ESSA Bancorp, Inc.
Form S-1/A
February 06, 2007

As filed with the Securities and Exchange Commission on February 6, 2007

Registration No. 333-139157

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ESSA BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**6712**	**20-8023072**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

200 Palmer Street

Stroudsburg, Pennsylvania18360

(570) 421-0531

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant s Principal Executive Offices)

Gary S. Olson

200 Palmer Street

Stroudsburg, Pennsylvania18360

(570) 421-0531

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Agent for Service)

Copies to:

John J. Gorman, Esq.

Marc P. Levy, Esq.

Luse Gorman Pomerenk & Schick, P.C.

5335 Wisconsin Avenue, N.W., Suite 400

Washington, D.C. 20015

(202) 274-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, $0.01 par value per share	15,565,825 shares(1)	$10.00	$155,658,250(2)	$16,656(3)
Participation Interests	431,693 interests			(4)

(1) Includes shares to be issued to the ESSA Bank & Trust Foundation, a private foundation.

(2) Estimated solely for the purpose of calculating the registration fee.

(3) Previously paid on December 7, 2006.

(4) The securities of ESSA Bancorp, Inc. to be purchased by the ESSA Bank & Trust 401(k) Plan are included in the amount shown for common stock. However, pursuant to Rule 457(h) of the Securities Act of 1933, as amended, no separate fee is required for the participation interests. Pursuant to such rule, the amount being registered has been calculated on the basis of the number of shares of common stock that may be purchased with the current assets of such plan.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

ESSA BANCORP, INC.

(Proposed Holding Company for ESSA Bank & Trust)

Up to 12,650,000 Shares of Common Stock

ESSA Bancorp, Inc., a Pennsylvania corporation, is offering shares of common stock for sale in connection with the conversion of ESSA Bank & Trust, a Pennsylvania-chartered savings association, from the mutual to the stock form of organization. All shares of common stock are being offered for sale at a price of $10.00 per share. Shares of our common stock have been approved for trading on the Nasdaq Global Market under the symbol ESSA. There is currently no public market for the shares of our common stock. We also intend to contribute up to 7.0% of the shares of common stock of ESSA Bancorp, Inc. that will be sold in the offering, and up to $1.5 million in cash, to a charitable foundation established by ESSA Bank & Trust.

We are offering up to 12,650,000 shares of common stock for sale on a best efforts basis. We may sell up to 14,547,500 shares of common stock because of demand for the shares, changes in market conditions or regulatory considerations without resoliciting subscribers. We must sell a minimum of 9,350,000 shares in order to complete the offering.

We are offering the shares of common stock in a subscription offering in the following descending order of priority:

First, to depositors of ESSA Bank & Trust with aggregate account balances of at least $50 as of the close of business on April 30, 2005.

Second, to ESSA Bank & Trust s tax-qualified employee benefit plans.

Third, to depositors of ESSA Bank & Trust with aggregate account balances of at least $50 as of the close of business on __________.

Fourth, to depositors and borrowers of ESSA Bank & Trust as of __________.

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a syndicated community offering managed by Ryan Beck & Co., Inc.

The minimum number of shares of common stock you may order is 25 shares. The maximum number of shares of common stock that can be ordered through a single qualifying account is 35,000 shares. The offering is expected to expire at 12:00 Noon, Eastern time, on __________. We may extend this expiration date without notice to you until __________, unless the Office of Thrift Supervision approves a later date, which may not be beyond __________. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond __________, or the number of shares of common stock to be sold is increased to more than 14,547,500 shares or decreased to less than 9,350,000 shares. If the offering is extended beyond __________, or if the number of shares of common stock to be sold is increased to more than 14,547,500 shares or decreased to less than 9,350,000 shares, we will resolicit subscribers, giving them an opportunity to change or cancel their orders. Funds received during the offering will be held in a segregated account at ESSA Bank & Trust, or in our discretion at another insured depository institution, and will earn interest at our passbook savings rate, which is currently __%.

Ryan Beck & Co., Inc. will assist us in selling shares of our common stock on a best efforts basis. Ryan Beck & Co., Inc. is not required to purchase any shares of the common stock that are being offered for sale. Purchasers will not pay a commission to purchase shares of common stock in the offering.

This investment involves a degree of risk, including the possible loss of your investment.

Please read Risk Factors beginning on page 18.

TERMS OF THE OFFERING

Price: $10.00 per Share

	Minimum	Maximum	Adjusted Maximum
Number of shares	9,350,000	12,650,000	14,547,500
Gross offering proceeds	$ 93,500,000	$ 126,500,000	$ 145,475,000
Estimated offering expenses[1]	$ 2,017,000	$ 2,290,000	$ 2,420,000
Estimated net proceeds	$ 91,483,000	$ 124,210,000	$ 143,055,000
Estimated net proceeds per share	$ 9.78	$ 9.82	$ 9.83

(1) Includes selling agent fees and expenses. See The Conversion-Marketing and Distribution; Compensation for discussion of Ryan Beck & Co., Inc. s compensation for this offering.

These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, the Pennsylvania Department of Banking nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

For assistance, please call the Stock Information Center, toll free, at ( ) ______-______.

Ryan Beck & Co., Inc. **[LOGO]**

The date of this prospectus is __________.

[MAP SHOWING ESSA BANK & TRUST S MARKET AREA APPEARS HERE]

TABLE OF CONTENTS

SUMMARY

The following summary highlights selected information in this prospectus. It may not contain all the information that is important to you. For additional information, you should read this entire prospectus carefully, including the Consolidated Financial Statements and the notes to the Consolidated Financial Statements.

ESSA Bank & Trust

ESSA Bank & Trust was organized in 1916. ESSA Bank & Trust is a full-service, community-oriented savings association with total assets of $725.8 million, total net loans of $556.7 million, total deposits of $402.2 million and total equity of $58.3 million at September 30, 2006. We provide financial services to individuals, families and businesses through our 12 full-service banking offices, located in Monroe and Northampton Counties, Pennsylvania.

ESSA Bank & Trust s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential first mortgage loans (including construction mortgage loans), commercial real estate, home equity loans and lines of credit, commercial and consumer loans. In addition, we offer a variety of deposit accounts, including checking, savings and certificates of deposits. We offer asset management and trust services. We also offer investment services through our relationship with PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor.

ESSA Bank & Trust s executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. Our website address is www.essabank.com.

ESSA Bancorp, Inc.

ESSA Bancorp, Inc. is a newly-formed Pennsylvania corporation that will own all of the outstanding shares of common stock of ESSA Bank & Trust upon completion of the mutual-to-stock conversion and the offering. ESSA Bancorp, Inc. has not engaged in any business to date.

Our executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531.

Our Organizational Structure

ESSA Bancorp, Inc., a Pennsylvania corporation, will own 100% of the outstanding shares of common stock of ESSA Bank & Trust. ESSA Bancorp, Inc., a Pennsylvania corporation, has not issued shares of stock to the public.

Pursuant to the terms of ESSA Bank & Trust s plan of conversion, ESSA Bank & Trust will convert from a mutual savings association to a stock savings association operating in the holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, and, if necessary, a community offering and a syndicated community offering, shares of common stock of ESSA Bancorp, Inc., a Pennsylvania corporation.

Business Strategy

Our business strategy is to grow and improve our profitability by:

- Increasing customer relationships through the offering of excellent service and the distribution of that service through effective delivery systems;
- Continuing to transform into a full service community bank by meeting the financial services needs of our customers;
- Continuing to develop into a high performing financial institution, in part by increasing interest revenue and fee income;
- Remaining within our risk management parameters; and
- Employing affordable technology to increase profitability and improve customer service.

A full description of our products and services begins on page 64 of this prospectus.

We believe that these strategies will guide our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the conversion and the offering, subject to changes necessitated by future market conditions and other factors. We also intend to focus on the following:

- ***Increasing customer relationships through a continued commitment to service and enhancing products and delivery systems.*** We will continue to increase customer relationships by focusing on customer satisfaction with regards to service, products, systems and operations. We have upgraded and expanded certain of our facilities, including our Corporate Center, to provide additional capacity to manage future growth and expand our delivery systems.
- ***Continuing to transform into a full service community bank.*** We continue to transform from a traditional savings association into a full service community bank. During the last several years, we have begun to offer a wide variety of commercial loans and deposits, as well as trust and brokerage services.
- ***Continuing to develop into a high performing financial institution.*** We will continue to enhance profitability by focusing on increasing non-interest income as well as increasing commercial products, including our focus on commercial real estate lending, which often have a higher profit margin than more traditional products. We also will pursue lower-cost commercial deposits as part of this strategy.
- ***Remaining within our risk management parameters.*** We place significant emphasis on risk management and compliance training for all of our directors, officers and employees. We focus on establishing regulatory compliance

programs to determine the degree of such compliance and to maintain the trust of our customers and community.

Employing cost-effective technology to increase profitability and improve customer service. We will continue to upgrade our technology in an efficient manner. We have implemented new software for marketing purposes and have upgraded both our internal and external communication systems.

Continuing our emphasis on commercial real estate lending to improve our overall performance. We intend to continue to emphasize the origination of higher interest rate margin commercial real estate loans as market conditions, regulations and other factors permit. We have expanded our commercial banking capabilities by adding experienced commercial bankers, and enhancing our direct marketing efforts to local businesses.

Expanding our banking franchise through branching and acquisitions. We will attempt to use the net proceeds from the offering, as well as our new stock holding company structure, to expand our market footprint through *de novo* branching as well as through acquisitions of banks, savings institutions and other financial service providers in our primary market area. We will also consider establishing *de novo* branches or acquiring financial institutions in contiguous counties. We have received regulatory approval to open a new branch office in Tannersville, Pennsylvania which we anticipate opening in May 2007. The branch is being built pursuant to a build and lease agreement with ESSA Bank & Trust as tenant. As such, we are responsible for completing the interior finishes, furnishing and equipping this branch. The total estimated cost for these items is $600,000 of which $300,000 has been disbursed as of December 31, 2006. Funding for this project is expected to come from the Bank s primary sources of liquidity as described under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations of ESSA Bancorp, Inc. There can be no assurance that we will be able to consummate any acquisitions or establish any additional new branches. We may explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise, as a means of supplementing internal growth, filling gaps in our current geographic market area and expanding our customer base, product lines and internal capabilities, although we have no current plans, arrangements, or understandings to make any acquisitions.

Maintaining the quality of our loan portfolio. Maintaining the quality of our loan portfolio is a key factor in managing our growth. We will continue to use customary risk management techniques, such as internal and external loan reviews, risk-focused portfolio credit analysis and field inspections of collateral in overseeing the performance of our loan portfolio.

See Management s Discussion and Analysis of Financial Condition and Results of Operations of ESSA Bancorp, Inc. Business Strategy for a further discussion of our business strategy.

Reasons for the Conversion

Our primary reasons for converting and raising additional capital through the offering are:

- to support our internal growth through lending in communities we serve or may serve in the future;
- to enhance our existing products and services and to support the development of new products and services;
- to improve our overall competitive position;
- to provide additional financial resources to pursue *de novo* branching opportunities and future acquisition opportunities as discussed above in Business Strategy Expanding our banking franchise through branching and acquisitions. We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. We have received regulatory approval to open a new branch office in Tannersville, Pennsylvania which we anticipate opening in May 2007;
- to reduce a portion of our existing borrowings;
- to provide better capital management tools, including the ability to pay dividends and to repurchase shares of our common stock; and
- to retain and attract qualified personnel by establishing stock benefit plans for management and employees, including a stock option plan, a stock recognition and retention plan and an employee stock ownership plan.

Terms of the Conversion and the Offering

Under ESSA Bank & Trust s plan of conversion, our organization will convert to a fully public holding company structure. In connection with the conversion, we are offering between 9,350,000 and 12,650,000 shares of common stock to eligible depositors and borrowers of ESSA Bank & Trust, to our employee benefit plans and, to the extent shares remain available, to the general public. The number of shares of common stock to be sold may be increased up to 14,547,500 as a result of demand for the shares, changes in the market for financial institution stocks or regulatory considerations. Unless the number of shares of common stock to be offered is increased to more than 14,547,500 or decreased to less than 9,350,000 or the offering is extended beyond ______ __, ______, subscribers will not have the opportunity to change or cancel their stock orders.

The purchase price of each share of common stock to be issued in the offering is $10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Ryan Beck & Co., Inc., our marketing advisor in the offering, will use its best efforts to assist us in selling shares of our common stock. Ryan Beck & Co., Inc. is not obligated to purchase any shares of common stock in the offering.

Persons Who May Order Shares of Common Stock in the Offering

We are offering the shares of common stock in a subscription offering in the following descending order of priority:

First, to depositors of ESSA Bank & Trust with aggregate account balances of at least $50 as of the close of business on April 30, 2005.

Second, to ESSA Bank & Trust s tax-qualified employee benefit plans.

Third, to depositors of ESSA Bank & Trust with aggregate account balances of at least $50 as of the close of business on __________.

Fourth, to depositors and borrowers of ESSA Bank & Trust as of __________.

Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering, with a preference given to natural persons residing in the Pennsylvania Counties of Monroe and Northampton. The community offering may begin concurrently with, during or promptly after the subscription offering as we may determine at any time. If shares remain available for sale following the subscription offering or community offering, we also may offer for sale shares of common stock through a syndicated community offering managed by Ryan Beck & Co., Inc.

We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated community offering. We have not established any set criteria for determining whether to accept or reject a purchase order in the community offering or the syndicated community offering, and, accordingly, any determination to accept or reject purchase orders in the community offering and the syndicated community offering will be based on the facts and circumstances known to us at the time.

To ensure a proper allocation of stock, each subscriber eligible to purchase must list on his or her stock order form all deposit accounts in which he or she had an ownership interest at April 30, 2005, ______ or ______, as applicable or each loan account as of ______. Failure to list all accounts, or providing incorrect information, could result in the loss of all or part of a subscriber s stock allocation. We will strive to identify your ownership in all accounts, but we cannot guarantee that we will identify all accounts in which you have an ownership interest. Our interpretation of the terms and conditions of the plan of conversion and of the acceptability of the order forms will be final.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering. A detailed description of share allocation procedures can be found in the section entitled The Conversion.

How We Determined the Offering Range

The amount of common stock that we are offering is based on an independent appraisal of the estimated market value of ESSA Bancorp, Inc., assuming the conversion and the offering are completed. RP Financial, LC., our independent appraiser, has estimated that, as of November 24, 2006, this market value ranged from $100.0 million to $135.4 million, with a midpoint of $117.7 million. Based on this valuation and a $10.00 per share price, the number of shares of common stock being offered for sale by us will range from 9,350,000 shares to 12,650,000 shares. In addition, we will contribute between 654,500 shares to 885,500 shares to a charitable foundation established by ESSA Bank & Trust. The $10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. RP Financial s appraisal is based in part on our financial condition and results of operations, the effect of the additional capital raised by the sale of shares of common stock in the offering and an analysis of a peer group of ten publicly traded savings bank and thrift holding companies that RP Financial considered comparable to us.

The following table presents a summary of selected pricing ratios for ESSA Bancorp, Inc. and our peer group companies identified by RP Financial. These ratios are based on earnings for the twelve months ended September 30, 2006 and book value as of September 30, 2006. Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a premium of 27.3% on a price-to-earnings basis, a discount of 43.4% on a price-to-book value basis and a discount of 46.1% on a price-to-tangible book value basis. The pricing ratios result from our generally having higher levels of equity but lower earnings than the companies in the peer group on a pro forma basis. Our Board of Directors, in reviewing and approving the valuation, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios and price-to-tangible book value ratios at the different amounts of shares to be sold in the offering. The appraisal did not consider one valuation approach to be more important than the other. Instead, the appraisal concluded that these ranges represented the appropriate balance of the two approaches to valuing ESSA Bancorp, Inc., and the number of shares to be sold, in comparison to the identified peer group institutions. The estimated appraised value and the resulting premium/discount took into consideration the potential financial impact of the conversion and offering.

	Pro forma price-to-earnings multiple	**Pro forma price-to-book value ratio**	**Pro forma price-to-tangible book value ratio**
ESSA Bancorp, Inc.			
Maximum	22.73x	81.04%	81.04%
Minimum	18.18	72.10	72.10
Valuation of peer group companies as of November 24, 2006			
Averages	17.85x	143.13%	150.35%
Medians	16.70	137.93	143.84

The independent appraisal does not indicate per share market value. Do not assume or expect that the valuation of ESSA Bancorp, Inc. as indicated above means that, after the conversion and the offering, the shares of common stock will trade at or above the $10.00 offering price. Furthermore, the pricing ratios presented above were utilized by RP

Financial to estimate our market value and not to compare the relative value of shares of our common stock with the value of the capital stock of the peer group. The value of the capital stock of a particular company may be affected by a number of factors such as financial performance, asset size and market location.

The independent appraisal will be updated prior to the completion of the conversion. If the appraised value decreases below $93.5 million or increases above $145.5 million, subscribers may be resolicited with the approval of the Office of Thrift Supervision and the Pennsylvania Department of Banking and be given the opportunity to change or cancel their orders. If you do not respond, we will cancel your stock order and return your subscription funds, with interest, and cancel any authorization to withdraw funds from your deposit accounts for the purchase of shares of common stock. For a more complete discussion of the amount of common stock we are offering for sale and the independent appraisal, see The Conversion Determination of Share Price and Number of Shares to be Issued.

After-Market Stock Price Performance Provided by Independent Appraiser

The appraisal report prepared by RP Financial included examples of after-market stock price performance for thrift conversion offerings completed during the three-month period ended November 24, 2006. The following table presents stock price appreciation information for all standard mutual-to-stock conversions completed between January 1, 2005 and November 24, 2006. These companies did not constitute the group of ten comparable public companies utilized in RP Financial s valuation analysis.

Mutual-to-Stock Conversion Offerings with Completed Closing Dates

between January 1, 2005 and November 24, 2006

		Appreciation from Initial Trading Date			
Transaction	**Conversion Date**	**1 day**	**1 week**	**1 month**	**Through November 24, 2006**
Chicopee Bancorp, Inc.	7/20/06	44.6%	42.5%	45.2%	51.1%
Newport Bancorp, Inc.	7/7/06	28.0%	28.8%	31.0%	40.0%
Legacy Bancorp, Inc.	10/26/05	30.3%	34.0%	32.0%	60.2%
BankFinancial Corp.	6/24/05	36.0%	34.0%	36.0%	75.5%
Benjamin Franklin Bancorp, Inc.	4/5/05	0.6%	3.9%	2.5%	43.1%
OC Financial, Inc.	4/1/05	20.0%	8.0%	10.0%	5.0%
Royal Financial, Inc.	1/21/05	16.0%	26.0%	25.4%	60.0%
Average		25.1%	25.3%	26.0%	47.8%
Median		28.0%	28.8%	31.0%	51.1%

This table is not intended to be indicative of how our stock may perform. Furthermore, this table presents only short-term price performance with respect to several companies that only recently completed their initial public offerings and may not be indicative of the longer-term stock price performance of these companies.

Stock price appreciation is affected by many factors, including, but not limited to: general market and economic conditions; the interest rate environment; the amount of proceeds a company raises in its offering; and numerous factors relating to the specific company, including the experience and ability of management, historical and anticipated operating results, the nature and quality of the company s assets, and the company s market area. The companies listed in the table above may not be similar to ESSA Bancorp, Inc., the pricing ratios for their stock offerings were in some cases different from the pricing ratios for ESSA Bancorp, Inc. s common stock and the market conditions in which these offerings were completed were, in some cases, different from current market conditions. Any or all of these differences may cause our stock to perform differently from these other offerings.

RP Financial advised the Board of Directors that the appraisal was prepared in conformance with the regulatory appraisal methodology. That methodology requires a valuation based on an analysis of the trading prices of ten comparable public companies whose stocks have traded for at least one year prior to the valuation date, and as a result of this analysis, RP Financial determined that our pro forma price-to-earnings ratios were higher than the peer group companies and our pro forma price-to-book ratios were lower than the peer group companies. See -How We Determined the Offering Range . RP Financial also advised the Board of Directors that the aftermarket trading experience of thrift conversion offerings completed during the three-month period ended November 24, 2006 was considered in the appraisal as a general indicator of current market conditions, but was not relied upon as a primary valuation methodology. There were no standard mutual-to-stock conversion offerings completed during the three-month period ended November 24, 2006.

