

ESSA Bancorp, Inc.
Form 10-Q
August 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2013

OR

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

Commission File No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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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, or a smaller reporting company. See definition of "large accelerated filer" and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of August 2, 2013 there were 12,079,111 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2013	September 30, 2012
	(dollars in thousands)	
Cash and due from banks	\$ 12,477	\$ 11,034
Interest-bearing deposits with other institutions	7,849	4,516
Total cash and cash equivalents	20,326	15,550
Certificates of deposit	1,766	1,266
Investment securities available for sale, at fair value	310,621	329,585
Loans receivable, held for sale		346
Loans receivable (net of allowance for loan losses of \$8,184 and \$7,302)	942,794	950,009
Regulatory stock, at cost	12,358	21,914
Premises and equipment, net	15,921	16,170
Bank-owned life insurance	28,557	27,848
Foreclosed real estate	1,693	2,998
Intangible assets, net	2,707	3,457
Goodwill	8,817	8,541
Deferred income taxes	12,643	11,336
Other assets	20,214	29,766
TOTAL ASSETS	\$ 1,378,417	\$ 1,418,786
LIABILITIES		
Deposits	\$ 1,010,500	\$ 995,634
Short-term borrowings	32,212	43,281
Other borrowings	145,160	191,460
Advances by borrowers for taxes and insurance	13,307	3,432
Other liabilities	12,188	9,568
TOTAL LIABILITIES	1,213,367	1,243,375
STOCKHOLDERS' EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized, none issued)		
Common stock (\$.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 12,215,926 and 13,229,908 outstanding at June 30, 2013 and September 30, 2012)	181	181
Additional paid in capital	182,374	181,220
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(10,645)	(10,985)
Retained earnings	70,225	65,181
Treasury stock, at cost; 5,917,169 and 4,903,187 shares outstanding at June 30, 2013 and September 30, 2012, respectively	(73,112)	(61,944)
Accumulated other comprehensive (loss) income	(3,973)	1,758

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TOTAL STOCKHOLDERS EQUITY	165,050	175,411
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,378,417	\$ 1,418,786

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands, except per share data)			
INTEREST INCOME				
Loans receivable, including fees	\$ 11,032	\$ 8,880	\$ 34,310	\$ 27,366
Investment securities:				
Taxable	1,370	1,636	4,558	4,902
Exempt from federal income tax	73	55	200	158
Other investment income	16	5	63	13
Total interest income	12,491	10,576	39,131	32,439
INTEREST EXPENSE				
Deposits	1,757	1,780	5,576	5,527
Short-term borrowings	27	7	109	18
Other borrowings	858	2,053	2,994	6,679
Total interest expense	2,642	3,840	8,679	12,224
NET INTEREST INCOME	9,849	6,736	30,452	20,215
Provision for loan losses	1,100	600	2,950	1,750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,749	6,136	27,502	18,465
NONINTEREST INCOME				
Service fees on deposit accounts	797	670	2,315	2,058
Services charges and fees on loans	277	166	774	550
Trust and investment fees	230	262	641	684
Gain on sale of investments, net	11		749	147
Gain on sale of loans, net	11	19	426	27
Earnings on Bank-owned life insurance	235	194	709	588
Insurance commissions	231	177	638	563
Other	8	7	32	25
Total noninterest income	1,800	1,495	6,284	4,642
NONINTEREST EXPENSE				
Compensation and employee benefits	4,690	3,888	14,314	11,804
Occupancy and equipment	956	756	2,935	2,288
Professional fees	549	339	1,453	1,083
Data processing	687	523	2,155	1,512
Advertising	170	110	425	263
Federal Deposit Insurance Corporation (FDIC) premiums	261	168	739	497
Loss (Gain) on foreclosed real estate	(100)	(17)	(498)	90

