loans, $35.0 million in unused home equity lines of credit, $56.1 million in commercial lines of credit and commitments to originate commercial loans, $1.8 million in performance standby letters of credit and $9.0 million in other unused commitments which are primarily to originate residential mortgage loans and multifamily loans. Certificates of deposit due within one year of June 30, 2017 totaled $257.5 million, or 50.2% 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 June 30, 2018. 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 $14.6 million and $13.8 million for the nine months ended June 30, 2017 and 2016, 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 investing activities was ($15.4) million and ($5.2) million for the nine months ended June 30, 2017 and 2016, respectively, principally reflecting our loan and investment security activities. Deposit and borrowing cash flows have comprised most of our financing activities, which resulted in net cash used for of ($9.3) million and ($1.4) million for the nine months ended June 30, 2017 and 2016, respectively.

Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans and discounted cash flow valuations of properties are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisals and discounted cash flow valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals and discounted cash flow valuations are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal and external loan reviews and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revision based on changes in economic and real estate market conditions.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

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 2017 or 2016.

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 2017 and 2016.

Derivative Instruments and Hedging Activities. The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

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 nine months of fiscal 2017, the Company's contractual obligations did not change materially from those discussed in the Company's Financial Statements for the year ended September 30, 2016.

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, 2016.

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.

Part II – Other Information

Item 1. Legal Proceedings

From time to time, the Company or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Company's financial position or results of operations, except as previously disclosed in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended September 30, 2016, and as described below.

The Bank was named as a defendant in an action commenced on December 8, 2016 by one plaintiff who will also seek to pursue this action as a class action on behalf of the entire class of people similarly situated. The plaintiff alleges that a bank previously acquired by ESSA Bancorp, Inc., in the process of making loans, received unearned fees and kickbacks in violation of the Real Estate Settlement Procedures Act. The Bank intends to vigorously defend against such allegations. To the extent that pending or threatened litigation could result in exposure to the Bank, the amount of such exposure is not currently estimable.

Item 1A. Risk Factors

There have been no material changes in the "Risk Factors" as disclosed in the Company's response to Item 1A in Part 1 of its Annual Report on Form 10-K for the year ended September 30, 2016, filed on December 14, 2016.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

3.1	Articles of Incorporation of ESSA Bancorp, Inc.*
3.2	Bylaws of ESSA Bancorp, Inc.*
4	Form of Common Stock Certificate of ESSA Bancorp, Inc.*
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.

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* 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.

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: August 9, 2017

/s/ Gary S. Olson
Gary S. Olson
President and Chief Executive Officer

Date: August 9, 2017

/s/ Allan A. Muto
Allan A. Muto
Executive Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gary S. Olson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ESSA Bancorp, Inc., a Pennsylvania corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Gary S. Olson
Gary S. Olson

President and Chief Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allan A. Muto, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ESSA Bancorp, Inc., a Pennsylvania corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2017

/s/ Allan A. Muto
Allan A. Muto
Executive Vice President and Chief Financial Officer

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Section 4: EX-32 (EX-32)

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Gary S. Olson, Chief Executive Officer and President of ESSA Bancorp, Inc., a Pennsylvania corporation (the "Company") and Allan A. Muto, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the quarterly report on Form 10-Q for the period ended June 30, 2017 (the "Report") and that to the best of his knowledge:

1, the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2017	/s/ Gary S. Olson Gary S. Olson President and Chief Executive Officer
Date: August 9, 2017	/s/ Allan A. Muto Allan A. Muto Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request,

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