Our Board of Directors carefully reviewed the information provided to it by RP Financial through the appraisal process, but did not make any determination regarding whether prior standard mutual-to-stock conversions have been undervalued, nor did the board draw any conclusions regarding how the historical data reflected above may affect ESSA Bancorp, Inc. s appraisal. Instead, we engaged RP Financial to help us understand the regulatory process as it applies to the appraisal and to advise the Board of Directors as to how much capital ESSA Bancorp, Inc. would be required to raise under the regulatory appraisal guidelines.

There can be no assurance that our stock price will not trade below $10.00 per share, as has been the case for some mutual-to-stock conversions. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled Risk Factors beginning on page 18.

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased is 25. Generally, no individual, or individual exercising subscription rights through a single qualifying account held jointly, may purchase more than 35,000 ($350,000) shares of common stock. If any of the following persons purchases shares of common stock, their purchases, in all categories of the offering, when combined with your purchases, cannot exceed 50,000 ($500,000) shares:

your spouse or relatives of you or your spouse living in your house;

most companies, trusts or other entities in which you are a trustee, have a substantial beneficial interest or hold a senior management position; or

other persons who may be your associates or persons acting in concert with you.

See the detailed descriptions of acting in concert and associate in The Conversion Limitations on Common Stock Purchases.

How You May Purchase Shares of Common Stock

In the subscription offering and community offering, you may pay for your shares only by:

personal check, bank check or money order, made payable to ESSA Bancorp, Inc.; or

authorizing us to withdraw funds from the types of ESSA Bank & Trust deposit accounts designated on the stock order form.

ESSA Bank & Trust is not permitted to knowingly lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a check drawn on a ESSA Bank & Trust line of credit or a third party check to pay for shares of common stock.

You can subscribe for shares of common stock in the offering by delivering a signed and completed original stock order form, together with full payment or authorization to withdraw from one or more of your ESSA Bank & Trust deposit accounts, so that it is received (not postmarked) before 12:00 Noon, Eastern time, __________, which is the expiration of the offering period. For orders paid for by check or money order, the funds will be promptly cashed and held in a segregated account at ESSA Bank & Trust, or in our discretion at another insured depository institution. We will pay interest on those funds calculated at ESSA Bank & Trust s passbook savings rate from the date funds are received until completion or termination of the conversion and the offering. Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty; however, if a withdrawal results in a certificate account with a balance less than the applicable minimum balance requirement, the certificate will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current passbook rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts with ESSA Bank & Trust must be in the accounts at the time the stock order is received. However, funds will not be withdrawn from the accounts until the completion of the offering and will earn interest at the applicable deposit account rate until that time. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. After we receive your order, your order cannot be changed or canceled unless the number of shares of common stock to be offered is increased to more than 14,547,500 or decreased to less than 9,350,000, or the offering is extended beyond __________.

By signing the stock order form, you are acknowledging receipt of a prospectus and that the shares of common stock are not deposits or savings accounts that are federally insured or otherwise guaranteed by ESSA Bank & Trust, the Federal Deposit Insurance Corporation or any other government agency.

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. However, shares of common stock must be purchased through and held in a self-directed retirement account, such as those offered by a brokerage firm. By regulation, ESSA Bank & Trust s individual retirement accounts are not self-directed, so they cannot be used to purchase or hold shares of our common stock. If you wish to use some or all of the funds in your ESSA Bank & Trust individual retirement account to purchase our common stock, the applicable funds must be transferred to a self-directed account maintained by an independent trustee, such as a brokerage firm, and the purchase must be made through that account. If you do not have such an account, you will need to establish one before placing your stock order. It may take several weeks to transfer your ESSA Bank & Trust individual retirement account to an independent trustee, so please allow yourself sufficient time to take this action. An annual administrative fee may be payable to the independent trustee. Because individual circumstances differ and processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the __________, 2007 expiration of the offering period, for assistance with purchases using your ESSA Bank & Trust individual retirement account or any other retirement account that you may have. Whether you may use such funds for the purchase of shares in the stock offering may depend on time constraints and, possibly, limitations imposed by the brokerage firm or institution where the funds are held.

Delivery of Stock Certificates

Certificates representing shares of common stock sold in the offering will be mailed to the persons entitled thereto at the certificate registration address noted by them on the order form, as soon as practicable following consummation of the offering and receipt of all necessary regulatory approvals. **It is possible that, until certificates for the common stock are delivered, purchasers might not be able to sell the shares of common stock that they ordered, even though the common stock will have begun trading.**

How We Intend to Use the Proceeds From the Offering

We estimate net proceeds from the offering will be between $91.5 million and $124.2 million, or $143.1 million if the offering range is increased by 15%. Approximately $45.7 million to $62.1 million of the net proceeds, or $71.5 million if the offering range is increased by 15%, will be invested in ESSA Bank & Trust. ESSA Bancorp, Inc. intends to retain between $45.7 million and $62.1 million of the net proceeds, or $71.5 million if the offering range is increased by 15%. A portion of the net proceeds retained by ESSA Bancorp, Inc. will be used for a loan to the employee stock ownership plan to fund its purchase of shares of common stock (between $8.0 million and $10.8 million, or $12.5 million if the offering is increased by 15%). ESSA Bank & Trust intends to contribute up to $1.5 million in cash to a charitable foundation it will establish as part of the stock offering. ESSA Bancorp, Inc. intends to retain the remaining funds of between $36.8 million and $50.0 million of the net proceeds, or $57.6 million if the offering range is increased by 15%. ESSA Bancorp, Inc. may use the remaining funds for investments, to pay cash dividends, to repurchase shares of common stock and other general corporate purposes discussed below.

Funds invested in ESSA Bank & Trust will be used to support increased lending and other products and services. The net proceeds retained by ESSA Bancorp, Inc. and ESSA Bank & Trust also may be used for reducing a portion of our existing borrowings, future business expansion through acquisitions of banking or financial services companies or a limited number of *de novo* branches as discussed above in Business Strategy Expanding our banking franchise through branching and acquisitions. We have no current arrangements or agreements to acquire other banks, thrifts and financial service companies or branch offices. We have received regulatory approval to open a branch in Tannersville, Pennsylvania which we anticipate opening in May 2007. Initially, a substantial portion of the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Please see the section of this prospectus entitled How We Intend to Use the Proceeds From the Offering for more information on the proposed use of the proceeds from the offering.

You May Not Sell or Transfer Your Subscription Rights

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the shares of common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal or state regulatory agencies, against anyone who we believe has sold or given away his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. When completing your stock order form, you should not add the name(s) of persons who do not have subscription rights or who qualify in a lower subscription priority than you do. In addition, the stock order form requires that you list all deposit or loan accounts, giving all names on each account and the account number at the applicable eligibility date. Your failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, if there is an oversubscription.

Deadline for Orders of Common Stock

If you wish to purchase shares of common stock in the offering, we must receive a properly completed original stock order form, together with full payment for the shares of common stock, at the Stock Information Center no later than 12:00 Noon, Eastern time, on __________, unless we extend this deadline. A postmark prior to __________ will not entitle you to purchase shares of common stock unless we receive the envelope by 12:00 Noon Eastern time. You may submit your order form by mail using the order reply envelope provided, by overnight courier to the indicated address on the order form, or by hand delivery to our Stock Information Center, located at our Corporate Center, 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Once we receive it, your order is irrevocable unless the offering is terminated or extended beyond __________ or the number of shares of common stock to be sold is decreased to less than 9,350,000 shares or increased to more than 14,547,500 shares. If the offering is extended beyond __________, or if the number of shares of common stock to be sold is decreased to less than 9,350,000 shares or is increased to more than 14,547,500 shares, we will, with the approval of the Office of Thrift Supervision, resolicit subscribers, giving them the opportunity to confirm, cancel or change their stock orders during a specified resolicitation period.

Although we will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 12:00 Noon, Eastern time, on __________, whether or not we have been able to locate each person entitled to subscription rights.

Steps We May Take if We do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 9,350,000 shares of common stock, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

- increase the purchase limitations; and/or

- seek the approval of the Office of Thrift Supervision and the Pennsylvania Department of Banking to extend the offering beyond the __________ expiration date, so long as we resolicit subscriptions that we have previously received in the offering.

In addition, we may terminate the offering at any time prior to the special meeting of members of ESSA Bank & Trust that is being called to vote upon the conversion, and at any time after member approval, with the approval of the Office of Thrift Supervision and, if requested, the Secretary of Pennsylvania Department of Banking.

Purchases by Officers and Directors

We expect our directors and executive officers, together with their associates, to subscribe for 427,000 shares of common stock in the offering, or 4.6% of the shares to be sold at the minimum of the offering range. The purchase price paid by them for their subscribed shares will be the same $10.00 per share price paid by all other persons who purchase shares of common stock in the offering. Purchases by directors, executive officers and their associates will be included in determining whether the required minimum number of shares has been subscribed for in the offering.

Benefits to Management and Potential Dilution to Stockholders Following the Conversion

We expect our tax-qualified employee stock ownership plan to purchase 8% of the total number of shares of common stock that we sell in the offering and contribute to our charitable foundation, or 1,082,840 shares of common stock, assuming we sell the maximum of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the total number of shares of common stock sold in the offering and contributed to our charitable foundation. This plan is a tax-qualified retirement plan for the benefit of all our employees. Purchases by the employee stock ownership plan will be included in determining whether the required minimum number of shares has been sold in the offering. Assuming the employee stock ownership plan purchases 1,082,840 shares in the offering, we will recognize additional compensation expense of $10.8 million over a 30-year period, assuming the shares of common stock have a fair market value of $10.00 per share for the full 30-year period. If, in the future, the shares of common stock have a fair market value greater or less than $10.00, the compensation expense will increase or decrease accordingly.

We also intend to implement a stock-based recognition and retention plan and a stock option plan no earlier than six months after completion of the conversion. Stockholder approval of these plans will be required. If adopted within 12 months following the completion of the conversion, the stock recognition and retention plan will reserve a number of shares equal to not more than 4% of the shares sold in the offering and contributed to our charitable foundation, or up to 541,420 shares of common stock at the maximum of the offering range, for awards to key employees and directors, at no cost to the recipients. If adopted within 12 months following the completion of the conversion, the stock option plan will reserve a number of shares equal to not more than 10% of the shares of common stock sold in the offering and contributed to our charitable foundation, or up to 1,353,550 shares of common stock at the maximum of the offering range, for key employees and directors upon their exercise. If the stock recognition and retention plan and the stock option plan are adopted after one year from the date of the completion of the conversion, such plans would be permitted to and may grant or award shares of common stock and options greater than 4% and/or 10%, respectively, of the shares of common stock sold in the offering. We have not yet determined whether we will present these plans for stockholder approval within 12 months following the completion of the conversion or whether we will present these plans for stockholder approval more than 12 months following the completion of the conversion.

If the shares of common stock awarded under the stock recognition and retention plan come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 3.9% in their ownership interest in ESSA Bancorp, Inc. If the shares of common stock issued upon the exercise of options granted under the stock option plan come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 9.1% in their ownership interest in ESSA Bancorp, Inc. Awards made under these plans would be subject to vesting over a period of years.

The Company intends to enter into employment agreements with certain of its executive officers and change-in-control agreements with up to six officers who have not entered into employment agreements, in part, due to this stock offering. See Management of ESSA Bancorp, Inc. Benefits Plans for a further discussion of these agreements, including their terms and potential costs, as well as a description of other benefits arrangements.

The following table summarizes the number of shares of common stock and aggregate dollar value of grants (valuing each share granted at the offering price of $10.00) that are available under the stock recognition and retention plan and the stock option plan if such plans are adopted within one year following the completion of the conversion and the offering.

The table shows the dilution to stockholders if all these shares are issued from authorized but unissued shares, instead of shares purchased in the open market. The table also sets forth the number of shares of common stock to be acquired by the employee stock ownership plan for allocation to all employees. A portion of the stock grants shown in the table below may be made to non-management employees.

	Number of Shares to be Granted or Purchased				Value of Grants (1)	
	At Minimum of Offering Range	At Maximum of Offering Range	As a Percentage of Common Stock to be Issued in the Offering (2)	Dilution Resulting From Issuance of Shares for Stock Benefit Plans	At Minimum of Offering Range	At Maximum of Offering Range
					(Dollars in thousands)	
Employee stock ownership plan	800,360	1,082,840	8.00%		$ 8,004	$ 10,828
Stock recognition and retention plan	400,180	541,420	4.00	3.85	4,002	5,414
Stock option plan	1,000,450	1,353,550	10.00	9.09	3,842	5,198
Total	2,200,990	2,977,810	22.00%	12.28%	$ 15,848	$ 21,440

(1) The actual value of restricted stock grants will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of $10.00 per share. The fair value of stock options has been estimated at $3.84 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of $10.00; dividend yield of 0%; an expected option life of 10 years; a risk free interest rate of 4.64%; and a volatility rate of 11.32% based on an index of publicly traded thrift institutions. The actual expense of the stock option plan will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted which may or may not be Black-Scholes.

(2) The stock option plan and stock recognition and retention plan may award a greater number of options and shares, respectively, if the plans are adopted more than one year after the completion of the conversion.

The actual value of restricted stock grants will be determined based on their fair value (the market price of shares of common stock of ESSA Bancorp, Inc.) as of the date grants are made. The stock recognition and retention plan, which is subject to stockholder approval, cannot be implemented until at least six months after the completion of the conversion. The following table presents the total value of all shares to be available for award and issuance under the stock recognition and retention plan, assuming the shares for the plan are purchased or issued in a range of market prices from $8.00 per share to $16.00 per share at the time of the grant.

Share Price	400,180 Shares Awarded at Minimum of Offering Range	470,800 Shares Awarded at Midpoint of Offering Range	541,420 Shares Awarded at Maximum of Offering Range	622,633 Shares Awarded at Maximum of Offering Range, As Adjusted
	(In thousands, except share price information)			
$ 8.00	$ 3,201	$ 3,766	$ 4,331	$ 4,981
$ 10.00	4,002	4,708	5,414	6,226
$ 12.00	4,802	5,650	6,497	7,472
$ 14.00	5,603	6,591	7,580	8,717
$ 16.00	6,403	7,532	8,663	9,962

The grant-date fair value of the options granted under the stock option plan will be based, in part, on the price of shares of common stock of ESSA Bancorp, Inc. at the time the options are granted, which, subject to stockholder approval, cannot be implemented until at least six months after the completion of the conversion. The value will also depend on the various assumptions utilized in the option-pricing model ultimately adopted. The following table presents the total

estimated value of the options to be available for grant under the stock option plan, assuming the range of market prices for the shares are $8.00 per share to $16.00 per share at the time of the grant.

Exercise Price	Grant-Date Fair Value Per Option	1,000,450 Options at Minimum of Range	1,177,000 Options at Midpoint of Range	1,353,550 Options at Maximum of Range	1,556,583 Options at Maximum of Range, As Adjusted
		(In thousands, except share price information)			
$ 8.00	$ 3.07	$ 3,071	$ 3,613	$ 4,155	$ 4,779
10.00	3.84	3,842	4,520	5,198	5,977
12.00	4.61	4,612	5,426	6,240	7,176
14.00	5.38	5,382	6,332	7,282	8,374
16.00	6.15	6,153	7,239	8,324	9,573

The tables presented above are provided for informational purposes only. There can be no assurance that our stock price will not trade below $10.00 per share. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled Risk Factors beginning on page 18.

Our Issuance of Shares of Common Stock to the ESSA Bank & Trust Foundation

To further our commitment to the communities we serve, we intend to establish a charitable foundation as part of the stock offering. Assuming we receive member approval to establish the charitable foundation, we will contribute cash ranging from $935,000 at the minimum of the valuation range to $1.3 million at the maximum of the valuation range and shares of our common stock representing 7.0% of the shares of common stock of ESSA Bancorp, Inc. that will be sold in the offering. The number of shares issued to our charitable foundation will range from 654,500 shares at the minimum of the valuation range to 885,500 shares at the maximum of the valuation range, which shares will have a value of $6.5 million at the minimum of the valuation range and $8.9 million at the maximum of the valuation range, based on the $10.00 per share offering price. As a result of the issuance of shares and the contribution of cash to the charitable foundation, we will record an after-tax expense of approximately $5.6 million at the minimum of the valuation range and of approximately $8.2 million at the maximum of the valuation range, during the quarter in which the stock offering is completed.

The charitable foundation will be dedicated exclusively to supporting charitable causes and community development activities in the communities in which we operate. The charitable foundation is expected to make contributions totaling approximately $______ in its first year of operation, assuming we sell our shares of common stock at the midpoint of the offering range.

Issuing shares of common stock to the charitable foundation will:

- dilute the voting interests of purchasers of shares of our common stock in the stock offering; and

- result in an expense, and a reduction in earnings, during the quarter in which the contribution is made, equal to the full amount of the contribution to the charitable foundation, offset in part by a corresponding tax benefit.

The establishment and funding of the charitable foundation has been approved by the Board of Directors of ESSA Bancorp, Inc. and ESSA Bank & Trust and is subject to approval by members of ESSA Bank & Trust. If the members do not approve the charitable foundation, we may, in our discretion, complete the conversion and stock offering without the inclusion of the charitable foundation and without resoliciting subscribers. We may also determine, in our discretion, not to complete the conversion and stock offering if the members do not approve the charitable foundation.

See Risk Factors The Contribution of Shares to the Charitable Foundation Will Dilute Your Ownership Interests and May Cause A Net Loss in Fiscal 2007, Comparison of Valuation and Pro Forma Information With and Without the Charitable Foundation and ESSA Bank & Trust Foundation.

Market for Common Stock

We have received approval for shares of our common stock to be listed on the Nasdaq Global Market under the symbol ESSA. See Market for the Common Stock.

Our Policy Regarding Dividends

Following completion of the stock offering, our Board of Directors will have the authority to declare dividends on our common stock, subject to statutory and regulatory requirements. However, no decision has been made with respect to the amount, if any, and timing of any dividend payments. The payment and amount of any dividend payments will depend upon a number of factors, including the following:

- regulatory capital requirements;
- our financial condition and results of operations;
- tax considerations;
- statutory and regulatory limitations; and
- general economic conditions.

Tax Consequences

As a general matter, the conversion will not be a taxable transaction for federal or state income tax purposes to ESSA Bank & Trust, ESSA Bancorp, Inc., or persons eligible to subscribe in the subscription offering.

Conditions to Completion of the Conversion and the Offering

We cannot complete the conversion and the offering unless:

- The plan of conversion is approved by at least *a majority of votes eligible* to be cast by members of ESSA Bank & Trust (consisting of depositors and borrowers of ESSA Bank & Trust). A special meeting of members to consider and vote upon the plan of conversion has been set for __________;

- We have received orders to purchase at least the minimum number of shares of common stock offered; and

- We receive the final approval of the Office of Thrift Supervision and the Pennsylvania Department of Banking to complete the conversion and the offering.

In addition, in order to establish and fund the charitable foundation, we will need to receive the approval of a majority of votes eligible to be cast by members of ESSA Bank & Trust at the special meeting of members to be held on __________. If the members do not approve the charitable foundation, we may, in our discretion, complete the conversion and stock offering without the inclusion of the charitable foundation and without resoliciting subscribers. We may also determine in our discretion, not to complete the conversion and stock offering if the members do not approve the charitable foundation.

How You Can Obtain Additional Information

Our branch office personnel may not, by law, assist with investment-related questions about the offering or accept stock order forms or proxy cards. If you have any questions regarding the conversion or the offering, please call or visit our Stock Information Center, toll free, at 1-__________, Monday through Friday between 10:00 a.m. and 4:00 p.m., Eastern time. The Stock Information Center is located at our Corporate Center, 200 Palmer Street, Stroudsburg, Pennsylvania 18360. The Stock Information Center will be closed on weekends and bank holidays.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF __________IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED ANY LATER THAN FIVE DAYS PRIOR TO __________OR HAND-DELIVERED ANY LATER THAN TWO DAYS PRIOR TO __________.

RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the

shares of common stock.

Risks Related to Our Business

Future Changes in Interest Rates Could Reduce Our Profits

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

(1) the interest income we earn on our interest-earning assets, such as loans and securities; and

(2) the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

Since September 30, 2004, the Federal Reserve Board of Governors has increased its target for the federal funds rate 17 times, from 1.0% to 5.25%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans) have not increased to the same degree. This flattening of the market yield curve has had a negative impact on our interest rate spread and net interest margin, and if short-term interest rates continue to rise, and if rates on our deposits and borrowings continue to reprice upwards faster than the rates on our long-term loans and investments, we would continue to experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. Our average interest rate spread decreased 39 basis points to 2.46% during the 2006 fiscal year from 2.85% during the 2005 fiscal year.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their loans in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2006, the fair value of our available for sale agency securities, mortgage-backed securities and corporate debt obligations totaled $89.1 million. Unrealized net losses on these available for sale securities totaled approximately $287,000 at September 30, 2006 and are reported as a separate component of stockholders equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholder s equity.

We evaluate interest rate sensitivity by estimating the change in ESSA Bank & Trust s net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At September 30, 2006, in the event of an immediate 200 basis point increase in interest rates, the Office of Thrift Supervision model projects that we would experience a $20.3 million, or 26%, decrease in net portfolio value. See Management s Discussion and Analysis of Financial Condition and Results of Operations of ESSA Bancorp, Inc. Management of Market Risk.

A Downturn in the Local Economy or a Decline in Real Estate Values Could Reduce Our Profits.

Nearly all of our real estate loans are secured by real estate in Monroe and Northampton Counties, Pennsylvania. As a result of this concentration, a downturn in this market area could cause significant increases in nonperforming loans, which would reduce our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. In recent years, there have been significant increases in real estate values in our market area. As a result of rising home prices, our loans have been well collateralized. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. For a discussion of our market area, see Business of ESSA Bank & Trust Market Area.

Our Continued Emphasis On Commercial Real Estate Lending Could Expose Us To Increased Lending Risks.

Our business strategy centers on continuing our emphasis on commercial real estate lending. We have grown our loan portfolio in recent years with respect to this type of loan and intend to continue to emphasize this type of lending. At September 30, 2006, $47.5 million, or 8.5%, of our total loan portfolio consisted of commercial real estate loans. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property s collateral value, net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit-related losses.

At September 30, 2006, our largest commercial real estate lending relationship was a $2.8 million loan located in Monroe County, Pennsylvania and secured by real estate. See Business of ESSA Bank & Trust Lending Activities Commercial Real Estate Loans.

Strong Competition Within Our Market Areas May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see Business of ESSA Bank & Trust Competition.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Will Decrease.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 0.69% of total loans at September 30, 2006, material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

The Federal Deposit Insurance Corporation has Issued New Rules on How it Imposes Deposit Insurance Assessments that Will Increase Our Deposit Insurance Assessments and Will Reduce Our Income.

Under its current rules, the Federal Deposit Insurance Corporation does not impose a deposit insurance assessment on financial institutions, such as ESSA Bank & Trust, that are, among other criteria, well-capitalized. On November 2, 2006, the Federal Deposit Insurance Corporation adopted final regulations establishing a risk-based assessment system that will enable the Federal Deposit Insurance Corporation to more closely tie each financial institution s premiums to the risk it poses to the deposit insurance fund. Under the new risk-based assessment system, which becomes effective in the beginning of 2007, the Federal Deposit Insurance Corporation will evaluate the risk of each financial institution based on three primary sources of information: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the institution has one. The new rates for nearly all of the financial institution industry will vary between five and seven cents for every $100 of domestic deposits. Once effective, this increased assessment may reduce our income.

Our Leverage May Continue to Increase.

The Bank s asset growth, particularly loan growth, has outpaced its deposit growth during the most recent five years. As a result, the Bank has increased its leverage through additional borrowings from the Federal Home Loan Bank. This increased leverage has contributed to a decreasing average equity to average total assets percentage (refer to the table on page 28) during this five year period. If this trend were to continue, further declines in the Bank s average equity to total average assets percentage would be anticipated. However, anticipated percentages would be expected to remain above regulatory requirements. The table on page 38 depicts the historical and pro forma regulatory capital compliance of ESSA Bank & Trust at September 30, 2006 and across a range of pro forma offering results.

Risks Related to the Stock Offering

The Future Price of the Shares of Common Stock May Be Less Than the Purchase Price in the Stock Offering.

We cannot assure you that if you purchase shares of common stock in the stock offering you will later be able to sell them at or above the purchase price in the stock offering. The purchase price in the offering is determined by an independent, third-party appraisal, pursuant to federal banking regulations and subject to review and approval by the Office of Thrift Supervision. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The Office of Thrift Supervision attempts to ensure that the aftermarket appreciation of standard conversion stocks is not excessive. In recent years, the final independent valuation as approved by the Office of Thrift Supervision has been at the adjusted maximum of the offering range as long as total subscriptions have exceed the adjusted maximum of the offering range. However, the adjusted maximum of the offering range is approximately 30.0% higher than the fair market value of a company as determined by the independent appraisal. Our aggregate pro forma market value as reflected in the final, approved independent appraisal may exceed the market price of our shares of common stock after the completion of the offering, which may result in our stock trading below the initial offering price of $10.00 per share.

We Will Need to Implement Additional Finance and Accounting Systems, Procedures and Controls in Order to Satisfy Our New Public Company Reporting Requirements.

Upon completion of the stock offering, we will become a public reporting company. The federal securities laws and regulations of the Securities and Exchange Commission require that we file annual, quarterly and current reports and that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We expect that the obligations of being a public company, including substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. These obligations will increase our operating expenses and could divert our management s attention from our operations. Compliance with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission will require us to certify the adequacy of our internal controls and procedures, which could require us to upgrade our systems, and/or hire additional staff which will increase our operating costs.

Our Return on Equity Will Be Low Compared to Other Financial Institutions. This Could Negatively Affect the Trading Price of Our Shares of Common Stock.

Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. For the fiscal year ended September 30, 2006, our return on average equity was 7.0%, compared to the median return on average equity of 6.2% for all publicly traded savings institutions. Following the stock offering, we expect our consolidated equity to increase from $58.3 million to between $138.8 million at the minimum of the offering range and $183.1 million at the adjusted maximum of the offering range. We expect our return on equity to remain below the industry average until we are able to leverage the additional capital we receive from the stock offering. Our return on equity will be reduced by the capital raised in the stock offering, higher expenses from the costs of being a public company, and added expenses associated with our employee stock ownership plan and the stock-based incentive plan we intend to adopt. Until we can increase our net interest income and non-interest income, we expect our return on equity to be below the industry average, which may reduce the value of our shares of common stock.

The Contribution of Shares to the Charitable Foundation Will Dilute Your Ownership Interests and May Cause A Net Loss in Fiscal 2007.

We intend to establish a charitable foundation in connection with the stock offering. We will make a contribution to the charitable foundation in the form of shares of ESSA Bancorp, Inc. common stock and up to $1.5 million in cash. At the midpoint of the offering range, we will contribute 770,000 shares of common stock to the charitable foundation, which equals 7.0% of the shares of common stock sold in the stock offering and $1.1 million in cash, which represents 1.0% of the shares of common stock sold in the stock offering. The aggregate contribution will also have an adverse effect on our net income for the quarter and year in which we make the issuance and contribution to the charitable foundation. The after-tax expense of the contribution will reduce net income in our 2007 fiscal year by approximately $6.9 million at the midpoint of the offering range. Our net income for the fiscal year ended September 30, 2006 was $4.0 million; therefore we anticipate a net loss for the fiscal year ended September 30, 2007 based, in part, on the contribution to the charitable foundation. Persons purchasing shares in the stock offering will have their ownership and voting interests in ESSA Bancorp, Inc. diluted by 6.5% due to the issuance of shares of common stock to the charitable foundation.

Our Contribution to the Charitable Foundation May Not Be Tax Deductible, Which Could Reduce Our Profits.

We believe that at least a portion of the contribution to the ESSA Bank & Trust Foundation will be deductible for federal income tax purposes. However, we cannot assure you that the Internal Revenue Service will grant tax-exempt status to the charitable foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. In addition, even if the contribution is tax deductible, we are permitted to deduct only up to 10% of our taxable income for federal income tax purposes before charitable contributions. We are permitted under the Internal Revenue Code to carry the excess contribution over the five-year period following the contribution to our charitable foundation. Accordingly, we may not have sufficient profits to be able to use the deduction fully.

Our Stock-Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Income.

We anticipate that our employee stock ownership plan will purchase 8.0% of the total shares of common stock outstanding following the stock offering, including shares issued to the ESSA Bank & Trust Foundation, with funds borrowed from ESSA Bancorp, Inc. The cost of acquiring the shares of common stock for the employee stock ownership plan will be between $8.0 million at the minimum of the offering range and $12.5 million at the adjusted maximum of the offering range. We will record annual employee stock ownership plan expense in an amount equal to the fair value of shares of common stock committed to be released to employees. If shares of common stock appreciate in value over time, compensation expense relating to the employee stock ownership plan will increase.

We also intend to adopt a stock-based incentive plan after the stock offering under which plan participants would be awarded shares of our common stock (at no cost to them) or options to purchase shares of our common stock. The number of shares of restricted stock or stock options reserved for issuance under any initial stock-based incentive plan may not exceed 4.0% and 10.0%, respectively, of our total outstanding shares, including shares issued to the ESSA Bank & Trust Foundation, if these plans are adopted within one year at the completion of the conversion. Assuming the market price of the common stock is $10.00 per share; the options are granted with an exercise price of $10.00 per share; the dividend yield on the stock is 0%; the expected option life is ten years; the risk free interest rate is 4.64% (based on the ten-year Treasury rate) and the volatility rate on the shares of common stock is 11.32% (based on an index of publicly traded thrift institutions), the estimated grant-date fair value of the options utilizing a Black-Scholes option pricing analysis is $3.84 per option granted. Assuming this value is amortized over a five-year vesting period, the corresponding annual expense (pre-tax) associated with the stock options would be approximately $1.2 million at the adjusted maximum. In addition, assuming that all shares of restricted stock are awarded at a price of $10.00 per share, and that the awards vest over a five-year period, the corresponding annual expense (pre-tax) associated with shares awarded under the stock-based incentive plan would be approximately $1.2 million at the adjusted maximum. However, if we grant shares of stock or options in excess of these amounts, such grants would increase our costs further.

The shares of restricted stock granted under the stock-based incentive plan will be expensed by us over their vesting period at the fair market value of the shares on the date they are awarded. If the shares of restricted stock to be granted under the plan are repurchased in the open market (rather than issued directly from authorized but unissued shares by ESSA Bancorp, Inc.) and cost the same as the purchase price in the stock offering, the reduction to stockholders   equity due to the plan would be between $4.0 million at the minimum of the offering range and $6.2 million at the adjusted maximum of the offering range. To the extent we repurchase shares of common stock in the open market to fund the grants of shares under the plan, and the price of such shares exceeds the offering price of $10.00 per share, the reduction to stockholders equity would exceed the range described above. Conversely, to the extent the price of such shares is below the offering price of $10.00 per share, the reduction to stockholders equity would be less than the range described above.

The Implementation of Stock-Based Incentive Plans Will Dilute Your Ownership Interest.

We intend to adopt stock-based incentive plans (which will allow participants to be awarded shares of common stock (at no cost to them) or options to purchase shares of our common stock) following the stock offering. These stock-based incentive plans will be funded through either open market purchases of shares of common stock, if permitted, or from the issuance of authorized but unissued shares of common stock. Stockholders would experience a reduction in ownership interest totaling 12.3% in the event newly issued shares are used to fund stock options or awards of shares of common stock under these plans in an amount equal to 10% and 4%, respectively, of the shares issued in the stock offering, including shares issued to the ESSA Bank & Trust Foundation.

We Will Enter Into Employment and Change-in-Control Agreements that May Increase Our Compensation Costs.

We intend to enter into employment agreements with each of Messrs. Gary S. Olson, Allan A. Muto, Robert S. Howes and Thomas J. Grayuski and Ms. V. Gail Warner and Ms. Diane K. Reimer. In the event of a change in control of ESSA Bancorp, Inc. or ESSA Bank & Trust, these employment agreements contain cash severance benefits that would cost ESSA Bancorp, Inc. approximately $3.1 million in the aggregate. We also intend to enter into change-in-control agreements with up to six officers who are not entering into employment agreements, which would provide certain benefits in the event of a termination of employment following a change- in-control of ESSA Bancorp, Inc. or ESSA Bank & Trust which would also increase our compensation costs. For additional information see Management of ESSA Bancorp, Inc. Benefit Plans.

Our Contribution to the Charitable Foundation Combined With the Costs of Our Employee StockOwnership Plan May Result in an Overall Net Loss for Fiscal 2007.

The anticipated expenses associated with the Company s contributions of stock and cash to the ESSA Bank & Trust Foundation combined with the anticipated expenses associated with our employee stock ownership plan may result in a consolidated net loss for ESSA Bancorp, Inc. for the fiscal year ended September 30, 2007. The most significant of these expenses would result from the contribution to the foundation, which is not expected to be a recurring event. Therefore, future losses, while possible, are not anticipated.

We Have Broad Discretion in Using the Proceeds of the Stock Offering. Our Failure to Effectively Use Such Proceeds Could Hurt Our Profits.

We will use a portion of the net proceeds to finance the purchase of shares of common stock in the stock offering by the employee stock ownership plan and may use the remaining net proceeds to pay dividends to stockholders, repurchase shares of common stock, purchase investment securities, deposit funds in ESSA Bank & Trust, acquire other financial services companies or for other general corporate purposes. ESSA Bank & Trust may use the proceeds it receives to fund new loans, establish or acquire new branches, purchase investment securities, reduce a portion of our borrowings, or for general corporate purposes. In addition, we intend to expand our presence within and contiguous to our primary market area through *de novo* branching, which may negatively impact our earnings until these branches achieve profitability. We have not, however, identified specific amounts of proceeds for any of these purposes and we will have significant flexibility in determining the amount of net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively could reduce our profitability. We have not established a timetable for the effective deployment of the proceeds and we cannot predict how long we will require to effectively deploy the proceeds.

Our Stock Value May be Negatively Affected by Federal Regulations That Restrict Takeovers.

For three years following the stock offering, Office of Thrift Supervision regulations prohibit any person from acquiring or offering to acquire more than 10% of our common stock without the prior written approval of the Office of Thrift Supervision. See Restrictions on Acquisition of ESSA Bancorp, Inc. for a discussion of applicable Office of Thrift Supervision regulations regarding acquisitions.

The Corporate Governance Provisions in our Articles of Incorporation and Bylaws and the Corporate Governance Provisions Under Pennsylvania Law May Prevent or Impede the Holders of Our Common Stock From Obtaining Representation on Our Board of Directors and May Impede Takeovers of the Company Which Our Board Might Conclude are not in the Best Interest of ESSA or its Stockholders.

Provisions in our Articles of Incorporation and Bylaws may prevent or impede holders of our common stock from obtaining representation on our Board of Directors and may make takeovers of the Company more difficult. For example, our Board of Directors is divided into three staggered classes. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. ESSA Bancorp, Inc. s Articles of Incorporation includes a provision that no person will be entitled to vote any shares of common stock of ESSA Bancorp, Inc. in excess of 10% of the outstanding shares of common stock of ESSA Bancorp, Inc. This limitation does not apply to the purchase of shares by a tax-qualified employee stock benefit plan of ESSA Bancorp, Inc. or ESSA Bank & Trust. In addition, the Company s articles of incorporation and bylaws restrict who can call special meetings of stockholders and how directors can be removed from office. See Restrictions on Acquisitions of ESSA Bancorp, Inc. on page 135.

Provisions of the Pennsylvania Business Corporation Law applicable to ESSA Bancorp, Inc. provide among other things, that ESSA Bancorp, Inc. may not engage in a business combination with an interested shareholder during the five-year period after the interested shareholder became such except under certain specified circumstances. An interested shareholder is generally a holder of 20% or more of a company s voting stock. The Pennsylvania Business Corporation Law also contains provisions providing for the ability of shareholders to object to the acquisition by a person or group of persons acting in concert of 20% or more of its outstanding voting securities and to demand that they be paid a cash payment for the fair value of their shares from the controlling person or group. In addition, there are various regulatory restrictions on acquisitions of ESSA Bancorp, Inc. See Restrictions on Acquisition of ESSA Bancorp, Inc. at page 135.

ESSA Bancorp, Inc. has Never Issued Common Stock and there is No Guarantee that a Liquid Market Will Develop.

ESSA Bancorp, Inc. has never issued capital stock and there is no established market for it. Shares of our common stock have been approved for trading on the Nasdaq Global Market under the symbol ESSA, subject to completion of the offering and compliance with certain conditions, including the presence of at least three registered and active market makers. Ryan Beck & Co., Inc. has advised us that it intends to make a market in shares of our common stock following the offering, but it is under no obligation to do so or to continue to do so once it begins. While we will attempt before completion of the offering to obtain commitments from at least two other broker-dealers to make a market in shares of our common stock, there can be no assurance that we will be successful in obtaining such commitments.

We May Take Other Actions to Meet the Minimum Required Sales of Shares if We Cannot Find Enough Purchasers in The Community.

If we do not sell enough shares to reach the minimum of the offering range through the subscription and community offerings, shares may be offered for sale to the general public in a syndicated community offering to be managed by Ryan Beck & Co., Inc., acting as our agent. If we are not able to reach the minimum of the offering range after Ryan Beck uses its best efforts in a syndicated community offering we may do any of the following: increase the maximum purchase limitations and allow all maximum purchase subscribers to increase their orders to the new maximum purchase limitations; terminate the offering and promptly return all funds; set a new offering range, notifying all subscribers of the opportunity to confirm, cancel or change their orders; or take such other actions as may be permitted by the Office of Thrift Supervision.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables set forth selected consolidated historical financial and other data of ESSA Bank & Trust and its subsidiaries for the years and at the dates indicated. The information at September 30, 2006 and 2005 and for the years ended September 30, 2006, 2005 and 2004 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of ESSA Bank & Trust beginning at page 145 of this prospectus. The information at September 30, 2004, and 2003 and November 30, 2002 and for the ten months ended September 30, 2003 and for the year ended November 30, 2002 is derived in part from audited consolidated financial statements that are not included in this prospectus.