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Merger related costs		168		544
Amortization of intangible assets	250	81	749	243
Other	691	510	2,177	1,738
Total noninterest expense	8,154	6,526	24,449	20,062
Income before income taxes	2,395	1,105	9,337	3,045
Income taxes	519	311	2,542	706
NET INCOME	\$ 1,876	\$ 794	\$ 6,795	\$ 2,339
Earnings per share				
Basic	\$ 0.16	\$ 0.07	\$ 0.58	\$ 0.22
Diluted	\$ 0.16	\$ 0.07	\$ 0.58	\$ 0.22
Dividends per share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(dollars in thousands)			
Net income	\$ 1,876	\$ 794	\$ 6,795	\$ 2,339
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gain (loss)	(6,354)	1,484	(8,229)	(724)
Tax effect	2,160	(505)	2,798	246
Reclassification of gains recognized in net income	(11)		(749)	(147)
Tax effect	4		255	50
Net of tax amount	(4,201)	979	(5,925)	(575)
Pension plan adjustment:				
Related to actuarial losses and prior service cost	98	119	294	356
Tax effect	(33)	(40)	(100)	(120)
Net of tax amount	65	79	194	236
Total other comprehensive income (loss)	(4,136)	1,058	(5,731)	(339)
Comprehensive income (loss)	\$ (2,260)	\$ 1,852	\$ 1,064	\$ 2,000

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
 (UNAUDITED)

	Common Stock			Unallocated Common Stock Held by the ESOP (Dollars in thousands)	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	Number of Shares	Amount	Additional Paid In Capital					
Balance, September 30, 2012	13,229,908	\$ 181	\$ 181,220	\$ (10,985)	\$ 65,181	\$ (61,944)	\$ 1,758	\$ 175,411
Net income					6,795			6,795
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of income tax benefit of \$3,052							(5,925)	(5,925)
Change in unrecognized pension cost, net of income taxes of \$100							194	194
Cash dividends declared (\$.15 per share)					(1,751)			(1,751)
Stock based compensation			1,461					1,461
Allocation of ESOP stock			21	340				361
Treasury shares purchased	(1,013,982)					(11,496)		(11,496)
Allocation of treasury shares incentive plan			(328)			328		
Balance, June 30, 2013	12,215,926	\$ 181	\$ 182,374	\$ (10,645)	\$ 70,225	\$ (73,112)	\$ (3,973)	\$ 165,050

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended June 30, 2013 2012 (dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 6,795	\$ 2,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,950	1,750
Provision for depreciation and amortization.	860	726
Amortization and accretion of discounts and premiums, net	1,205	1,217
Net gain on sale of investment securities	(749)	(147)
Gain on sale of loans, net	(426)	(27)
Origination of mortgage loans sold	(19,184)	(1,871)
Proceeds from sale of mortgage loans originated for sale	19,956	1,898
Compensation expense on ESOP	361	348
Stock based compensation	1,461	1,623
Decrease in accrued interest receivable	307	264
(Decrease) increase in accrued interest payable	(156)	55
Earnings on bank-owned life insurance	(709)	(588)
Deferred federal income taxes	1,646	1,009
Decrease in prepaid FDIC premiums	1,934	451
Increase in accrued pension liability	312	413
(Gain) loss on foreclosed real estate, net	(498)	90
Amortization of identifiable intangible assets	750	243
Other, net	2,568	(282)
 Net cash provided by operating activities	 19,383	 9,511
INVESTING ACTIVITIES		
Purchase of certificates of deposit	(500)	
Investment securities available for sale:		
Proceeds from sale of investment securities	39,212	8,072
Proceeds from principal repayments and maturities	80,111	54,746
Purchases	(109,764)	(95,833)
Increase (decrease) in loans receivable, net	3,285	(5,485)
Redemption of FHLB stock	9,556	2,408
Investment in limited partnership	(451)	(4,442)
Proceeds from sale of foreclosed real estate	2,841	1,622
Capital improvements to foreclosed real estate	(86)	
Investment in insurance subsidiary	(276)	(373)
Purchase of premises, equipment, and software	(723)	(694)
 Net cash provided by (used for) investing activities	 23,205	 (39,979)
FINANCING ACTIVITIES		
Increase in deposits, net	22,863	50,973
Net (decrease) increase in short-term borrowings	(11,069)	7,000