	At September 30, 2006	At September 30, 2005	At September 30, 2004 (In thousands)	At September 30, 2003	At November 30, 2002
Selected Financial Condition Data:					
Total assets	$ 725,796	$ 656,066	$ 592,824	$ 533,606	$ 468,055
Cash and cash equivalents	12,730	20,290	21,458	43,087	27,617
Investment securities:					
Available for sale	89,122	62,506	45,074	22,986	27,301
Held to maturity	19,715	21,505	10,263	3,918	6,095
Loans, net	556,677	508,981	477,956	438,539	390,542
FHLB stock	13,675	11,916	11,358	9,187	5,304
Premises and equipment	11,447	11,560	11,444	10,547	6,223
Bank owned life insurance	13,376	12,864	10,369		
Deposits	402,153	374,759	333,201	319,283	315,406
Borrowed funds	259,299	221,479	205,134	160,920	104,850
Equity	58,337	54,371	50,260	46,381	42,219

	For the Year Ended September 30, 2006	For the Year Ended September 30, 2005	For the Year Ended September 30, 2004 (In thousands)	For the Ten Months Ended September 30, 2003	For the Year Ended November 30, 2002
Selected Data:					
Interest income	$ 36,451	$ 31,919	$ 28,810	$ 24,743	$ 29,065
Interest expense	19,217	14,323	11,933	9,372	12,220
Net interest income	17,234	17,596	16,877	15,371	16,845
Provision for loan losses	300	550	530	430	900
Net interest income after provision for loan losses	16,934	17,046	16,347	14,941	15,945
Non-interest income	5,518	5,281	4,280	2,976	3,477
Non-interest expense	16,685	16,493	15,540	12,080	12,408
Income before income tax expense	5,767	5,834	5,087	5,837	7,014
Income tax expense	1,813	1,383	1,172	1,681	2,314
Net income	$ 3,954	$ 4,451	$ 3,915	$ 4,156	$ 4,700

	At or For the Year Ended September 30, 2006	At or For the Year Ended September 30, 2005	At or For the Year Ended September 30, 2004	At or For the Ten Months Ended September 30, 2003	At or For the Year Ended November 30, 2002
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.58%	0.72%	0.71%	0.84%	1.08%
Return on average equity	6.96%	8.42%	8.20%	9.46%	11.98%
Interest rate spread (1)	2.46%	2.85%	3.10%	3.08%	3.81%
Net interest margin (2)	2.70%	3.04%	3.28%	3.28%	4.07%
Efficiency ratio (3)	73.33%	72.09%	73.45%	65.84%	61.06%
Noninterest expense to average total assets	2.45%	2.67%	2.82%	2.45%	2.84%
Average interest-earning assets to average interest-bearing liabilities	108.00%	107.69%	107.70%	109.89%	108.70%
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	0.07%	0.10%	0.13%	0.14%	0.16%
Non-performing loans as a percent of total loans	0.08%	0.12%	0.14%	0.12%	0.17%
Allowance for loan losses as a percent of non-performing loans	809.87%	588.93%	455.19%	478.82%	321.01%
Allowance for loan losses as a percent of total loans	0.69%	0.70%	0.63%	0.57%	0.55%
Capital Ratios:					
Total risk-based capital (to risk weighted assets)	15.77%	15.55%	16.05%	16.86%	17.52%
Tier 1 risk-based capital (to risk weighted assets)	14.79%	14.59%	15.14%	15.99%	16.67%
Tangible capital (to tangible assets)	8.06%	8.30%	8.46%	8.66%	9.00%
Tier 1 leverage (core) capital (to adjusted tangible assets)	8.06%	8.30%	8.49%	8.66%	9.00%
Average equity to average total assets	8.36%	8.55%	8.67%	8.92%	8.99%
Other Data:					
Number of full service offices	12	12	12	12	12

(1) Represents the difference between the weighted-average yield on a fully tax equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

(2) The net interest margin represents net interest income on a fully tax equivalent basis as a percent of average interest-earning assets for the year.

(3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

RECEN T DEVELOPMENTS

The following tables set forth certain financial and other information of ESSA Bank & Trust at the dates and for the periods indicated. The financial data at September 30, 2006 has been derived in part from the audited consolidated financial statements of ESSA Bank & Trust and notes thereto presented elsewhere in this prospectus. The financial data at December 31, 2006 and for the three-month periods ended December 31, 2006 and December 31, 2005 have been derived in part from unaudited consolidated financial statements of ESSA Bank & Trust which, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of such information. The results of operations for the three months ended December 31, 2006 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending September 30, 2007.

	At December 31, 2006	At September 30, 2006
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 771,247	$ 725,796
Cash and cash equivalents	38,959	12,730
Investment securities:		
Available for sale	93,712	89,122
Held to maturity	18,952	19,715
Loans, net	572,776	556,677
FHLB stock	14,399	13,675
Premises and equipment	11,408	11,447
Bank owned life insurance	13,511	13,376
Deposits	448,570	402,153
Borrowed funds	257,000	259,299
Equity	59,212	58,337

	Three Months Ended December 31,	
	2006	2005
	(In thousands)	
Selected Data:		
Interest income	$ 10,094	$ 8,599
Interest expense	5,834	4,403
Net interest income	4,260	4,196
Provision for loan losses	90	75
Net interest income after provision for loan losses	4,170	4,121
Non-interest income	1,428	1,433
Non-interest expense	4,431	4,219
Income before income tax expense	1,167	1,335
Income tax expense	306	390
Net income	861	945

	At or For the Three Months Ended December 31, 2006	2005
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on average assets	0.47	0.57
Return on average equity	5.73	6.77
Interest rate spread (1)	2.20	2.48
Net interest margin (2)	2.45	2.68
Efficiency ratio (3)	77.90	74.95
Noninterest expense to average total assets	2.42	2.55
Average interest-earning assets to average interest-bearing liabilities	108.16	107.93
Asset Quality Ratios:		
Non-performing assets as a percent of total assets	0.07	0.14
Non-performing loans as a percent of total loans	0.10	0.18
Allowance for loan losses as a percent of non-performing loans	708.26	383.42
Allowance for loan losses as a percent of total loans	0.68	0.69
Capital Ratios:		
Total risk-based capital (to risk weighted assets)	15.39	15.54
Tier 1 risk-based capital (to risk weighted assets)	14.42	14.57
Tangible capital (to tangible assets)	7.63	8.25
Tier 1 leverage (core) capital (to adjusted tangible assets)	7.64	8.25
Average equity to average total assets	8.20	8.43
Other Data:		
Number of full service offices	12	12

(1) Represents the difference between the weighted-average yield on a fully tax equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the three months ended December 31, 2006 and 2005.

(2) The net interest margin represents net interest income on a fully tax equivalent basis as a percent of average interest-earning assets for the three months ended December 31, 2006 and 2005.

(3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

Comparison of Financial Condition at December 31, 2006 and September 30, 2006

Total Assets. Total assets increased by $45.4 million, or 6.3%, to $771.2 million at December 31, 2006 from $725.8 million at September 30, 2006. This increase was primarily due to increases in cash and due from banks, interest-bearing deposits with other institutions, investment securities and loans receivable.

Cash and Due from Banks. Cash and due from banks increased $6.8 million, or 58.3% to $18.5 million at December 31, 2006 from $11.7 million at September 30, 2006. The increase was primarily due to increased retail deposit volume at the Bank contributing to an increase in the Banks Federal Reserve Bank balance at December 31, 2006.

Interest-Bearing Deposits with Other Institutions. Interest-bearing deposits with other institutions increased $19.4 million to $20.5 million at December 31, 2006 from $1.1 million at September 30, 2006. An increase in the Bank s retail deposits at December 31, 2006 which was in excess of the Bank s loan and investment securities growth, contributed to an increase in the Bank s Federal Home Loan Bank of Pittsburgh checking account balance of $19.4 million at December 31, 2006 compared to September 30, 2006.

Investment Securities. Investment securities increased $3.9 million, or 3.5% to $112.7 million at December 31, 2006, from $108.8 million at September 30, 2006. This increase was due, in part, to the Bank s investing of funds from new deposits and borrowings in mortgage-backed securities which increased by $13.9 million from September 30, 2006 to December 31, 2006. For the same period the Bank s investment in U.S. Government Obligations decreased by $10.1 million.

Net Loans. Net loans increased $16.1 million, or 2.9%, to $572.8 million at December 31, 2006 from $556.7 million at September 30, 2006. One- to four-family residential mortgages increased by $10.8 million to $463.2 million at December 31, 2006 from $452.4 million at September 30, 2006. For the same time period, commercial real estate loans increased by $4.0 million to $51.5 million from $47.5 million.

Deposits. Deposits increased by $46.4 million, or 11.5% to $448.6 million at December 31, 2006, from $402.2 million at September 30, 2006. The increase in deposits was attributable to increases in non-interest bearing accounts of $13.0 million, money market accounts of $8.9 million and savings and club accounts of $24.4 million. These deposit increases are thought to be in response to the Bank s announced plan of conversion and not attributable to the Bank s normal operations.

Borrowed Funds. Funds borrowed from the Federal Home Loan Bank of Pittsburgh decreased by $2.3 million, or 0.9%, to $257.0 million at December 31, 2006, from $259.3 million at September 30, 2006. The decrease in borrowed funds was primarily attributable to the increase in deposits offset by asset growth.

Total Equity. Total equity increased by $875,000, or 1.5%, to $59.2 million at December 31, 2006 from $58.3 million at September 30, 2006. The increase reflected net income of $861,000 for the three month period ended December 31, 2006 in addition to a $15,000 decrease in other comprehensive losses due to unrealized losses on investment securities available for sale at December 31, 2006.

Comparison of Operating Results for the Three Months Ended December 31, 2006 and December 31, 2005

Net Income. Net income decreased $84,000, or 8.9%, to $861,000 for the quarter ended December 31, 2006 from $945,000 for the comparable 2005 period. The decrease was primarily the result of an increase in total non-interest expense offset in part by an increase in net interest income and a decrease in income taxes.

Net Interest Income. Net interest income increased by $64,000, or 1.5%, to $4.3 million for the quarter ended December 31, 2006 from $4.2 million for the comparable 2005 period. The increase was primarily attributable to an increase in net average interest earnings assets of $6.5 million offset by a 28 basis point decrease in our interest rate spread to 2.20% for the quarter ended December 31, 2006 from 2.48% for the comparable 2005 period.

Interest Income. Interest income increased $1.5 million, or 17.4%, to $10.1 million for the quarter ended December 31, 2006 from $8.6 million for the comparable 2005 period. The increase resulted from a $69.3 million increase in average interest-earning assets combined with a 31 basis point increase in the overall yield on interest earning assets to 5.82% for the quarter ended December 31, 2006, from 5.51% for the comparable 2005 period. Loans increased on average $49.1 million between the two periods, along with increases in the average balances of investment securities of $1.4 million and mortgage-backed securities of $24.8 million. Federal Home Loan Bank of Pittsburgh stock and other interest earning assets decreased by $6.0 million in the aggregate.

Interest Expense. Interest expense increased $1.4 million, or 32.5%, to $5.8 million for the quarter ended December 31, 2006 from $4.4 million for the comparable 2005 period. The increase resulted from a $62.9 million increase in average interest-bearing liabilities, combined with a 59 basis point increase in the overall cost of interest bearing liabilities to 3.62% for the quarter ended December 31, 2006 from 3.03% for the comparable 2005 period. Total interest bearing deposits increased $19.7 million between the two periods along with an increase in the average balance of borrowed funds of $43.2 million.

Provision for Loan Losses. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect a borrower s ability to repay, the estimated value of any underlying collateral, peer group information and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are subject to interpretation and revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision for loan losses of $90,000 for the quarter ended December 31, 2006 as compared to $75,000 for the quarter ended December 31, 2005. The allowance for loan losses was $3.9 million, or 0.68% of loans outstanding at December 31, 2006, compared to $3.6 million, or 0.69% of loans outstanding at December 31, 2005.

Non-interest Income. Non-interest income was flat at $1.4 million for the quarter ended December 31, 2006, as compared to the quarter ended December 31, 2005.

Non-interest Expense. Non-interest expense increased by $212,000, or 5.0%, to $4.4 million for the quarter ended December 31, 2006, from $4.2 million for the comparable 2005 period. Increases in compensation and employee benefits of $247,000, occupancy and equipment of $31,000 and advertising of $53,000 were partially offset by decreases in professional fees of $70,000, data processing of $21,000 and other expenses of $28,000. The increase in compensation and employee benefits was the result of normal merit increases combined with increases in board of director fees, incentive accruals and pension and other benefit costs. The increase in occupancy and equipment costs was the result of increases in lease expense and depreciation expense. Advertising expense increased as a result of our increased efforts to maintain and improve our presence in our market area. Professional fees decreased primarily as a result of the expiration of a third party consulting agreement in August 2006 related to the Bank s overdraft protection product. Data processing costs decreased primarily as a result of the expiration in April 2006 of a third party network consulting agreement. Finally, other expenses decreased primarily due to decreases in deposit related charge-offs and loan processing costs.

Income Taxes. Income tax expense decreased by $84,000, or 21.5%, to $306,000 for the quarter ended December 31, 2006 from $390,000 million for the comparable 2005 period. The effective tax rate was 26.2% for the quarter ended December 31, 2006 compared to 29.2% for the comparable 2005 period.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which can be identified by the use of words such as estimate, project, believe, intend, anticipate, plan, seek, expect, will, may and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, 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.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this prospectus.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- 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;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans;

adverse developments concerning Fannie Mae or Freddie Mac and changes in market interest rates affecting the value of the Fannie Mae and Freddie Mac floating rate preferred stocks in our investment securities portfolio;

changes in our financial condition or results of operations that reduce capital available to pay dividends;

regulatory changes or actions; and

changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see Risk Factors beginning on page 18.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERIN G

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the net proceeds will be between $91.5 million and $124.2 million, or $143.1 million if the offering range is increased by 15%. We estimate that we will contribute to ESSA Bank & Trust between $45.7 million and $62.1 million, or $71.5 million if the offering range is increased by 15%. We intend to retain at the holding company between $37.7 million and $51.3 million of the net proceeds, or $59.7 million if the offering range is increased by 15%, to be used for the purposes described below.

A summary of the anticipated net proceeds at the minimum, midpoint, maximum and adjusted maximum of the offering range and the use of the net proceeds is as follows:

	Based Upon the Sale at $10.00 Per Share of							
	9,350,000 Shares		11,000,000 Shares		12,650,000 Shares		14,547,500 Shares (1)	
	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds
	(Dollars in thousands)							
Stock offering proceeds	$ 93,500		$ 110,000		$ 126,500		$ 145,475	
Less offering expenses	2,017		2,168		2,290		2,420	
Net offering proceeds(2)	$ 91,483	100.0%	$ 107,832	100.0%	$ 124,210	100.0%	$ 143,055	100.0%
Use of net proceeds:								
To ESSA Bank & Trust	$ 45,742	50.0%	$ 53,916	50.0%	$ 62,105	50.0%	$ 71,528	50.0%
To fund loan to employee stock ownership plan	8,004	8.7	9,416	8.7	10,828	8.7	12,453	8.7
Retained by ESSA Bancorp, Inc.	$ 37,738	41.3%	$ 44,500	41.3%	$ 51,277	41.3%	$ 59,075	41.3%

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering, or regulatory considerations.

(2) ESSA Bancorp, Inc. will make the cash contribution to ESSA Bank & Trust Foundation.

Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of ESSA Bank & Trust s deposits. The net proceeds may vary because the total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a syndicated community offering were used to sell shares of common stock not purchased in the subscription and community offerings.

ESSA Bancorp, Inc. May Use the Proceeds it Retains From the Offering:

to fund a loan to the employee stock ownership plan to purchase shares of common stock in the offering (between $8.0 million and $10.8 million, or $12.5 million if the offering is increased by 15%);

to invest in debt securities issued by the United States government and United States government-sponsored agencies or entities;

to finance the acquisition of financial institutions, branches or other financial service companies;

to pay cash dividends to stockholders;

to repurchase shares of our common stock; and

for other general corporate purposes.

Initially, we intend to invest a substantial portion of the net proceeds in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the conversion, except when extraordinary circumstances exist and with prior regulatory approval.

ESSA Bank & Trust May Use the Net Proceeds it Receives From the Offering:

to expand its retail and commercial banking franchise by acquiring or establishing new branches, or by acquiring other financial institutions or other financial services companies;

to fund new loans, including residential first mortgage loans, commercial loans, commercial real estate and home equity loans and lines of credit;

to enhance existing products and services and to support new products and services;

to reduce a portion of our existing borrowings;

to invest in debt securities issued by the United States government and United States government-sponsored agencies or entities; and for other general corporate purposes.

Our short-term and long-term growth plans anticipate that, upon completion of the offering, we will experience measured growth through increased lending and investment activities, *de novo* branching and, possibly, acquisitions, with a particular emphasis on attempting to stimulate internal loan growth. We plan to explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise as a means of supplementing internal growth. We may also consider establishing *de novo* branches or acquiring financial institutions in our market area and contiguous counties.

We have no current arrangements or agreements to acquire other banks, thrifts or financial service companies. We have received regulatory approval to open a new branch office in Tannersville, Pennsylvania which we anticipate opening in May 2007. There can be no assurance that we will be able to consummate any acquisition or establish any other new branches.

Initially, the net proceeds will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

OUR POLICY REGARDING DIVIDENDS

Following completion of the stock offering, our Board of Directors will have the authority to declare dividends on our shares of common stock, subject to statutory and regulatory requirements. However, no decision has been made with respect to the payment of dividends. In determining whether and in what amount to pay a cash dividend, the Board is expected to take into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by Office of Thrift Supervision policy and regulations, may be paid in addition to, or in lieu of, regular cash dividends. We will file a consolidated tax return with ESSA Bank & Trust. Accordingly, it is anticipated that any cash distributions made by ESSA Bancorp, Inc. to its stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes.

Pursuant to our Articles of Incorporation, we are authorized to issue preferred stock. If we issue preferred stock, the holders thereof may have a priority over the holders of our shares of common stock with respect to the payment of dividends. For a further discussion concerning the payment of dividends on our shares of common stock, see Description of Capital Stock Common Stock. Dividends we can declare and pay will depend, in part, upon receipt of dividends from ESSA Bank & Trust, because initially we will have no source of income other than dividends from ESSA Bank & Trust, earnings from the investment of proceeds from the sale of shares of common stock, and interest payments received in connection with the loan to the employee stock ownership plan. A regulation of the Office of Thrift Supervision imposes limitations on capital distributions by savings institutions. See Regulation Dividends. See Regulation by the Pennsylvania Department of Banking Dividends for a discussion of Pennsylvania regulations regarding dividends.

Any payment of dividends by ESSA Bank & Trust to us that would be deemed to be drawn out of ESSA Bank & Trust s bad debt reserves would require a payment of taxes at the then-current tax rate by ESSA Bank & Trust on the amount of earnings deemed to be removed from the reserves for such distribution. ESSA Bank & Trust does not intend to make any distribution to us that would create such a federal tax liability. See Federal Taxation and State Taxation.

Additionally, pursuant to Office of Thrift Supervision regulations, during the three-year period following the stock offering, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

MARKET FOR THE COMMON STOCK

ESSA Bancorp, Inc. has never issued capital stock and there is no established market for it. Shares of our common stock have been approved for trading on the Nasdaq Global Market under the symbol ESSA, subject to completion of the offering and compliance with certain conditions, including the presence of at least three registered and active market makers. Ryan Beck & Co., Inc. has advised us that it intends to make a market in shares of our common stock following the offering, but it is under no obligation to do so or to continue to do so once it begins. While we will attempt before completion of the offering to obtain commitments from at least two other broker-dealers to make a market in shares of our common stock, there can be no assurance that we will be successful in obtaining such commitments.

The development and maintenance of a public market, having the desirable characteristics of depth, liquidity and orderliness, depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of shares of our common stock at any particular time may be limited, which may have an adverse effect on the price at which shares of our common stock can be sold. There can be no assurance that persons purchasing the shares of common stock will be able to sell their shares at or above the $10.00 offering purchase price per share. You should have a long-term investment intent if you purchase shares of our common stock and you should recognize that there may be a limited trading market in the shares of common stock.

HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At September 30, 2006, ESSA Bank & Trust exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of ESSA Bank & Trust at September 30, 2006, and the pro forma regulatory capital of ESSA Bank & Trust, after giving effect to the sale of shares of common stock at a $10.00 per share purchase price. The table assumes the receipt by ESSA Bank & Trust of between $45.7 million and $71.5 million of the net offering proceeds.

	ESSA Bank & Trust Historical at September 30, 2006		Pro Forma at September 30, 2006, Based Upon the Sale in the Offering of							
			9,350,000 Shares		11,000,000 Shares		12,650,000 Shares		14,547,500 Shares (1)	
	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)
					(Dollars in thousands)					
GAAP capital	$ 58,337	8.04%	$ 92,073	12.00%	$ 98,129	12.66%	$ 104,199	13.32%	$ 111,186	14.05%
Tangible capital (3)	$ 58,333	8.06%	$ 92,069	12.02%	$ 98,125	12.69%	$ 104,196	13.34%	$ 111,182	14.08%
Tangible requirement	10,859	1.50	11,488	1.50	11,600	1.50	11,713	1.50	11,842	1.50
Excess	$ 47,474	6.56%	$ 80,581	10.52%	$ 86,525	11.19%	$ 92,483	11.84%	$ 99,340	12.58%
Core capital (3)	$ 58,333	8.06%	$ 92,069	12.02%	$ 98,125	12.69%	$ 104,196	13.34%	$ 111,182	14.08%
Core requirement (4)	28,959	4.00	30,635	4.00	30,934	4.00	31,234	4.00	31,578	4.00
Excess	$ 29,374	4.06%	$ 61,434	8.02%	$ 67,191	8.69%	$ 72,962	9.34%	$ 79,604	10.08%
Total risk-based capital (5)(6)	$ 62,212	15.77%	$ 95,948	23.82%	$ 102,004	25.23%	$ 108,075	26.63%	$ 115,061	28.23%
Risk-based requirement	31,557	8.00	32,224	8.00	32,344	8.00	32,464	8.00	32,601	8.00
Excess	$ 30,655	7.77%	$ 63,724	15.82%	$ 69,660	17.23%	$ 75,611	18.63%	$ 82,460	20.23%
Reconciliation of capital infused into ESSA Bank & Trust:										
Net proceeds			$ 45,742		$ 53,916		$ 62,105		$ 71,528	
Less: Common stock acquired by ESOP			(8,004)		(9,416)		(10,828)		(12,453)	
Less: Common stock acquired by restricted stock plan			(4,002)		(4,708)		(5,414)		(6,226)	
Pro Forma Increase			$ 33,736		$ 39,792		$ 45,863		$ 52,849	

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market or general financial conditions following the commencement of the offering or regulatory considerations.

(2) Tangible and core capital levels are shown as a percentage of total adjusted assets. Risk-based capital levels are shown as a percentage of risk-weighted assets.

(3) The current Office of Thrift Supervision core capital requirement for financial institutions is 3% of total adjusted assets for financial institutions that receive the highest supervisory rating for safety and soundness and a 4% to 5% core capital ratio requirement for all other financial institutions.

(4) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

(5) The difference between GAAP capital and regulatory tangible capital and core capital is attributable to the deduction of $193,000 of intangible assets and the addition of $189,000 of unrealized losses on available for sale securities, net of taxes.

(6) The difference between core capital and total risk-based capital is attributable to the addition of general loan loss reserves of $3.9 million and unrealized gains on available for sale equities of $24,000.

CAPITALIZATION

The following table presents the historical consolidated capitalization of ESSA Bank & Trust, at September 30, 2006 and the pro forma consolidated capitalization of ESSA Bancorp, Inc., a Pennsylvania corporation, after giving effect to the conversion and the offering, based upon the assumptions set forth in the Pro Forma Data section.

	ESSA Bank & Trust Historical at September 30, 2006	Pro Forma, Based Upon the Sale in the Offering of			
		9,350,000 Shares	11,000,000 Shares	12,650,000 Shares	14,547,500 Shares (1)
		(Dollars in thousands)			
Deposits (2)	$ 402,153	$ 402,153	$ 402,153	$ 402,153	$ 402,153
Borrowings	259,299	259,299	259,299	259,299	259,299
Total deposits and borrowed funds	$ 661,452	$ 661,452	$ 661,452	$ 661,452	$ 661,452
Stockholders equity:					
Preferred stock, $0.01 par value, 10,000,000 shares authorized; none to be issued					
Common stock $0.01 par value, 40,000,000 shares authorized; shares to be issued as reflected (3)		100	118	135	156
Additional paid-in capital		97,928	115,414	132,930	153,082
Retained earnings (4)	58,526	58,526	58,526	58,526	58,526
Less:					
Expense of stock contribution to Foundation		(6,545)	(7,700)	(8,855)	(10,183)
Expense of cash contribution to Foundation		(935)	(1,100)	(1,265)	(1,455)
Plus:					
Tax benefit of contribution to Foundation (5)		1,880	1,880	1,880	1,880
Accumulated other comprehensive loss	(189)	(189)	(189)	(189)	(189)
Less:					
Common stock to be acquired by employee stock ownership plan (6)		(8,004)	(9,416)	(10,828)	(12,453)
Common stock to be acquired by stock recognition and retention plan (7)		(4,002)	(4,708)	(5,414)	(6,226)
Total stockholders equity	$ 58,337	$ 138,760	$ 152,825	$ 166,920	$ 183,138
Total stockholders equity as a percentage of total assets	8.04%	17.21%	18.63%	20.01%	21.53%

(1) As adjusted to give effect to an increase in the number of shares of common stock which could occur due to a 15% increase in the offering range to reflect demand for shares, changes in market or general financial conditions following the commencement of the subscription and community offerings or regulatory considerations.

(2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the conversion and offering. These withdrawals would reduce pro forma deposits by the amount of the withdrawals.

(3) No effect has been given to the issuance of additional shares of ESSA Bancorp, Inc. common stock pursuant to a stock option plan. If this plan is implemented, an amount up to 10% of the shares of ESSA Bancorp, Inc. common stock sold in the offering will be reserved for issuance upon the exercise of options under the stock option plan. See Management of ESSA Bancorp, Inc.

(4) The retained earnings of ESSA Bank & Trust will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion Liquidation Rights and Regulation.

(5) Includes valuation allowance against deferred tax asset of $663,000, $1.1 million, $1.6 million and $2.1 million at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

(6) Assumes that 8.0% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from ESSA Bancorp, Inc. The loan will be repaid principally from ESSA Bank & Trust s contributions to the employee stock ownership plan. Since ESSA Bancorp, Inc. will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no liability will be reflected on ESSA Bancorp, Inc. s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders equity.

(7) Assumes a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering will be purchased by the stock recognition and retention plan in open market purchases. The dollar amount of common stock to be purchased is based on the $10.00 per share subscription price in the offering and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As ESSA Bancorp, Inc. accrues compensation expense to reflect the vesting of shares pursuant to the stock recognition and retention plan, the credit to equity will be offset by a charge to noninterest expense. Implementation of the stock recognition and retention plan will require stockholder approval. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by ESSA Bancorp, Inc.

PRO FORMA DATA

The following tables summarize historical data of ESSA Bank & Trust and pro forma data of ESSA Bancorp, Inc. at and for the year ended September 30, 2006. This information is based on assumptions set forth below and in the table, and should not be used as a basis for projections of market value of the shares of common stock following the conversion and offering.

The net proceeds in the tables are based upon the following assumptions:

- all shares of common stock will be sold in the subscription and community offerings;
- 427,000 shares of common stock will be purchased by our executive officers and directors, and their associates;
- our employee stock ownership plan will purchase 8% of the shares of common stock sold in the stock offering and contributed to our charitable foundation with a loan from ESSA Bancorp, Inc. The loan will be repaid in substantially equal payments of principal and interest over a period of 30 years;
- Ryan Beck & Co., Inc. will receive a fee equal to 1% of the dollar amount of the first 10,000,000 shares of common stock sold in the stock offering and 0.75% of the dollar value of all shares of common stock sold thereafter in the stock offering. Shares issued to the charitable foundation or purchased by our employee benefit plans or by our officers, directors and employees, and their immediate families will not be included in calculating the shares of common stock sold, for this purpose; and
- total expenses of the stock offering, including the marketing fees to be paid to Ryan Beck & Co., Inc., will be between $2.0 million at the minimum of the offering range and $2.4 million at the adjusted maximum of the offering range.

We calculated pro forma consolidated net income for the fiscal year ended September 30, 2006 as if the estimated net proceeds we received had been invested at an assumed interest rate of 4.91% (3.24% on an after-tax basis). This represents the one-year U.S. Treasury Bill as of September 30, 2006, which we consider to more accurately reflect the pro forma reinvestment rate than an arithmetic average method in light of current market interests rates.

The following pro forma information may not be representative of the financial effects of the foregoing transactions at the dates on which such transactions actually occur, and should not be taken as indicative of future results of operations. Pro forma consolidated stockholders equity represents the difference between the stated amounts of our assets and liabilities. The pro forma stockholders equity is not intended to represent the fair market value of the shares of common stock. The effect of withdrawals from deposit accounts for the purchase of shares of common stock has not been reflected. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock. No effect has been given in the pro forma stockholders equity calculations for the assumed earnings on the net proceeds. The book value of ESSA Bancorp, Inc. does not take into account intangibles, bad debt reserves or liquidation of assets in the event of a liquidation. It is assumed that ESSA Bancorp, Inc. will loan funds to the employee stock ownership plan, between $8.0 million and $10.8 million of the estimated net proceeds in the offering, or $12.5 million if the offering range is increased by 15%. The actual net proceeds from the sale of shares of common stock will not be determined until the offering is completed. However, we currently estimate the net proceeds to be between $91.5 million and $124.2 million, or $143.1 million if the offering range is increased by 15%. It is assumed that all shares of common stock will be sold in the subscription and community offerings.

	At or For the Year Ended September 30, 2006			
	Based Upon the Sale at $10.00 Per Share of			
	9,350,000 Shares at Minimum Offering Range	11,000,000 at Midpoint Offering Range 11,000,000	12,650,000 at Maximum Offering Range	14,547,500 at Adjusted Maximum of Offering Range (1)
	(Dollars in thousands, except per share amounts)			
Gross proceeds of Offering	$ 93,500	$ 110,000	$ 126,500	$ 145,475
Plus: Shares Issued to the Foundation	6,545	7,700	8,855	10,183
Pro Forma Market Capitalization	$ 100,045	$ 117,700	$ 135,355	$ 155,658
Gross Proceeds of Offering	93,500	110,000	126,500	145,475
Less Expenses	(2,017)	(2,168)	(2,290)	(2,420)
Estimated net proceeds	$ 91,483	$ 107,832	$ 124,210	$ 143,055
Less: Cash Contribution to Foundation	(935)	(1,100)	(1,265)	(1,455)
Less: Common stock purchased by ESOP (2)	(8,004)	(9,416)	(10,828)	(12,453)
Less: Common stock purchased by stock award plan (3)	(4,002)	(4,708)	(5,414)	(6,226)
Estimated net cash proceeds	$ 78,542	$ 92,608	$ 106,702	$ 122,921
For the 12 Months Ended September 30, 2006				
Consolidated net income:				
Historical	$ 3,954	$ 3,954	$ 3,954	$ 3,954
Pro forma income on net proceeds:	2,545	3,001	3,458	3,983
Pro forma ESOP adjustment(2)	(176)	(207)	(238)	(274)
Pro forma stock award adjustment (3)	(528)	(621)	(715)	(822)
Pro forma stock options adjustment (4)	(703)	(827)	(951)	(1,094)
Pro forma net income	$ 5,092	$ 5,300	$ 5,508	$ 5,747
Per share net income				
Historical	$ 0.43	$ 0.37	$ 0.32	$ 0.28
Pro forma income on net proceeds, as adjusted	0.28	0.28	0.28	0.28
Pro forma ESOP adjustment (2)	(0.02)	(0.02)	(0.02)	(0.02)
Pro forma stock award adjustment (3)	(0.06)	(0.06)	(0.06)	(0.06)
Pro forma stock option adjustment (4)	(0.08)	(0.08)	(0.08)	(0.08)
Pro forma net income per share (5)	$ 0.55	$ 0.49	$ 0.44	$ 0.40
Offering price as a multiple of pro forma net earnings per share	18.18	20.41	22.73	25.00
Number of shares outstanding for pro forma net income per share calculations	9,230,819	10,859,787	12,488,755	14,362,068
At September 30, 2006				
Stockholders equity:				
Historical	$ 58,337	$ 58,337	$ 58,337	$ 58,337
Estimated net proceeds	91,483	107,832	124,210	143,055
Plus: Shares issued to Foundation	6,545	7,700	8,855	10,183
Less: Shares issued to Foundation	(6,545)	(7,700)	(8,855)	(10,183)
Less: Cash contribution to Foundation	(935)	(1,100)	(1,265)	(1,455)
Plus: Tax benefit of contribution to Foundation(6)	1,880	1,880	1,880	1,880
Less: Common stock acquired by ESOP (2)	(8,004)	(9,416)	(10,828)	(12,453)
Less: Common stock acquired by stock-based incentive (3) (4)	(4,002)	(4,708)	(5,414)	(6,226)
Pro forma stockholders equity	$ 138,760	$ 152,825	$ 166,920	$ 183,138
Stockholders equity per share:				
Historical	$ 5.83	$ 4.96	$ 4.31	$ 3.75
Estimated net proceeds	9.14	9.16	9.18	9.19

Plus: Shares issued to Foundation	0.65	0.65	0.65	0.65
Less: Shares contribution to Foundation	(0.65)	(0.65)	(0.65)	(0.65)
Less: Cash contribution to Foundation	(0.09)	(0.09)	(0.09)	(0.09)
Plus: Tax benefit of contribution to Foundation (6)	0.19	0.16	0.14	0.12
Less: Common stock acquired by ESOP (2)	(0.80)	(0.80)	(0.80)	(0.80)
Less: Common stock acquired by stock-based incentive plan (3) (4)	(0.40)	(0.40)	(0.40)	(0.40)
Pro forma stockholders equity per share (7)	$ 13.87	$ 12.99	$ 12.34	$ 11.77
Offering price as percentage of pro forma stockholders equity per share	72.10%	76.98%	81.04%	84.96%
Number of shares outstanding for pro forma book value per share calculations	10,004,500	11,770,000	13,535,500	15,565,825

(footnotes begin on following page)

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares, changes in market and financial conditions following the commencement of the offering or regulatory considerations.

(2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from ESSA Bancorp, Inc. ESSA Bank & Trust intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. ESSA Bank & Trust s total annual payments on the employee stock ownership plan debt are based upon 30 equal annual installments of principal and interest. SOP 93-6 requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by ESSA Bank & Trust, the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 34.0%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 26,679, 31,387, 36,095 and 41,509 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with SOP 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of income per share calculations.

(3) If approved by ESSA Bancorp, Inc. s stockholders, the stock recognition and retention plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion). Stockholder approval of the stock recognition and retention plan, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from ESSA Bancorp, Inc. or through open market purchases. The funds to be used by the stock recognition and retention plan to purchase the shares will be provided by ESSA Bancorp, Inc. The table assumes that (i) the stock recognition and retention plan acquires the shares through open market purchases at $10.00 per share, (ii) 20% of the amount contributed to the stock recognition and retention plan is amortized as an expense during the year ended September 30, 2006 and (iii) the stock recognition and retention plan expense reflects an effective combined federal and state tax rate of 34.0%. Assuming stockholder approval of the stock recognition and retention plan and that shares of common stock (equal to 4% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 3.8%.

(4) If approved by ESSA Bancorp, Inc. s stockholders, the stock option plan may grant options to acquire an aggregate number of shares of common stock equal to 10% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion. Stockholder approval of the stock option plan may not occur earlier than six months after the completion of the conversion. In calculating the pro forma effect of the stock option plan, it is assumed that the exercise price of the stock options and the trading price of the common stock at the date of grant were $10.00 per share, the estimated grant-date fair value determined using the Black-Scholes option pricing model was $3.84 for each option, the aggregate grant-date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options, and that 25% of the amortization expense (or the assumed portion relating to options granted to directors) resulted in a tax benefit using an assumed tax rate of 34.0%. The actual expense of the stock option plan will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted. Under the above assumptions, the adoption of the stock option plan will result in no additional shares under the treasury stock method for purposes of calculating earnings per share. There can be no assurance that the actual exercise price of the stock options will be equal to the $10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock option plan are obtained from the issuance of authorized but unissued shares, our net income per share and stockholders equity per share will decrease. The issuance of authorized but previously unissued shares of common stock pursuant to the exercise of options under such plan would dilute existing stockholders ownership and voting interests by approximately 9.1%.

(5) Income per share computations are determined by taking the number of shares assumed to be sold in the offering and, in accordance with SOP 93-6, subtracting the employee stock ownership plan shares that have not been committed for release during the period. See note 2, above.

(6)

Includes valuation allowance against deferred tax asset of $663,000, $1.1 million, $1.6 million and $2.1 million at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively.

(7) The retained earnings of ESSA Bank & Trust will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion Liquidation Rights and Regulation.

COMPARISON OF VALUATION AND PRO FORMA INFORMATION WITH AND WITHOUT THE CHARITABLE FOUNDATION

As reflected in the table below, if the charitable foundation is not established and funded as part of the stock offering, RP Financial, Inc. estimates that our pro forma valuation would be greater and, as a result, a greater number of shares of common stock would be issued in the stock offering. At the minimum, midpoint, maximum and adjusted maximum of the valuation range, our pro forma valuation is $100.0 million, $117.7 million, $135.4 million and $155.7 million with the charitable foundation, as compared to $112.6 million, $132.5 million, $152.4 million and $175.2 million, respectively, without the charitable foundation. There is no assurance that in the event the charitable foundation were not formed, the appraisal prepared at that time would conclude that our pro forma market value would be the same as that estimated in the table below. Any appraisal prepared at that time would be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions. The establishment and funding of the charitable foundation has been approved by the Board of Directors of ESSA Bancorp, Inc. and ESSA Bank & Trust and is subject to approval by members of ESSA Bank & Trust. If the members do not approve the charitable foundation, we may, in our discretion, complete the conversion and stock offering without the inclusion of the charitable foundation and without resoliciting subscribers. We may also determine in our discretion, not to complete the conversion and stock offering if the members do not approve the charitable foundation.

For comparative purposes only, set forth below are certain pricing ratios and financial data and ratios at and for the fiscal year ended September 30, 2006 at the minimum, midpoint, maximum and adjusted maximum of the offering range, assuming the stock offering was completed at September 30, 2006, with and without the charitable foundation.

	9,350,000 Shares Sold		11,000,000 Shares Sold		12,650,000 Shares Sold		14,547,500 Shares Sold	
	With Foundation	Without Foundation(1)	With Foundation	Without Foundation(1)	With Foundation	Without Foundation(1)	With Foundation	Without Foundation(1)
	(Dollars in thousands, except per share amounts)							
Estimated stock offering amount	$ 93,500	$ 112,625	$ 110,000	$ 132,500	$ 126,500	$ 152,375	$ 145,475	$ 175,231
Pro forma market capitalization	100,045	112,625	117,700	132,500	135,355	152,375	155,658	175,231
Estimated pro forma valuation	100,045	112,625	117,700	132,500	135,355	152,375	155,658	175,231
Total assets	806,219	822,707	820,284	840,059	834,379	857,412	850,597	877,368
Total liabilities	667,459	667,459	667,459	667,459	667,459	667,459	667,459	667,459
Pro forma stockholders equity	138,760	155,248	152,825	172,600	166,920	189,953	183,138	209,909
Pro forma net income	5,092	5,510	5,300	5,793	5,508	6,075	5,747	6,402
Pro forma stockholders equity per share	13.87	13.78	12.99	13.02	12.34	12.47	11.77	11.98
Pro forma net income per share	0.55	0.52	0.49	0.46	0.44	0.42	0.40	0.38
Pro forma pricing ratios:								
Offering price as a percentage of pro forma stockholders equity per share	72.10%	72.57%	76.98%	76.80%	81.04%	80.19%	84.96%	83.47%
Offering price to pro forma net income per share	18.18x	19.23x	20.41x	21.74x	22.73x	23.81x	25.00x	26.32x
Pro forma financial ratios:								
Return on assets	0.63%	0.67%	0.65%	0.69%	0.66%	0.71%	0.68%	0.73%
Return on equity	3.67	3.55	3.47	3.36	3.30	3.20	3.14	3.05
Equity to assets	17.21	18.87	18.63	20.55	20.01	22.15	21.53	23.92

(1) The number of shares sold to the public, assuming no charitable foundation would be 11,262,500, 13,250,000, 15,237,500 and 17,523,125 at the minimum, midpoint, maximum and maximum as adjusted, respectively of the offering range.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS OF ESSA BANCORP, INC.

This section is intended to help potential investors understand the financial performance of ESSA Bank & Trust through a discussion of the factors affecting our financial condition at September 30, 2006 and September 30, 2005 and our consolidated results of operations for the years ended September 30, 2006, 2005 and 2004. This section should be read in conjunction with the Consolidated Financial Statements and notes to the financial statements that appear elsewhere in this prospectus. ESSA Bancorp, Inc. did not exist at September 30, 2006, therefore the information reflected in this section reflects the financial performance of ESSA Bank & Trust and its subsidiaries. In this section, we sometimes refer to ESSA Bank & Trust and ESSA Bancorp, Inc. together as ESSA since the financial condition and results of operation of ESSA Bancorp, Inc. will closely reflect the financial condition and results of operation of its operating subsidiary, ESSA Bank & Trust.