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Proceeds from other borrowings	19,800	5,150
Repayment of other borrowings	(66,100)	(55,150)
Increase in advances by borrowers for taxes and insurance	9,875	5,561
Purchase of treasury stock shares	(11,430)	(332)
Dividends on common stock	(1,751)	(1,644)
Net cash provided by (used for) financing activities	(37,812)	11,558
Increase (decrease) in cash and cash equivalents	4,776	(18,910)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15,550	41,694
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 20,326	\$ 22,784

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid:

Interest	\$ 8,835	\$ 12,169
Income taxes	662	300

Noncash items:

Transfers from loans to foreclosed real estate	\$ 952	\$ 1,125
Treasury stock payable	66	

Noncash assets received and liabilities assumed:

Goodwill	\$ 276	\$ 373
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See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

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

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania Corporation that provided investment advisory services to the general public as a former subsidiary of First Star Bank. The Company acquired First Star Bank in a transaction that closed on July 31, 2012. Integrated Financial Corporation is currently inactive. Integrated Abstract Incorporated is a Pennsylvania Corporation that provides title insurance services. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three and nine month periods ended June 30, 2013 and 2012.

	Three Months ended		Nine Months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Weighted-average common shares outstanding	18,162,764	16,980,900	18,142,984	16,980,900
Average treasury stock shares	(5,645,336)	(4,884,603)	(5,269,686)	(4,875,703)
Average unearned ESOP shares	(1,058,066)	(1,103,342)	(1,069,427)	(1,114,702)
Average unearned non-vested shares	(49,571)	(135,472)	(38,970)	(145,363)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	11,409,791	10,857,483	11,764,901	10,845,132

Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share

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Additional common stock equivalents (stock options) used to calculate diluted earnings per share

Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	11,409,791	10,857,483	11,764,901	10,845,132
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At June 30, 2013 and 2012 there were options to purchase 1,458,379 shares of common stock outstanding at a price of \$12.35 per share that were not included in the computation of diluted EPS because to do so would have

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been anti-dilutive. At June 30, 2013 and 2012 there were 24,999 and 105,519 shares, respectively, of nonvested stock outstanding at a price of \$10.94 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

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

4. Recent Accounting Pronouncements:

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

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

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this Update require

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an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company has provided the necessary disclosures in Note 12.

In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). Examples of obligations within the scope of this Update include debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay among its co-obligors, on the basis of the guidance for contingent liabilities. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

5. Investment Securities

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

	Amortized Cost	June 30, 2013		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Available for Sale				
Fannie Mae	\$ 106,381	\$ 1,352	\$ (1,358)	\$ 106,375
Freddie Mac	59,480	836	(1,157)	59,159
Governmental National Mortgage Association	43,207	512	(93)	43,626
Other mortgage-backed securities	3,437		(4)	3,433
Total mortgage-backed securities	212,505	2,700	(2,612)	212,593
Obligations of states and political subdivisions	23,772	699	(498)	23,973
U.S. government agency securities	53,049	191	(554)	52,686
Corporate obligations	12,328	193	(186)	12,335
Trust-preferred securities	4,920	507		5,427
Other debt securities	1,477	23		1,500
Total debt securities	308,051	4,313	(3,850)	308,514
Equity securities - financial services	2,142	4	(39)	2,107
Total	\$ 310,193	\$ 4,317	\$ (3,889)	\$ 310,621

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

The amortized cost and fair value of debt securities at June 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 2,948	\$ 2,967
Due after one year through five years	39,547	39,679
Due after five years through ten years	55,260	55,014
Due after ten years	210,296	210,854
Total	\$ 308,051	\$ 308,514

For the three months ended June 30, 2013, the Company realized gross gains of \$11,000 and proceeds from the sale of investment securities of \$23,000. For the nine months ended June 30, 2013, the Company realized gross gains of \$767,000 and gross losses of \$18,000 and proceeds from the sale of investment securities of \$39.2 million. For the three months ended June 30, 2012, the Company did not sell any investment securities. For the nine months ended June 30, 2012, the Company realized gross gains of \$147,000 and proceeds from the sale of investment securities of \$8.1 million.