Following the completion of the reorganization and offering, we anticipate that our non-interest expense will increase as a result of the increased costs associated with managing a public company, increased compensation expenses associated with the purchases of shares of common stock by our employee stock ownership plan, and the adoption of one or more stock-based incentive plans, if approved by ESSA Bancorp Inc. s stockholders.

Assuming that the adjusted maximum number of shares are sold in the offering and shares are issued to the ESSA Bank & Trust Foundation:

- our employee stock ownership plan will acquire 1,245,266 shares of common stock with a $12.5 million loan that is expected to be repaid over 30 years, resulting in an annual pre-tax expense of approximately $415,000 (assuming that the common stock maintains a value of $10.00 per share);

- our stock option plan would grant options to purchase shares equal to 10% of the total shares issued in the offering or 1,556,583 shares to eligible participants, which would result in compensation expense over the vesting period of the options. Assuming the market price of the common stock is $10.00 per share; all options are granted with an exercise price of $10.00 per share and have a term of 10 years; the dividend yield on the stock is zero; the expected option life is 10 years; the risk free interest rate is 4.64%; and the volatility rate on the common stock is 11.32%, the estimated grant-date fair value of the options utilizing a Black-Scholes option pricing analysis is $3.84 per option granted. Assuming this value is amortized over the five year vesting period, the corresponding annual pre-tax expense associated with the stock option plan would be approximately $1.2 million; and

- our recognition and retention plan would award a number of shares equal to 4% of the shares issued in the offering, or 622,633 shares, to eligible participants, which would be expensed as the awards vest. Assuming that all shares are awarded under the recognition and retention plan at a price of $10.00 per share, and that the awards vest over a five year period, the corresponding annual pre-tax expense associated with shares awarded under the recognition and retention plan would be approximately $1.2 million.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of the shares of common stock as they are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, increases in the stock price above $10.00 per share will increase the total employee stock ownership plan expense, and any accelerated repayment of the loan will increase the annual employee stock ownership plan expense. Further, the actual expense of the recognition and retention plan will be determined by the fair market value of the stock on the grant date, which might be greater than $10.00 per share. The actual expense of the stock option plan will be determined by the grant-date fair value of the options which will depend on a number of factors, including the valuation assumptions used in the Black-Scholes option pricing model.

Overview

Our results of operations depend mainly on our net interest income, which is the difference between the interest income earned on our loan and investment portfolios and interest expense paid on our deposits and borrowed funds. Results of operations are also affected by fee income from banking operations, provisions for loan losses, gains (losses) on sales of loans and other miscellaneous income. Our noninterest expenses consist primarily of compensation and employee benefits, office occupancy, technology, marketing, general administrative expenses and income tax expense.

Our results of operations are also significantly affected by general economic and competitive conditions, particularly with respect to changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially affect our financial condition and results of operations. See Risk Factors beginning on page 18.

Critical Accounting Policies

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

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

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

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

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

Other-than-Temporary Investment Security Impairment. Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amount of taxes recoverable through loss carryback declines, or if we project lower levels of future taxable income. Such a valuation allowance would be established through a charge to income tax expense which would adversely affect our operating results.

Business Strategy

Our business strategy is to grow and improve our profitability by:

- Increasing customer relationships through the offering of excellent service and the distribution of that service through effective delivery systems;

- Continuing to transform into a full service community bank by meeting the financial services needs of our customers;

- Continuing to develop into a high performing financial institution, in part by increasing interest revenue and fee income;

- Remaining within our risk management parameters; and

- Employing affordable technology to increase profitability and improve customer service.

A full description of our products and services begins on page 64 of this prospectus.

We believe that these strategies will guide our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the conversion and the offering, subject to changes necessitated by future market conditions and other factors. We also intend to focus on the following:

- ***Increasing customer relationships through a continued commitment to service and enhancing products and delivery systems.*** We will continue to increase customer relationships by focusing on customer satisfaction with regards to service, products, systems and operations. We have upgraded and expanded certain of our facilities, including our corporate center, to provide additional capacity to manage future growth and expand our delivery systems.

- ***Continuing to transform into a full service community bank.*** We continue to transform from a traditional savings association into a full service community bank. During the last several years, we have begun to offer a wide variety of commercial loans and deposits, as well as trust and brokerage services.

Continuing to develop into a high performing financial institution. We will continue to enhance profitability by focusing on increasing non-interest income as well as increasing commercial products, including commercial real estate lending, which often have a higher profit margin than more traditional products. We also will pursue lower-cost commercial deposits as part of this strategy.

Remaining within our risk management parameters. We place significant emphasis on risk management and compliance training for all of our directors, officers and employees. We focus on establishing regulatory compliance programs to determine the degree of such compliance and to maintain the trust of our customers and community.

Employing cost-effective technology to increase profitability and improve customer service. We will continue to upgrade our technology in an efficient manner. We have implemented new software for marketing purposes and have upgraded both our internal and external communication systems.

Continuing our emphasis on commercial real estate lending to improve our overall performance. We intend to continue to emphasize the origination of higher interest rate margin commercial real estate loans as market conditions, regulations and other factors permit. We have expanded our commercial banking capabilities by adding experienced commercial bankers, and enhancing our direct marketing efforts to local businesses.

Expanding our banking franchise through branching and acquisitions. We will attempt to use the net proceeds from the offering, as well as our new stock holding company structure, to expand our market footprint through *de novo* branching as well as through acquisitions of banks, savings institutions and other financial service providers in our primary market area. We will also consider establishing *de novo* branches or acquiring financial institutions in contiguous counties. We have received regulatory approval to open a new branch office in Tannersville, Pennsylvania which we anticipate opening in May 2007. The branch is being built pursuant to a build and lease agreement with ESSA Bank & Trust as tenant. As such, we are responsible for completing the interior finishes, furnishing and equipping this branch. The total estimated cost for these items is $600,000 of which $300,000 has been disbursed as of December 31, 2006. Funding for this project is expected to come from the Bank s primary sources of liquidity as described under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations of ESSA Bancorp, Inc. There can be no assurance that we will be able to consummate any acquisitions or establish any additional new branches. We may explore acquisition opportunities involving other banks and thrifts, and possibly financial service companies, when and as they arise, as a means of supplementing internal growth, filling gaps in our current geographic market area and expanding our customer base, product lines and internal capabilities, although we have no current plans, arrangements or understandings to make any acquisitions.

Maintaining the quality of our loan portfolio. Maintaining the quality of our loan portfolio is a key factor in managing our growth. We will continue to use customary risk management techniques, such as independent internal and external loan reviews, risk-focused portfolio credit analysis and field inspections of collateral in overseeing the performance of our loan portfolio.

Comparison of Financial Condition At September 30, 2006 and September 30, 2005

Total Assets. Total assets increased by $69.7 million, or 10.6%, to $725.8 million at September 30, 2006 from $656.1 million at September 30, 2005. This increase was primarily due to increases in investment securities and loans receivable which were partially offset by a decrease in commercial paper.

Investment Securities. Investment securities increased $24.8 million, or 29.6% to $108.8 million at September 30, 2006, from $84.0 million at September 30, 2005. This increase was due, in part, to ESSA Bank & Trust s investing of funds from new deposits and borrowings in mortgage-backed securities and, to a lesser extent, United States government and agency obligations.

Commercial Paper. Commercial paper declined from $7.0 million at September 30, 2005 to no outstanding commercial paper at September 30, 2006. This asset matured during fiscal year ended September 30, 2006.

Net Loans. Net loans increased $47.7 million, or 9.4%, to $556.7 million at September 30, 2006 from $509.0 million at September 30, 2005. Loan growth was primarily attributable to growth in several product categories as a result of the economic growth in our market area and our increased marketing efforts. One- to four-family residential mortgages increased by $31.2 million to $452.4 million at September 30, 2006 from $421.2 million at September 30, 2005. For the same time periods, commercial real estate loans increased by $10.5 million to $47.5 million from $37.0 million and home equity and lines of credit increased by $6.5 million to $46.8 million from $40.3 million.

Deposits. Deposits increased by $27.4 million, or 7.3% to $402.2 million at September 30, 2006, from $374.8 million at September 30, 2005. The increase in deposits was attributable to increases in retail certificates of deposit of $29.3 million and brokered certificates of deposit of $7.1 million. Retail certificates of deposits increased in part in response to rate promotions on selected products. These increases were partially offset by decreases in checking products of $859,000 and other savings products of $8.2 million. At September 30, 2006, we had $28.3 million of brokered certificates of deposit outstanding.

Borrowed Funds. Funds borrowed from the Federal Home Loan Bank of Pittsburgh increased by $37.8 million, or 17.1%, to $259.3 million at September 30, 2006, from $221.5 million at September 30, 2005. The increase in borrowed funds, combined with the increase in deposits was used to fund increases in loans and the purchase of investment securities.

Total Equity. Total equity increased by $4.0 million, or 7.3%, to $58.3 million at September 30, 2006 from $54.4 million at September 30, 2005. The increase reflected net income of $4.0 million in addition to a $12,000 decrease in other comprehensive losses due to unrealized losses on investment securities available for sale at September 30, 2006.

The decrease in unrealized losses on investments was due to changes in the composition of the investment securities portfolio combined with changes in interest rates. Management concluded that none of our impaired securities have impairments that are other than temporary.

Comparison of Operating Results For The Years Ended September 30, 2006 and September 30, 2005

Net Income. Net income decreased $497,000, or 11.2%, to $4.0 million for fiscal year 2006 from $4.5 million for fiscal year 2005. The decrease was primarily the result of a decrease in net interest income and an increase in total non-interest expense, and an increase in income taxes, partially offset by an increase in total non-interest income.

Net Interest Income. Net interest income decreased by $362,000, or 2.1%, to $17.2 million for fiscal year 2006 from $17.6 million for fiscal year 2005. The decrease was primarily attributable to a 39 basis point decrease in our interest rate spread to 2.46% for fiscal year 2006 from 2.85% for fiscal year 2005. The decrease in the net interest margin was due to average yields on interest-earning assets increasing at a slower pace than the cost of interest-bearing liabilities. During fiscal year 2006, the Federal Reserve Board of Governors increased the federal funds rates six times.

The tables on pages 57 and 58 set forth the components of our net interest income, yields on interest-earning assets and costs of interest-bearing liabilities, and the effect on net interest income arising from changes in volumes and rates.

Interest Income. Interest income increased $4.5 million, or 14.2%, to $36.5 million for fiscal year 2006 from $31.9 million for fiscal year 2005. The increase resulted from a $59.8 million increase in average interest-earning assets which had the effect of increasing interest income by $3.2 million. In addition, there was a 19 basis point increase in the overall yield on interest earning assets to 5.68% for fiscal year 2006, from 5.49% for fiscal year 2005 which increased interest income by $1.3 million. Loans increased on average $39.4 million between the two periods, along with increases in the average balances of investment securities of $16.7 million and mortgage-backed securities of $4.3 million. Federal Home Loan Bank of Pittsburgh stock and other interest earning assets decreased by $643,000 in the aggregate. The average yield on loans increased to 5.95% for the fiscal year 2006, from 5.84% for the fiscal year 2005. The average yields on investment securities increased to 4.49% from 3.87% and the average yield on mortgage backed securities increased to 4.30% from 3.67% for the 2006 and 2005 periods, respectively.

Interest Expense. Interest expense increased $4.9 million, or 34.2%, to $19.2 million for fiscal year 2006 from $14.3 million for fiscal year 2005. The increase resulted from a $53.8 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $2.5 million. In addition, there was a 58 basis point increase in the overall cost of interest-bearing liabilities to 3.22% for fiscal year 2006 from 2.64% for fiscal year 2005, which increased interest expense by $2.4 million. Money market and savings accounts decreased in the aggregate by approximately $11.0 million, while certificates of deposits increased in the aggregate by $47.8 million between the two periods. The average balance of borrowed funds increased $18.9 million during the same comparative periods. The cost of certificates of deposit increased to 4.02% for fiscal year 2006 from 3.32% for fiscal year 2005. The cost of borrowed funds increased to 4.47% from 4.05% for the same respective periods. The additional deposits and borrowings were used to fund increases in loans and to purchase investment securities.

Provision for Loan Losses. ESSA Bank & Trust establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. 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 the 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 susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision of $300,000 for fiscal year 2006 compared to a $550,000 provision for year ended 2005. The allowance for loan losses was $3.9 million, or 0.69% of loans outstanding at September 30, 2006, compared to $3.6 million, or 0.70% of loans outstanding at September 30, 2005.

Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a quarterly basis, and establishes the provision for loan losses based on the factors set forth in the preceding paragraph. Historically, our loan portfolio has consisted primarily of one- to four-family residential mortgage loans. However, our current business plan calls for increases in commercial real estate loan originations. As management evaluates the allowance for loan losses, the increased risk associated with larger non-homogenous commercial real estate may result in large additions to the allowance for loan losses in future periods. Loans secured by commercial real estate generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

Although we believe that we use the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary, based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of Thrift Supervision, as an integral part of its examination process, will periodically review our allowance for loan losses. This agency may require us to recognize adjustments to the allowance, based on its judgments about information available to it at the time of its examination.

Non-interest Income. Non-interest income increased by $237,000, or 4.5%, to $5.5 million for fiscal year 2006, from $5.3 million for fiscal year 2005. The increase was primarily due to an increase in trust and investment fees of $238,000, partially offset by decreases in gains on sale of loans, net and other non-interest income. The increase in trust and investment fees was due primarily to the addition, by ESSA Bank & Trust of a trust officer and the addition by PRIMEVEST Financial Services, Inc. of two brokers. Other non-interest income decreased by $142,000 for fiscal year 2006 included approximately $45,000 in losses on asset disposals along with a reduction in rental income of approximately $25,000. Other non-interest income for fiscal year 2005 included approximately $47,000 received by us as a result of the sale of the Pulse Electronic Funds Transfer Network to Discover. Additionally, fiscal year 2005 included a $130,000 charge for an other than temporary decline in the value of one of our investment securities.

Non-interest Expense. Non-interest expense increased by $192,000, or 1.2%, to $16.7 million for fiscal year 2006, from $16.5 million for fiscal year 2005. Increases in compensation and employee benefits of $159,000, occupancy and equipment of $177,000, and advertising of $100,000 were partially offset by decreases in professional fees of $92,000 and data processing of $77,000. The increase in compensation and employee benefits was the result of normal merit increases combined with increases in health insurance, pension, and other benefit costs. The increase in occupancy and equipment was the result of increases in depreciation and real estate taxes related to ESSA Bank & Trust s property and equipment. Advertising expense increased as a result of our increased efforts to maintain and improve our presence in our market area. Professional fees decreased primarily due to the fact that several miscellaneous, short-term consulting engagements in fiscal year 2005 were not repeated in fiscal year 2006. Data processing decreased primarily as a result of a decrease in the cost of processing ESSA Bank & Trust s student loans which were substantially sold during fiscal year 2005.

Income Taxes. Income tax expense was $1.8 million for fiscal year 2006, an increase of $430,000, or 31.1%, compared to $1.4 million for fiscal year 2005. The effective tax rate was 31.4% in fiscal year 2006 compared to 23.7% in fiscal year 2005, principally due to the elimination of certain over-accruals for income taxes in fiscal year 2005, and an adjustment to deferred taxes and income tax expense for timing differences related to depreciation in 2006.

Comparison of Operating Results For The Years Ended September 30, 2005 and September 30, 2004

Net Income. Net income increased $536,000, or 13.7%, to $4.5 million for fiscal year 2005 from $3.9 million for fiscal year 2004. The increase was primarily the result of an increase in net interest income an increase in total non-interest income partially offset by an increase in income taxes and an increase in total non-interest expense.

Net Interest Income. Net interest income increased by $719,000, or 4.3%, to $17.6 million for fiscal year 2005 from $16.9 million for fiscal year 2004. The increase was primarily attributable to the growth of our total interest earning assets offset by a 25 basis point decrease in our interest rate spread to 2.85% for fiscal year 2005 from 3.10% for fiscal year 2004. The decrease in the interest rate spread was due to the yields on interest-earning assets decreasing while the costs of interest-bearing liabilities increased. During fiscal year 2005, the Federal Reserve Board of Governors increased the federal funds rates eight times.

The tables on pages 57 and 58 set forth the components of our net interest income, yields on interest-earning assets and costs of interest-bearing liabilities, and the effect on net interest income arising from changes in volumes and rates.

Interest Income. Interest income increased $3.1 million, or 10.8%, to $31.9 million for fiscal year 2005 from $28.8 million for fiscal year 2004. The increase resulted from a $64.4 million increase in average interest-earning assets which had the effect of increasing interest income by $3.3 million. Partially offsetting the increase in interest income was an 8 basis point decrease in the overall yield on interest earning assets to 5.49% for fiscal year 2005, from 5.57% for fiscal year 2004 which decreased interest income by $174,000. Loans increased on average $37.4 million between the two periods, along with increases in the average balances of investment securities of $16.6 million and mortgage-backed securities of $14.1 million. Federal Home Loan Bank stock and other interest earning assets decreased by $3.6 million in the aggregate. The average yield on loans decreased to 5.84% for the fiscal year 2005, from 5.95% for the fiscal year 2004. The average yields on investment securities decreased to 3.87% from 4.63% and the average on mortgage backed securities yield increased to 3.67% from 3.13% for the 2005 and 2004 periods, respectively.

Interest Expense. Interest expense increased $2.4 million, or 20.0%, to $14.3 million for fiscal year 2005 from $11.9 million for fiscal year 2004. The increase resulted from a $59.8 million increase in average interest-bearing liabilities, which had the effect of increasing interest expense by $2.4 million. In addition, there was a 17 basis point increase in the overall cost of interest-bearing liabilities to 2.64% for fiscal year 2005 from 2.47% for fiscal year 2004 which increased interest expense by $14,000. Money market and savings accounts decreased in the aggregate by approximately $1.8 million, while certificates of deposits increased in the aggregate by approximately $17.1 million between the two periods. The average balance of borrowed funds increased $44.7 million during the same comparative periods. The cost of certificates of deposit increased to 3.32% for fiscal year 2005 from 3.20% for fiscal year 2004. The cost of borrowed funds decreased to 4.05% from 4.21% for the same respective periods. The additional deposits and borrowings were used to fund increases in loans and to purchase investment securities.

Provision for Loan Losses. ESSA Bank & Trust establishes provisions for loan losses, which are charged to earnings, at a level necessary to absorb known and inherent losses that are both probable and reasonably estimable at the date of the financial statements. 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 the 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 susceptible to significant revision as more information becomes available or as future events occur. After an evaluation of these factors, management made a provision of $550,000 for fiscal year 2005 compared to a $530,000 provision for year ended 2004. The allowance for loan losses was $3.6 million or 0.70% of loans outstanding at September 30, 2005, compared to $3.0 million, or 0.63% of loans outstanding at September 30, 2004.

Non-interest Income. Non-interest income increased by $1.0 million, or 23.4%, to $5.3 million for fiscal year 2005, from $4.3 million for fiscal year 2004. The increase was primarily due to increases in service fees on deposit accounts of $922,000, net gain on sale of loans of $96,000, earnings on bank-owned life insurance of $126,000 and other non-interest income of $87,000. The increase in service fees on deposit accounts resulted primarily from increases in non-sufficient fund charges attributable to a new overdraft protection program implemented in May of 2004. The earnings on bank-owned life insurance increased during fiscal year 2005 because 2005 included twelve months of earnings on bank-owned life insurance and fiscal year 2004 included ten months of earnings as a result of when the insurance was originally purchased. ESSA Bank & Trust also purchased an additional $2.0 million of bank-owned life insurance during fiscal year 2005. Other non-interest income for fiscal year 2005 included approximately $47,000 received by ESSA Bank & Trust as a result of the sale of the Pulse Electronic Funds Transfer Network to Discover. The increases described above were partially offset by a charge during fiscal year 2005 for an other than temporary decline in the value of one of our investment securities of $130,000.

Non-interest Expense. Non-interest expense increased by $953,000, or 6.1%, to $16.5 million for fiscal year 2005, from $15.5 million for fiscal year 2004. Increases in compensation and employee benefits of $1.2 million and occupancy and equipment of $164,000 were partially offset by decreases in professional fees of $127,000 and data processing of $267,000. The increase in compensation and employee benefits was the result of normal merit increases, increases in incentive compensation and increases in health insurance, pension, and other benefit costs. The increase in occupancy and equipment was the result of increases in depreciation and real estate taxes related to ESSA Bank & Trust s property and equipment.

Income Taxes. Income tax expense was $1.4 million for fiscal year 2005, an increase of $211,000, or 18.0%, compared to $1.2 million for fiscal year 2004. The effective tax rate was 23.7% in fiscal year 2005 compared to 23.0% in fiscal year 2004.

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated, as well as balances and average yields and costs at September 30, 2006. All average balances are monthly 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.

	At September 30, 2006	For the Years Ended September 30,								
		2006			2005			2004		
	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
					(Dollars in thousands)					
Interest-earning assets:										
Loans[(1) (2)]	5.93%	$ 533,351	$ 31,744	5.95%	$ 493,918	$ 28,829	5.84%	$ 456,566	$ 27,152	5.95%
Investment securities										
Taxable[(3)]	4.34%	44,678	1,848	4.14%	28,366	906	3.19%	11,644	386	3.32%
Exempt from federal income tax[(3) (4)]	7.15%	5,894	278	7.15%	5,513	267	7.34%	5,647	274	7.35%
Total investment securities	4.67%	50,572	2,126	4.49%	33,879	1,173	3.87%	17,291	660	4.63%
Mortgage-backed securities	4.72%	40,247	1,731	4.30%	35,963	1,319	3.67%	21,882	684	3.13%
Federal Home Loan Bank stock	5.25%	12,115	519	4.28%	11,604	317	2.73%	9,615	124	1.29%
Other	5.33%	7,422	331	4.46%	8,576	281	3.28%	14,198	190	1.34%
Total interest-earning assets	5.72%	643,707	36,451	5.68%	583,940	31,919	5.49%	519,552	28,810	5.57%
Allowance for loan losses		(3,694)			(3,292)			(2,748)		
Noninterest-earning assets		39,875			37,769			34,010		
Total assets		$ 679,888			$ 618,417			$ 550,814		
Interest-bearing liabilities:										
NOW accounts	0.07%	$ 59,709	44	0.07%	$ 61,562	79	0.13%	$ 61,792	100	0.16%
Money market accounts	2.78%	31,618	687	2.17%	33,386	421	1.26%	33,078	245	0.74%
Savings and club accounts	0.40%	79,452	355	0.45%	88,727	388	0.44%	90,853	442	0.49%
Certificates of deposit	4.40%	197,064	7,926	4.02%	149,267	4,963	3.32%	132,119	4,224	3.20%
Borrowed funds	4.68%	228,198	10,205	4.47%	209,284	8,472	4.05%	164,563	6,922	4.21%
Total interest-bearing liabilities	3.55%	596,041	19,217	3.22%	542,226	14,323	2.64%	482,405	11,933	2.47%
Non-interest bearing demand accounts		21,383			17,527			13,281		
Noninterest-bearing liabilities		5,650			5,815			7,359		
Total liabilities		623,074			565,568			503,045		
Equity		56,814			52,849			47,769		
Total liabilities and equity		$ 679,888			$ 618,417			$ 550,814		

Net interest income			$ 17,234			$ 17,596			$ 16,877	
Interest rate spread	2.17%			2.46%			2.85%			3.10%
Net interest-earning assets		$ 47,666			$ 41,714			$ 37,174		
Net interest margin(5)	2.41%			2.70%			3.04%			3.28%
Average interest-earning assets to average interest-bearing liabilities	107.31%	108.00%			107.69%			107.70%		

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

(2) Interest income on loans includes net amortized revenues (costs) on loans totaling $603,000 for 2006, $748,000 for 2005, and $955,000 for 2004.

(3) Held to maturity securities are reported as amortized cost. Available for sale securities are reported at fair value.

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

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

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Years Ended September 30, 2006 vs. 2005			For the Years Ended September 30, 2005 vs. 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
			(In thousands)			
Interest-earning assets:						
Loans	$ 2,338	$ 577	$ 2,915	$ 2,188	$ (511)	$ 1,677
Investment securities	719	234	953	663	(150)	513
Mortgage-backed securities	168	244	412	500	135	635
Federal Home Loan Bank stock	15	187	202	30	163	193
Other	(42)	92	50	(98)	189	91
Total interest-earning assets	3,198	1,334	4,532	3,283	(174)	3,109
Interest-bearing liabilities:						
NOW accounts	(2)	(33)	(35)		(21)	(21)
Money market accounts	(23)	289	266	2	174	176
Savings and club accounts	(41)	8	(33)	(10)	(44)	(54)
Certificates of deposit	1,790	1,173	2,963	565	174	739
Borrowed funds	803	930	1,733	1,819	(269)	1,550
Total interest-bearing liabilities	2,527	2,367	4,894	2,376	14	2,390
Net change in interest income	$ 671	$ (1,033)	$ (362)	$ 907	$ (188)	$ 719

Management of Market Risk

General. 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 of the Board of Directors 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 offering will increase our capital and provide management with greater flexibility to manage our interest rate risk. In particular, management intends to leverage the capital we receive to increase our interest-earning assets.

Net Portfolio Value. The Office of Thrift Supervision requires the computation of amounts by which the net present value of an institution s cash flow from assets, liabilities and off balance sheet items (the institution s net portfolio value or NPV) would change in the event of a range of assumed changes in market interest rates. The Office of Thrift Supervision provides all institutions that file a Consolidated Maturity/Rate Schedule as a part of their quarterly Thrift Financial Report with an interest rate sensitivity report of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to measuring the interest rate sensitivity of net portfolio value. Historically, the Office of Thrift Supervision model estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points (200 basis points in the event of an interest rate decrease) in 100 basis point increments. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below. The Office of Thrift Supervision provides us the results of the interest rate sensitivity model, which is based on information we provide to the Office of Thrift Supervision to estimate the sensitivity of our net portfolio value.

The table below sets forth, as of September 30, 2006, the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the United States Treasury yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

		Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
Change in Interest Rates (basis points) (1)	**Estimated NPV (2)**	**Amount**	**Percent**	**NPV Ratio (4)**	**Increase (Decrease) (basis points)**
	(Dollars in thousands)				
+300	$ 45,309	$ (32,668)	(42)%	6.58%	(393)
+200	57,675	(20,302)	(26)	8.15	(236)
+100	69,063	(8,914)	(11)	9.52	(99)
	77,977			10.51	
-100	83,624	5,647	7	11.06	55
-200	85,574	7,597	10	11.17	66

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.

(4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at September 30, 2006, in the event of an immediate 100 basis point decrease in interest rates, we would experience a 7% increase in net portfolio value. In the event of an immediate 100 basis point increase in interest rates, we would experience a 11% decrease in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

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, amortization and prepayment 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 Federal Home Loan Bank advances. 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 September 30, 2006, $12.7 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 $23.5 million at September 30, 2006. As of September 30, 2006, we had $259.3 million in borrowings outstanding from the Federal Home Loan Bank of Pittsburgh and we have access to additional Federal Home Loan Bank advances of up to approximately $200.0 million.

At September 30, 2006, we had $53.0 million in loan commitments outstanding, which included $15.7 million in undisbursed construction loans, $21.2 million in unused home equity lines of credit, $5.2 million in commercial lines of credit and $7.3 million to originate primarily multi-family and nonresidential mortgage loans. Certificates of deposit due within one year of September 30, 2006 totaled $147.2 million, or 70.3% 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 September 30, 2007. 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 $1.8 million, $4.9 million and $3.1 million for the years ended September 30, 2006, 2005 and 2004, 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 in investing activities was $75.2 million, $63.8 million and $82.8 million in fiscal years 2006, 2005 and 2004, respectively, principally reflecting our loan and investment security activities in the respective periods. Investment security cash flows had the most significant effect, as net cash utilized in purchases amounted to $52.2 million, $44.3 million and $48.9 million in the years ended September 30, 2006, 2005 and 2004, respectively. Deposit and borrowing cash flows have comprised most of our financing activities which resulted in net cash provided of $65.8 million in fiscal year 2006, $57.7 million in fiscal year 2005 and $58.1 million in fiscal year 2004. The net effect of our operating, investing and financing activities was to reduce our cash and cash equivalents from $43.1 million at the beginning of fiscal year 2004 to $12.7 million at the end of fiscal year 2006.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2006. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
			(In thousands)		
Long-term debt	$ 27,493	$ 108,837	$ 78,754	$ 43,689	$ 258,773
Operating leases	210	297	134	209	850
Certificates of deposit	150,142	47,242	21,412		218,796
Total	$ 177,845	$ 156,376	$ 100,300	$ 43,898	$ 478,419
Commitments to extend credit	$ 35,525	$ 528	$ 5,674	$ 14,043	$ 55,770

We also have obligations under our post retirement plan as described in Note 13 to the Consolidated Financial Statements. The post retirement benefit payments represent actuarially determined future payments to eligible plan participants. We expect to contribute $536,000 to our post retirement plan in 2007. In addition, as part of the reorganization and offering, the employee stock ownership plan trust intends to borrow funds from ESSA Bancorp, Inc. and use those funds to purchase a number of shares equal to 8% of the common stock issued in the offering.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transaction involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see note 11 of the notes to the Consolidated Financial Statements.

For fiscal year 2006, we did not engage in any off-balance-sheet transactions other than loan origination commitments and standby letters of credit in the normal course of our lending activities.

Recent Accounting Pronouncements

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Instruments* (FAS No. 155), an amendment of FASB Statements No. 133 and 140. FAS No.

155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on our results of operations or financial position.

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* (FAS No. 156). This Statement, which is an amendment to FAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, FAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. FAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability, requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either of the amortization or fair value methods for subsequent measurement. The provisions of FAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. We are currently evaluating the impact the adoption of the standard will have on our results of operations.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements* (FAS No. 157), which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on our results of operations or financial position.

In September 2006, the FASB issued FAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans* (FAS No. 158), an amendment of FASB Statements No. 87, 88, 106 and 132(R). FAS No. 158 requires that a company recognize the overfunded or underfunded status of its defined benefit post retirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and that it recognize changes in the funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the fiscal year end, in addition to footnote disclosures. FAS No. 158 is effective for fiscal years ending after December 15, 2006. We are currently evaluating the impact the adoption of the standard will have on our financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 is an interpretation of FAS No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN No. 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact the adoption of the standard will have on our results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, providing guidance on quantifying financial statement misstatement and implementation when first applying this guidance. Under SAB No. 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that existed in prior years existing in the current year s ending balance sheet. SAB 108 is effective for fiscal years ending after November 15, 2006. We are currently evaluating the impact the adoption of the standard will have on our results of operations.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF 06-4 requires that for a split-dollar life insurance arrangement within the scope of the Issue, an employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact the adoption of the standard will have on our results of operations or financial condition.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task force Issue 06-5 (EITF 06-5), *Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin* No. 85.4, Accounting for Purchases of Life Insurance. EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact the adoption of the standard will have on our results of operations or financial condition.

Impact of Inflation and Changing Prices

The financial statements and related notes of ESSA Bank & Trust have been prepared in accordance with United States generally accepted accounting principles (GAAP). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

BUSINESS OF ESSA BANCORP, INC.

ESSA Bancorp, Inc. is incorporated in the Commonwealth of Pennsylvania. We have not engaged in any business to date. Upon completion of the conversion, we will own all of the issued and outstanding stock of ESSA Bank & Trust. We will retain up to 50% of the net proceeds from the offering and invest 50% of the remaining net proceeds in ESSA Bank & Trust as additional capital in exchange for 100% of the outstanding common stock of ESSA Bank & Trust ESSA Bancorp, Inc. will use a portion of the net proceeds to make a loan to the employee stock ownership plan. At a later date, we may use the net proceeds to pay dividends to stockholders and may repurchase shares of common stock, subject to regulatory limitations. We will invest our initial capital as discussed in How We Intend to Use the Proceeds from the Offering.

In the future, ESSA Bancorp, Inc., as the holding company of ESSA Bank & Trust, will be authorized to pursue other business activities permitted by applicable laws and regulations, which may include the acquisition of banking and financial services companies. See Regulation Holding Company Regulation for a discussion of the activities that are permitted for savings and loan holding companies. We currently have no specific arrangements or understandings regarding any specific acquisition transaction. We may also borrow funds for reinvestment in ESSA Bank & Trust.

Following the offering, our cash flow will depend on earnings from the investment of the net proceeds from the offering that we retain, and any dividends received from ESSA Bank & Trust. Initially, ESSA Bancorp, Inc. will neither own nor lease any property, but will instead pay a fee to ESSA Bank & Trust for the use of its premises, equipment and furniture of ESSA Bank & Trust. At the present time, we intend to employ only persons who are officers of ESSA Bank & Trust to serve as officers of ESSA Bancorp, Inc. We will, however, use the support staff of ESSA Bank & Trust from time to time. We will pay a fee to ESSA Bank & Trust for the time devoted to ESSA Bancorp, Inc. by employees of ESSA Bank & Trust. However, these persons will not be separately compensated by ESSA Bancorp, Inc. ESSA Bancorp, Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

BUSINESS OF ESSA BANK & TRUST

General

ESSA Bank & Trust was organized in 1916. ESSA Bank & Trust is a full-service, community-oriented savings association with total assets of $725.8 million, total net loans of $556.7 million, total deposits of $402.2 million and total equity of $58.3 million at September 30, 2006. We provide financial services to individuals, families and businesses through our 12 full-service banking offices, located in Monroe and Northampton Counties, Pennsylvania.

ESSA Bank & Trust s business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in residential first mortgage loans (including construction mortgage loans), commercial real estate loans, home equity loans and lines of credit, commercial loans as well as agency securities and mortgage-backed securities. In addition, we also offer asset management and trust services. We offer investment services through our relationship with PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor.

Market Area

At September 30, 2006, our 12 full-service banking offices consisted of 11 offices in Monroe County, and one office in Northampton County, Pennsylvania. Our primary market for deposits is currently concentrated around the areas where our full-service banking offices are located. Our primary lending area consists of the counties where our branch offices are located, and to a lesser extent the contiguous counties in the Commonwealth of Pennsylvania.

Monroe County is located in eastern Pennsylvania, situated 90 miles north of Philadelphia, 75 miles west of New York and 116 miles northeast of Harrisburg. Monroe County is comprised of 611 square miles of mostly rural terrain. Monroe County is the second-fastest growing county in Pennsylvania. Major industries include tourism, construction and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. As of June 30, 2006, we have deposit market share of approximately 19.2% in Monroe County, which represented the second largest deposit market share in Monroe County and less than 1% in Northampton County.

Lending Activities

Historically, our principal lending activity has been the origination of first mortgage loans for the purchase or refinancing of one- to four-family residential real property. During the past five years, we have increased our originations of commercial real estate loans in an effort to increase interest income. These loans have increased from 2.6% of our total loan portfolio at November 30, 2002 to 8.4% of our total loan portfolio at September 30, 2006. One- to four-family residential real estate mortgage loans represented $452.4 million, or 80.4%, of our loan portfolio at September 30, 2006. Construction first mortgage loans totaled $5.9 million, or 1.1% of the total loan portfolio at September 30, 2006. Commercial real estate loans totaled $47.5 million, or 8.4% of our total loan portfolio at September 30, 2006, and home equity loans and lines of credit totaled $46.8 million, or 8.3% of the total loan portfolio at September 30, 2006. We originate other consumer loans on a limited basis.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At September 30,								At November 30,	
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Residential first mortgage loans:										
One- to four-family	$ 452,406	80.4%	$ 421,169	81.7%	$ 399,233	82.4%	$ 378,744	85.2%	$ 336,399	84.9%
Construction	5,943	1.1	7,597	1.5	8,309	1.7	6,093	1.4	7,504	1.9
Commercial	6,159	1.1	5,310	1.0	2,468	0.5	2,255	0.5	1,368	0.3
Commercial real estate	47,479	8.4	36,984	7.2	29,439	6.1	18,615	4.1	10,418	2.6
Home equity loans and lines of credit	46,796	8.3	40,342	7.8	34,256	7.1	26,653	6.0	25,697	6.5
Other	4,247	0.7	4,204	0.8	10,720	2.2	12,358	2.8	14,962	3.8
Total loans receivable	$ 563,030	100.0%	$ 515,606	100.0%	$ 484,425	100.0%	$ 444,718	100.0%	$ 396,348	100.0%
Deferred loan costs (fees)	(2,498)		(3,062)		(3,442)		(3,670)		(3,652)	
Allowance for loan losses	(3,855)		(3,563)		(3,027)		(2,509)		(2,154)	
Total loans receivable, net	$ 556,677		$ 508,981		$ 477,956		$ 438,539		$ 390,542	

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2006. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to Four-Family		Construction		Commercial		Commercial Real Estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending September 30,								
2007	$ 245	6.53%	$ 170	6.25%	$ 2,341	7.35%	$ 5,604	8.67%
2008	631	6.43			63	6.76	812	8.12
2009	1,042	6.34			127	7.05	202	7.13
2010 to 2011	2,334	5.88	49	6.30	735	7.33	4,099	6.79
2012 to 2016	35,760	5.27			759	7.21	28,109	6.65
2017 to 2021	139,904	5.23	65	6.25			6,805	6.45
2021 and beyond	272,490	5.95	5,659	6.35	2,134	5.43	1,848	7.05
Total	$ 452,406		$ 5,943		$ 6,159		$ 47,479	

	Home Equity Loans and Lines of Credit		Other		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)					
Due During the Years Ending September 30,						
2007	$ 74	6.09%	$ 2,312	8.04%	$ 10,746	8.14%
2008	363	5.18	196	8.97	2,065	7.13
2009	702	5.66	461	8.73	2,534	6.68
2010 to 2011	3,619	5.86	854	7.37	11,690	6.39
2012 to 2016	9,015	6.38	424	7.35	74,067	5.96
2017 to 2021	14,738	6.69			161,512	5.42
2021 and beyond	18,285	8.00			300,416	6.09
Total	$ 46,796		$ 4,247		$ 563,030	

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2006 that are contractually due after September 30, 2007.

	Due After September 30, 2007		
	Fixed	Adjustable	Total
	(In thousands)		
Residential first mortgage loans:			
One- to four-family	$ 396,189	55,972	452,161
Construction	5,773		5,773
Commercial	3,260	558	3,818
Commercial real estate	18,396	23,479	41,875
Home equity loans and lines of credit	28,018	18,704	46,722
Other	1,935		1,935
Total	$ 453,571	$ 98,713	$ 552,284

Loan Originations and Repayments. Historically, we have originated residential mortgage loans pursuant to underwriting standards that generally conform to Fannie Mae and Freddie Mac guidelines. Loan origination activities are primarily concentrated in Monroe and Northampton Counties, Pennsylvania. New loans are generated primarily from walk-in customers, customer referrals, a network of mortgage brokers, and other parties with whom we do business, and from the efforts of employees and advertising. Loan applications are underwritten and processed at our corporate center.

One- to Four-Family Residential Loans. Historically, our primary lending activity has consisted of the origination of one- to four-family residential mortgage loans secured primarily by properties located in Monroe and Northampton Counties, Pennsylvania. At September 30, 2006, approximately $452.4 million, or 80.4% of our loan portfolio, consisted of one- to four-family residential loans. Our origination of one- to four-family loans increased in fiscal year 2006 compared to fiscal years 2005 and 2004, although such loans are declining as a percentage of our total loan portfolio. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, although loans may be made with higher loan-to-value ratios at a higher interest rate to compensate for the risk. Private mortgage insurance is generally required on loans with a loan-to-value ratio in excess of 80%. Fixed-rate loans are originated for terms of 10, 15, 20 and 30 years. At September 30, 2006, our largest loan secured by one- to four-family real estate had a principal balance of approximately $605,000 and was secured by a single-family residence. This loan was performing in accordance with its terms.