6. Unrealized Losses on Securities

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

Number of Securities	Less than Twelve Months		June 30, 2013 Twelve Months or Greater		Total Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		

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Fannie Mae	30	\$ 51,045	\$ (1,355)	\$ 1,148	\$ (3)	\$ 52,193	\$ (1,358)
Freddie Mac	20	35,583	(1,157)			35,583	(1,157)
Governmental National Mortgage Association	4	7,903	(93)			7,903	(93)
Other mortgage-backed securities	2	2,467	(4)			2,467	(4)
Obligations of states and political subdivisions	8	8,845	(498)			8,845	(498)
U.S. government agency securities	13	34,972	(554)			34,972	(554)
Corporate obligations	4	4,554	(186)			4,554	(186)
Equity securities-financial services	1	1,989	(39)			1,989	(39)
Total	82	\$ 147,358	\$ (3,886)	\$ 1,148	\$ (3)	\$ 148,506	\$ (3,889)

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	Number of Securities	Less than Twelve Months		September 30, 2012		Total	
		Fair Value	Gross Unrealized Losses	Twelve Months or Greater	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	3	\$ 4,083	\$ (3)	\$	\$	\$ 4,083	\$ (3)
Freddie Mac	1	2,002	(11)			2,002	(11)
Governmental National Mortgage Association	5	6,090	(16)			6,090	(16)
U.S. government agency securities	1	999	(1)			999	(1)
Corporate obligations	5	1,059	(25)	1,434	(66)	2,493	(91)
Trust-preferred securities	1	998	(1)			998	(1)
Total	16	\$ 15,231	\$ (57)	\$ 1,434	\$ (66)	\$ 16,665	\$ (123)

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

The Company reviews its position quarterly and has asserted that at June 30, 2013, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

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

7. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	June 30, 2013	September 30, 2012
Held for investment:		
Real Estate Loans:		
Residential	\$ 688,724	\$ 696,350
Construction	5,097	3,805
Commercial	164,186	160,192
Commercial	11,111	12,818
Obligations of states and political subdivisions	36,147	33,736
Home equity loans and lines of credit	43,402	47,925
Other	2,311	2,485
	950,978	957,311
Less allowance for loan losses	8,184	7,302
Net loans	\$ 942,794	\$ 950,009
Held for sale:		
Real Estate Loans:		
Residential		346

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	Real Estate Loans			Commercial Loans	Obligations of States and Political Subdivisions	Home Equity and Lines of Credit	Other Loans	Total
	Residential	Construction (dollars in thousands)	Commercial					
June 30, 2013								
Total Loans	\$ 688,724	\$ 5,097	\$ 164,186	\$ 11,111	\$ 36,147	\$ 43,402	\$ 2,311	\$ 950,978
Individually evaluated for impairment	12,953		16,612	383		434		30,382
Loans acquired with deteriorated credit quality	335		6,240	514		15		7,104
Collectively evaluated for impairment	675,436	5,097	141,334	10,214	36,147	42,953	2,311	913,492

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

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

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

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

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

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2013					
With no specific allowance recorded:					
Real Estate Loans					
Residential	\$ 8,158	\$ 8,159	\$	\$ 9,217	\$ 120
Construction					
Commercial	22,169	22,182		22,942	483
Commercial	858	857		1,045	7
Obligations of states and political subdivisions					
Home equity loans and lines of credit	311	311		244	2
Other				20	
Total	31,496	31,509		33,468	612
With an allowance recorded:					
Real Estate Loans					
Residential	5,130	5,123	595	2,769	51
Construction					
Commercial	683	685	397	1,039	1
Commercial	39	39	8	41	
Obligations of states and political subdivisions					
Home equity loans and lines of credit	138	138	138	46	
Other					
Total	5,990	5,985	1,138	3,895	52
Total:					
Real Estate Loans					
Residential	13,288	13,282	595	11,986	171
Construction					
Commercial	22,852	22,867	397	23,981	484
Commercial	897	896	8	1,086	7
Obligations of states and political subdivisions					
Home equity loans and lines of credit	449	449	138	290	2
Other				20	
Total Impaired Loans	\$ 37,486	\$ 37,494	\$ 1,138	\$ 37,363	\$ 664

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

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

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

consideration in the determination of the allowance.

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The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of June 30, 2013 and September 30, 2012 (in thousands):

June 30, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate loans	\$ 135,098	\$ 7,958	\$ 21,130	\$	\$ 164,186
Commercial	10,222	296	593		11,111
Obligations of states and political subdivisions	36,147				36,147
Total	\$ 181,467	\$ 8,254	\$ 21,723	\$	\$ 211,444

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

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing. The following tables present the risk ratings in the consumer categories of performing and non-performing loans at June 30, 2013 and September 30, 2012 (in thousands):

	Performing	Non-performing	Total
June 30, 2013			
Real estate loans:			
Residential	\$ 676,985	\$ 11,739	\$ 688,724
Construction	5,097		5,097
Home Equity loans and lines of credit	42,953	449	43,402
Other	2,298	13	2,311
Total	\$ 727,333	\$ 12,201	\$ 739,534

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

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Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2013 and September 30, 2012 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non- Accrual	Total Loans
June 30, 2013							
Real estate loans							
Residential	\$ 673,932	\$ 2,161	\$ 892	\$	\$ 11,739	\$ 14,792	\$ 688,724
Construction	5,097						5,097
Commercial	152,129	728	37		11,292	12,057	164,186
Commercial	9,838	23			1,250	1,273	11,111
Obligations of states and political subdivisions	36,147						36,147
Home equity loans and lines of credit	42,596	257	100		449	806	43,402
Other	2,263	30	5		13	48	2,311
Total	\$ 922,002	\$ 3,199	\$ 1,034	\$	\$ 24,743	\$ 28,976	\$ 950,978

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

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. Our allowance for loan losses consists of two elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, and (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of June 30, 2013 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

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

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

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The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2013 (in thousands):

	Real Estate Loans			Home Obligations of Equity States and Loans and				Other Loans Unallocated	Total
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Lines of Credit			
ALL balance at March 31, 2013	\$ 5,791	\$ 28	\$ 837	\$ 350	\$ 106	\$ 496	\$ 19	\$ 44	\$ 7,671
Charge-offs	(509)		(74)	(16)					(599)
Recoveries	9					3			12
Provision	676	16	262	27	7	97	1	14	1,100
ALL balance at June 30, 2013	\$ 5,967	\$ 44	\$ 1,025	\$ 361	\$ 113	\$ 596	\$ 20	\$ 58	\$ 8,184

	Real Estate Loans			Home Obligations of Equity States and Loans and				Other Loans Unallocated	Total
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Lines of Credit			
ALL balance at September 30, 2012	\$ 5,401	\$ 29	\$ 699	\$ 474	\$ 127	\$ 499	\$ 22	\$ 51	\$ 7,302
Charge-offs	(1,752)		(288)	(16)		(67)	(6)		(2,126)
Recoveries	50		2			9			58
Provision	2,268	15	612	(97)	(14)	155	4	7	2,950
ALL balance at June 30, 2013	\$ 5,967	\$ 44	\$ 1,025	\$ 361	\$ 113	\$ 596	\$ 20	\$ 58	\$ 8,184

	Real Estate Loans			Home Obligations of Equity States and Loans and				Other Loans Unallocated	Total
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Lines of Credit			
ALL balance at March 31, 2012	\$ 5,619	\$ 8	\$ 1,432	\$ 343	\$ 81	\$ 469	\$ 135	\$ 11	\$ 8,098
Charge-offs	(1,152)		(475)	(31)		(80)			(1,738)
Recoveries	140								140
Provision	596	(1)	(206)	82	21	(15)	(3)	126	600
ALL balance at June 30, 2012	\$ 5,203	\$ 7	\$ 751	\$ 394	\$ 102	\$ 374	\$ 132	\$ 137	\$ 7,100