We also offer adjustable-rate mortgage loans which have fixed terms of one, three, five or ten-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated $11.9 million of adjustable rate one- to four-family residential loans during the year ended September 30, 2006 and $13.7 million during the year ended September 30, 2005. Our adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 600 basis points. Our adjustable rate mortgage loans amortize over terms of up to 30 years.

Adjustable rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the interest payments on the loan increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents, and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At September 30, 2006, $56.0 million, or 12.4%, of our one- to four-family residential loans had adjustable rates of interest.

All one- to four-family residential mortgage loans that we originate include due-on-sale clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

Regulations limit the amount that a savings bank may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. For all loans, we utilize outside independent appraisers approved by the Board of Directors. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Commercial Real Estate Loans. At September 30, 2006, $47.5 million, or 8.4% of our total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office buildings, mixed-use properties and other commercial properties. We generally originate adjustable rate commercial real estate loans with an initial term of five years and a repricing option, and a maximum term of up to 25 years. The maximum loan-to-value ratio of our commercial real estate loans is 85%. At September 30, 2006, we had 202 commercial real estate loans with an outstanding balance of $47.5 million. At September 30, 2006, our largest commercial real estate loan balance was $2.8 million. At September 30, 2006, all but one of our loans secured by commercial real estate were performing in accordance with their terms. One secured commercial line of credit totaling approximately $49,000 was between 60 and 90 days past due at September 30, 2006.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service. All commercial real estate loans in excess of $250,000 are appraised by outside independent appraisers approved by the Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio of the proposed loan. All purchase money and asset refinance borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

Loans secured by commercial real estate generally are considered to present greater risk than one- to four-family residential loans. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

First Mortgage Construction Loans. At September 30, 2006, $5.9 million, or 1.1%, of our total loan portfolio consisted of first mortgage construction loans. Most of our first mortgage construction loans are for the first mortgage construction of residential properties. We currently offer fixed and adjustable-rate residential first mortgage construction loans. First mortgage construction loans are generally structured for permanent mortgage financing once the construction is completed. At September 30, 2006, our largest first mortgage construction loan balance was $600,000. The loan was performing in accordance with its terms. First mortgage construction loans, once converted to permanent financing, generally repay over a thirty-year period. First mortgage construction loans require only the payment of interest during the construction period. First mortgage construction loans will generally be made in amounts of up to 80% of the appraised value of the completed property, or the actual cost of the improvements. In certain circumstances first mortgage construction loans may be made in amounts up to 100% of the appraised value with appropriate credit enhancements such as private mortgage insurance. Funds are disbursed based on our inspections in accordance with a schedule reflecting the completion of portions of the project.

First mortgage construction loans generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. The risk of loss on a construction loan depends upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost of construction. For all loans, we utilize outside independent appraisers approved by the Board of Directors. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance on properties.

Other Loans. We offer a variety of loans that are either unsecured or secured by property other than real estate. These loans include loans secured by deposits, personal loans and automobile loans. At September 30, 2006, these other loans totaled $4.2 million, or 0.7% of the total loan portfolio.

Loan Approval Procedures and Authority. The loan approval process is intended to assess the borrower s ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower s ability to repay, we review each borrower s employment and credit history and information on the historical and projected income and expenses of mortgagors. All residential mortgage loans in excess of the conforming loan limit but less than $500,000 must be approved by any two of the following: President, Chief Lending Officer and the Vice President, Retail Lending. All loans in excess of $500,000 but less than $750,000 must be approved by the Chief Executive Officer and either the Chief Lending Officer or the Vice President, Retail Lending. All loans in excess of $750,000 must be approved by the Management Loan Committee. The Management Loan Committee consists of the President, Chief Lending Officer, Vice President, Retail Lending and Vice President, Commercial Lending.

Non-Performing Loans and Problem Assets

After a real estate secured loan becomes 15 days late, we deliver a computer generated late charge notice to the borrower and will attempt to contact the borrower by telephone. When a loan becomes 30 days delinquent, we send a delinquency letter to the borrower. We then attempt to make satisfactory arrangements to bring the account current, including interviewing the borrower, until the mortgage is brought current or a determination is made to recommend foreclosure, deed-in-lieu of foreclosure or other appropriate action. After 60 days, we will generally refer the matter to the Board of Directors who may authorize legal counsel to commence foreclosure proceedings.

Mortgage loans are reviewed on a regular basis and such loans 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 Loans. At September 30, 2006, $476,000 (or less than 1.0% of our total loans) were non-performing loans.

As of September 30, 2006, we had no outstanding non-performing commercial real estate loans.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At September 30,				At November
	2006	2005	2004	2003	30, 2002
	(Dollars in thousands)				
Non-accrual loans:					
Residential first mortgage loans:					
One- to four-family	$ 436	$ 554	$ 578	$ 379	$ 578
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit	40	50	79	98	17
Other		1	8	47	76
Total	476	605	665	524	671
Accruing loans 90 days or more past due:					
Residential first mortgage loans:					
One- to four-family					
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other					
Total loans 90 days or more past due					
Total non-performing loans	476	605	665	524	671
Real estate owned		19	101	202	101
Other non-performing assets					
Total non-performing assets	$ 476	$ 624	$ 766	$ 726	$ 772
Troubled debt restructurings:					
Residential first mortgage loans::					
One- to four-family	$ 53	$ 94	$ 167	$ 270	$ 372
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other					15
Total	$ 53	$ 94	$ 167	$ 270	$ 387
Ratios:					
Total non-performing loans to total loans	0.08%	0.12%	0.14%	0.12%	0.17%
Total non-performing loans to total assets	0.07%	0.09%	0.11%	0.10%	0.14%
Total non-performing assets to total assets	0.07%	0.10%	0.13%	0.14%	0.16%

For the year ended September 30, 2006, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was insignificant.

Delinquencies. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated. Loans delinquent for 90 days or more are generally classified as nonaccrual loans.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2006						
Residential first mortgage loans:						
One- to four-family		$	5	$ 436	5	$ 436
Construction						
Commercial						
Commercial real estate	1	49			1	49
Home equity loans and lines of credit			1	40	1	40
Other						
Total	1	$ 49	6	$ 476	7	$ 525
At September 30, 2005						
Residential first mortgage loans:						
One- to four-family	4	$ 590	8	$ 554	12	$ 1,144
Construction						
Commercial						
Commercial real estate						
Home equity loans and lines of credit	1	16	3	50	4	66
Other			1	1	1	1
Total	5	$ 606	12	$ 605	17	$ 1,211
At September 30, 2004						
Residential first mortgage loans:						
One- to four-family	5	$ 237	5	$ 497	10	$ 734
Construction						
Commercial						
Commercial real estate						
Home equity loans and lines of credit			5	79	5	79
Other	1	4	3	8	4	12
Total	6	$ 241	13	$ 584	19	$ 825
At September 30, 2003						
Residential first mortgage loans:						
One- to four-family	2	$ 118	5	$ 379	7	$ 497
Construction						
Commercial						
Commercial real estate						
Home equity loans and lines of credit			6	98	6	98
Other	1	1	6	47	7	48
Total	3	$ 119	17	$ 524	20	$ 643
At September 30, 2002						
Residential first mortgage loans:						
One- to four-family	4	$ 243	10	$ 578	14	$ 821
Construction						
Commercial						

Commercial real estate								
Home equity loans and lines of credit	1		5	1		16	2		21
Other	4		42	4		77	8		119
Total	9	$	290	15	$	671	24	$	961

Classified Assets. Banking regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any.

Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, thereby adversely affecting the repayment of the asset.

An institution is required to establish general allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an institution classifies problem assets as loss, it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. An institution s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of Thrift Supervision which can order the establishment of additional general or specific loss allowances.

On the basis of management s review of its assets, at September 30, 2006, we classified approximately $3.0 million of our assets as special mention and $586,000 as substandard. At September 30, 2006, none of our assets were classified as doubtful or loss.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

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 unallocated 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. 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. Loan impairment is measured based on the fair value of collateral method, taking into account the appraised value, any valuation assumptions used, estimated costs to sell and trends in the market since the appraisal date. 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 are applied first to accrued interest receivable and then to principal. The allowance for loan losses as of September 30, 2006 is maintained at a level that represents management s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, the Office of Thrift Supervision and the Pennsylvania Department of Banking, as an integral part of its examination process, periodically reviews 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.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or For the Years Ended September 30,			At or for the ten months ended	At or for the year ended
	2006	2005	2004	September 30, 2003	November 30, 2002
			(Dollars in thousands)		
Balance at beginning of year	$ 3,563	$ 3,027	$ 2,509	$ 2,154	$ 1,371
Charge-offs:					
Residential first mortgage loans:					
One- to four-family		(10)		(28)	(42)
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit	(7)		(31)	(6)	(11)
Other	(2)	(5)	(4)	(51)	(97)
Total charge-offs	$ (9)	$ (15)	$ (35)	$ (85)	$ (150)
Recoveries:					
Residential first mortgage loans:					
One- to four-family	$	$	$ 7	$ 2	$ 12
Construction					
Commercial					
Commercial real estate					
Home equity loans and lines of credit					
Other	1	1	16	8	21
Total recoveries	$ 1	$ 1	$ 23	$ 10	$ 33
Net charge-offs	(8)	(14)	(12)	(75)	(117)
Provision for loan losses	300	550	530	430	900
Balance at end of year	$ 3,855	$ 3,563	$ 3,027	$ 2,509	$ 2,154
Ratios:					
Net charge-offs to average loans outstanding	%	%	%	(0.02)%	(0.03)%
Allowance for loan losses to non-performing loans at end of year	809.87%	588.93%	455.19%	478.82%	321.01%
Allowance for loan losses to total loans at end of year	0.69%	0.70%	0.63%	0.57%	0.55%

As indicated in the table above, we charged off a de minimus amount of loans since fiscal year 2004, due, in part, to a stable local economy with significant appreciation in real estate values, conservative underwriting of loans and aggressive monitoring of the loan portfolio to identify and address non-performing loans and potential problem assets at an early date. The amount of foreclosures we incurred in the last five years was not material to our financial statements taken as a whole and ESSA Bank & Trust suffered no material losses on foreclosed assets during that period. See Non-Performing Loans and Problem Assets. There can be no assurance that we will not experience a deterioration of its loan portfolio, including increases in non-performing loans, problem assets and charge-offs, in the future.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the percent of the allowance to the total allowance and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At September 30,								
	2006			2005			2004		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)								
Residential first mortgage loans:									
One- to four-family	$ 2,026	52.56%	80.36%	$ 1,887	52.96%	81.68%	$ 1,397	46.15%	82.41%
Construction	86	2.23	1.06	104	2.92	1.47	108	3.57	1.72
Commercial	133	3.45	1.09	114	3.20	1.03	62	2.05	0.51
Commercial real estate	773	20.05	8.43	471	13.22	7.17	332	10.97	6.08
Home equity loans and lines of credit	746	19.35	8.31	661	18.55	7.82	504	16.65	7.07
Other	46	1.19	0.75	39	1.09	0.83	106	3.50	2.21
Total allocated allowance	3,810	98.83	100.00%	3,276	91.94	100.00%	2,509	82.89	100.00%
Unallocated allowance	45	1.17		287	8.06		518	17.11	
Total allowance for loan losses	$ 3,855	100.00%	100.00%	$ 3,563	100.00%	100.00%	$ 3,027	100.00%	100.00%

	At September 30, 2003			At November 30, 2002		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Residential first mortgage loans:						
One- to four-family	$ 1,326	52.87%	85.16%	$ 1,177	54.65%	84.88%
Construction	87	3.47	1.37	95	4.41	1.89
Commercial	44	1.75	0.51	42	1.95	0.35
Commercial real estate	208	8.29	4.19	184	8.54	2.63
Home equity loans and lines of credit	393	15.66	5.99	252	11.70	6.48
Other	123	4.90	2.78	150	6.96	3.77
Total allocated allowance	2,181	86.94	100.00%	1,900	88.21	100.00%
Unallocated allowance	328	13.06		254	11.79	
Total allowance for loan losses	$ 2,509	100.00%	100.00%	$ 2,154	100.00%	100.00%

We use the accrual method of accounting for all performing loans. The accrual of interest income is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. When a loan is placed on nonaccrual status, unpaid interest previously credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectibility of principal. Generally, residential and consumer loans are restored to accrual status when the obligation is brought in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest is no longer in doubt. Commercial loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectibility of total contractual principal and interest no longer is in doubt.

In its collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on nonaccrual status, it will be subject to transfer to the real estate owned (REO) portfolio (properties acquired by or in lieu of foreclosure), upon which our loan servicing department will pursue the sale of the real estate. Prior to this transfer, the loan balance will be reduced, if necessary, to reflect its current market value less estimated costs to sell. Write downs of REO that occur after the initial transfer from the loan portfolio and costs of holding the property are recorded as other operating expenses, except for significant improvements which are capitalized to the extent that the carrying value does not exceed estimated net realizable value.

Fair values for determining the value of collateral are estimated from various sources, such as real estate appraisals, financial statements and from any other reliable sources of available information. For those loans deemed to be impaired, collateral value is reduced for the estimated costs to sell. Reductions of collateral value are based on historical loss experience, current market data, and any other source of reliable information specific to the collateral.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

Securities Activities

Our securities investment policy is established by our Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management strategy. Our investment policy is reviewed annually by our ALCO/Investment management committee. All policy changes recommended by this management committee must be approved by the Board of Directors. The Committee is composed of the Chief Financial Officer, Controller and Chief Executive Officer. Authority to make investments under the approved guidelines will be delegated by the Committee to appropriate officers. While general investment strategies will be developed and authorized by the ALCO/Investment management committee, the execution of specific actions rests with the Chief Financial Officer.

The approved investment officers are authorized to execute investment transactions up to $4.0 million per transaction without the prior approval of the ALCO/Investment management committee and within the scope of the established investment policy. These officers are also authorized to execute investment transactions between $4.0 million and $6.0 million with the additional approval from two of the following officers: Chief Executive Officer, Chief Operating Officer, or Chief Lending Officer. Each transaction in excess of $6.0 million must receive prior approval of the Investment Committee.

Our current investment policy generally permits securities investments in debt securities issued by the U.S. government and U.S. agencies, municipal bonds, and corporate debt obligations, as well as investments in preferred and common stock of government agencies and government sponsored enterprises such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank of Pittsburgh (federal agency securities) and, to a much lesser extent, other equity securities. Securities in these categories are classified as investment securities for financial reporting purposes. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae as well as commercial paper, corporate debt and municipal securities. As of September 30, 2006, we held no asset-backed securities, and other equity securities consisted almost exclusively of securities issued by Fannie Mae and the Federal Home Loan Bank of Pittsburgh. Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk.

SFAS No. 115 requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available-for-sale are reported at fair value, while securities held to maturity are reported at amortized cost.

Mortgage-Backed Securities. We purchase mortgage-backed securities in order to generate positive interest rate spreads with minimal administrative expense, lower credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae and Ginnie Mae, and increased liquidity. We invest primarily in mortgage-backed securities issued or sponsored by Fannie Mae, Freddie Mac, and Ginnie Mae. To a lesser extent, we also invest in securities backed by U.S. government agencies. At September 30, 2006 our mortgage-backed securities portfolio had a fair value of $54.4 million, consisting of Freddie Mac, Fannie Mae and Ginnie Mae mortgage-backed securities.

Mortgage-backed securities are created by pooling mortgages and issuing a security collateralized by the pool of mortgages with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although most of our mortgage-backed securities are collateralized by single-family mortgages. The issuers of such securities (generally

U.S. government agencies and U.S. government sponsored enterprises, including Fannie Mae, Freddie Mac and Ginnie Mae) pool and resell the participation interests in the form of securities to investors, such as ESSA Bank & Trust, and guarantee the payment of principal and interest to these investors. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby affecting the net yield on such securities. We review prepayment estimates for our mortgage-backed securities at the time of purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates, and to determine the yield and estimated maturity of the mortgage-backed securities portfolio. Periodic reviews of current prepayment speeds are performed in order to ascertain whether prepayment estimates require modification that would cause amortization or accretion adjustments.

Equity Securities. At September 30, 2006, our equity securities consisted almost entirely of securities issued by Fannie Mae, which are classified as available-for-sale.

In addition, we hold Federal Home Loan Bank of Pittsburgh common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of Pittsburgh advance program. There is no market for the common stock.

The aggregate fair value of our Federal Home Loan Bank of Pittsburgh common stock as of September 30, 2006 was $13.7 million based on its par value. No unrealized gains or losses have been recorded because we have determined that the par value of the common stock represents its fair value. We owned shares of Federal Home Loan Bank of Pittsburgh common stock at September 30, 2006 with a par value that was $136,748 more than we were required to own to maintain our membership in the Federal Home Loan Bank System and to be eligible to obtain advances. We are required to purchase additional stock as our outstanding advances increase. Any excess stock we own is redeemed monthly by the Federal Home Loan Bank of Pittsburgh.

We review equity and debt securities with significant declines in fair value on a periodic basis to determine whether they should be considered temporarily or other than temporarily impaired. If a decline in the fair value of a security is determined to be other than temporary, we are required to reduce the carrying value of the security to its fair value and record a non-cash impairment charge in the amount of the decline, net of tax effect, against our current income.

Our investment securities portfolio contains unrealized losses of 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, and debt obligations of a U.S. state or political subdivision.

Our policy is to recognize an other-than-temporary impairment of equity securities where the fair value has been significantly below cost for three consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where we have the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. We review our position quarterly and concluded that at September 30, 2006, the declines outlined in the table below represent temporary declines due to interest rate change, and we have the intent and ability to hold those securities either to maturity or to allow a market recovery. However, as of September 30, 2005, we recognized a loss of $130,000 on equity securities that we deemed, through analysis of the security, to be other than a temporary loss.

The following table sets forth the composition of our securities portfolio (excluding Federal Home Loan Bank of Pittsburgh common stock) at the dates indicated.

	At September 30,					
	2006		2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Investment securities available for sale:						
U.S. Government agency obligations	$ 41,960	$ 41,815	$ 34,989	$ 34,729	$ 14,981	$ 14,992
Obligations of state and political subdivisions	6,240	6,465	5,102	5,377	5,341	5,691
Mortgage-backed securities	40,327	39,907	18,799	18,491	20,482	20,444
Corporate notes			3,039	3,030	3,041	3,039
Total debt securities	88,527	88,187	61,929	61,627	43,845	44,166
Equity securities	882	935	882	879	1,012	908
Total investment securities available-for-sale	$ 89,409	$ 89,122	$ 62,811	$ 62,506	$ 44,857	$ 45,074
Investment securities held-to-maturity:						
U.S. Government agency obligations	$ 4,730	$ 4,681	$ 4,730	$ 4,704	$	$
Mortgage-backed securities	14,985	14,512	16,775	16,593	10,263	10,282
Total securities held to maturity	$ 19,715	$ 19,193	$ 21,505	$ 21,297	$ 10,263	$ 10,282

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at September 30, 2006 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Investment securities available for sale:											
U.S. Government agency obligations	$ 22,968	3.95%	$ 17,070	4.73%	$ 1,922	5.00%	$	%	$ 41,960	$ 41,815	4.32%
Obligations of state and political subdivisions							6,240	4.72	6,240	6,465	4.72
Mortgage-backed securities	511	5.29	12,538	4.46	169	5.50	27,109	4.88	40,327	39,907	4.76
Corporate notes											
Total debt securities	23,479	3.98%	29,608	4.62%	2,091	5.04%	33,349	4.85%	88,527	88,187	4.55%
Equity securities	882								882	935	
Total investment securities available for-sale	$ 24,361		$ 29,608		$ 2,091		$ 33,349		$ 89,409	$ 89,122	
Investment securities held-to-maturity:											
U.S. Government agency obligations	$	%	$ 4,730	4.35%	$	%	$	%	$ 4,730	$ 4,681	4.35%
Mortgage-backed securities			7,261	4.54	3,312	4.76	4,412	4.64	14,985	14,512	4.62
Total securities held to maturity	$	%	$ 11,991	4.46%	$ 3,312	4.76%	$ 4,412	4.64%	$ 19,715	$ 19,193	4.55%