	Real Estate Loans			Home Obligations of Equity States and Loans and				Other Loans Unallocated	Total
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Lines of Credit			
ALL balance at September 30, 2011	\$ 5,220	\$ 8	\$ 1,255	\$ 500	\$ 74	\$ 622	\$ 80	\$ 411	\$ 8,170
Charge-offs	(1,834)		(820)	(31)		(326)	(9)		(3,020)

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Recoveries	173		5	20			2	200	
Provision	1,644	(1)	311	(95)	28	78	59	(274)	1,750
ALL balance at June 30, 2012	\$ 5,203	\$ 7	\$ 751	\$ 394	\$ 102	\$ 374	\$ 132	\$ 137	\$ 7,100

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	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Home Obligations of States and Lines of Credit	Other Loans	Unallocated	Total
Individually evaluated for impairment	\$ 595	\$	\$ 397	\$ 8	\$	\$ 138	\$	\$	\$ 1,138
Collectively evaluated for impairment	5,372	44	628	353	113	458	20	58	7,046
ALL balance at June 30, 2013	\$ 5,967	\$ 44	\$ 1,025	\$ 361	\$ 113	\$ 596	\$ 20	\$ 58	\$ 8,184

	Real Estate Loans								
	Residential	Construction	Commercial	Commercial Loans	Political Subdivisions	Home Obligations of States and Lines of Credit	Other Loans	Unallocated	Total
Individually evaluated for impairment	\$ 661	\$	\$ 270	\$ 12	\$	\$ 9	\$	\$	\$ 952
Collectively evaluated for impairment	4,740	29	429	462	127	490	22	51	6,350
ALL balance at September 30, 2012	\$ 5,401	\$ 29	\$ 699	\$ 474	\$ 127	\$ 499	\$ 22	\$ 51	\$ 7,302

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. The Company allocated increased provisions to the residential real estate, commercial real estate and other loan segments for the nine month period ending June 30, 2013 due to increased charge off activity and impairment evaluations in those segments. Despite the above allocations, the allowance for loan losses is general in nature and is available to absorb losses from any loan segment.

The following is a summary of troubled debt restructuring granted during the three and nine months ended June 30, 2013 and 2012.

	For the Three Months Ended June 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real estate loans:			
Residential	8	\$ 989	\$ 989
Construction			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	98	98
Other			
Total	9	\$ 1,087	\$ 1,087

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	For the Nine Months Ended June 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled Debt Restructurings</u>			
Real estate loans:			
Residential	12	\$ 1,589	\$ 1,589
Construction			
Commercial			
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	98	98
Other			
Total	13	\$ 1,687	\$ 1,687

	For the Three Months Ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled Debt Restructurings</u>			
Real estate loans:			
Residential	8	\$ 1,509	\$ 1,509
Construction			
Commercial	3	666	666
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	1	5	5
Other			
Total	12	\$ 2,180	\$ 2,180

	For the Nine Months Ended June 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled Debt Restructurings</u>			
Real estate loans:			
Residential	14	\$ 2,563	\$ 2,563
Construction			
Commercial	9	2,396	2,396
Commercial	3	207	207
Obligations of states and political subdivisions			
Home equity loans and lines of credit	3	47	47
Other			
Total	29	\$ 5,213	\$ 5,213

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The following is a summary of troubled debt restructurings that have subsequently defaulted within one year of modification. There were no troubled debt restructurings that defaulted for the twelve months ended June 30, 2013. The period ended June 30, 2012 is shown below.

	For the Twelve Months Ended June 30, 2012	
	Pre-Modification	
	Outstanding Number of Contracts	Post-Modification Outstanding Recorded Investment
<u>Troubled Debt Restructurings</u>		
Real estate loans:		
Residential	\$ 1	\$ 88
Construction		
Commercial	3	159
Commercial	1	31
Obligations of states and political subdivisions		
Home equity loans and lines of credit	1	36
Other		
Total	\$ 6	\$ 314

8. Deposits

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

	June 30, 2013	September 30, 2012
Non-interest bearing demand accounts	\$ 65,625	\$ 41,767
NOW accounts	89,808	109,923
Money market accounts	140,939	155,666
Savings and club accounts		