

# SECURITIES AND EXCHANGE COMMISSION

100 F Street NE  
Washington, D.C. 20549

## FORM 10-K

- ☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Fiscal Year Ended September 30, 2023  
or  
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_ to  
Commission File No. 001-33384

### ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

20-8023072

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

200 Palmer Street

18360

Stroudsburg

Pennsylvania

(Address of Principal Executive Offices)

(Zip Code)

( 570 ) 421-0531

(Registrant's telephone number)

#### Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	ESSA	The NASDAQ Stock Market, LLC

#### Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. YES ☒ NO ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐.

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of December 11, 2023, there were

18,133,095

shares issued and 10,131,521 shares outstanding of the Registrant's Common Stock.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on March 31, 2023, was \$

152,346,277

#### **DOCUMENTS INCORPORATED BY REFERENCE**

- Proxy Statement for the 2023 Annual Meeting of Stockholders of the Registrant (Part III).
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## Forward Looking Statements

This Annual Report on Form 10-K contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, inflation, deposit flows, demand for mortgage, and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the ability to successfully complete or close transactions or to integrate acquired entities. 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 also see “Item 1A. Risk Factors.”

## PART I

### Item 1. Business

#### ESSA Bancorp, Inc.

ESSA Bancorp, Inc. ("ESSA Bancorp" or the "Company") is a Pennsylvania-chartered holding company for ESSA Bank & Trust (the "Bank"). ESSA Bancorp owns 100% of the outstanding shares of common stock of the Bank. Since being formed in 2006, ESSA Bancorp has engaged primarily in the business of holding the common stock of the Bank. Our executive offices are located at 200 Palmer Street, Stroudsburg, Pennsylvania 18360. Our telephone number at this address is (570) 421-0531. ESSA Bancorp is subject to comprehensive regulation and examination by the Federal Reserve Board of Governors. At September 30, 2023, ESSA Bancorp had consolidated assets of \$2.3 billion, consolidated deposits of \$1.7 billion and consolidated stockholders' equity of \$219.7 million. Consolidated net income for the fiscal year ended September 30, 2023 was \$18.6 million.

The Company is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements and other information regarding issuers such as the Company that file electronically with the SEC. All filed SEC reports and interim filings can also be obtained from the Bank's website ([www.essabank.com](http://www.essabank.com)), on the "Investor Relations" page, without charge from the Company. Information on the Company's website is not and should not be considered a part of this Annual Report on Form 10-K.

#### ESSA Bank & Trust

##### General

The Bank was organized in 1916. The Bank is a Pennsylvania chartered full-service, community-oriented savings bank. We provide financial services to individuals, families and businesses through our 21 community offices, located in Monroe, Northampton, Lehigh, Lackawanna, Luzerne, Chester, Delaware and Montgomery Counties, Pennsylvania. The Bank is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation.

The Bank'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 and commercial and industrial loans. We offer a variety of deposit accounts, including checking, savings and certificates of deposits. We also offer asset management and trust services. We offer investment services through our relationship with Ameriprise Financial Services, LLC, a third-party broker/dealer and registered investment advisor. We offer insurance benefit consulting services through our wholly owned subsidiary, ESSA Advisory Services, LLC.

The Bank'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](http://www.essabank.com).

##### Market Area

At September 30, 2023, our 21 community offices consisted of seven offices in Monroe County, three offices in Lehigh County, five offices in Northampton County, one office in Lackawanna County, one office in Luzerne County, one office in Chester County, two offices in Delaware County and one office in Montgomery 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.

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. Major industries include tourism, healthcare and educational facilities. Northampton County is located south of Monroe County and directly borders New Jersey. Lehigh County is located southwest of Monroe County. Luzerne and Lackawanna Counties are located north of Monroe County. Chester and Montgomery Counties are located south and Delaware County southwest of Monroe County. As of June 30, 2023, the most recent FDIC market share data available, we had a deposit market share of approximately 25.5% in Monroe County, which represented the second largest deposit market share in Monroe County, 2.6% in Northampton County, 1.7% in Lehigh County, 0.3% in Lackawanna County, 0.7% in Luzerne County, 0.1% in Chester County, 0.1% in Montgomery County and 0.5% in Delaware County.

### Lending Activities

Historically, our principal lending activity had been the origination of first mortgage loans for the purchase, construction or refinancing of one- to four-family residential real estate property. For years, we have been increasing our originations of commercial loans and commercial real estate loans in an effort to increase interest income, diversify our loan portfolio, and better serve the community. Commercial real estate loans have increased from \$678.8 million or 46.6% of our total loan portfolio at September 30, 2022 to \$822.0 million, or 48.3%, of our total loan portfolio at September 30, 2023. One- to four-family residential real estate mortgage loans represented \$713.3 million, or 42.0% of our loan portfolio at September 30, 2023. Home equity loans and lines of credit totaled \$48.2 million, or 2.8%, of our loan portfolio at September 30, 2023. Commercial loans totaled \$48.1 million, or 2.8%, of our loan portfolio at September 30, 2023 and construction first mortgage loans totaled \$16.8 million, or 1.0%, of the total loan portfolio at September 30, 2023. Obligations of states and political subdivisions totaled \$48.1 million, or 2.8%, of our loan portfolio at September 30, 2023. Auto loans totaled \$523,000 or 0.1% of the total loan portfolio at September 30, 2023. As previously disclosed, the Bank discontinued originating indirect auto loans in July 2018. 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,			
	2023		2022	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential first mortgage loans:				
One- to four-family	\$ 713,326	42.0%	\$ 623,375	42.9%
Construction	16,768	1.0	25,024	1.7
Commercial	48,143	2.8	38,158	2.6
Commercial real estate	821,958	48.3	678,841	46.6
Obligations of states and political subdivisions	48,118	2.8	40,416	2.8
Home equity loans and lines of credit	48,212	2.8	43,170	3.0
Auto loans	523	0.1	3,611	0.3
Other	2,002	0.1	1,716	0.1
Total loans receivable	\$ 1,699,050	100.0%	\$ 1,454,311	100.0%
Allowance for loan losses	(18,525)		(18,528)	
Total loans receivable, net	<u>\$ 1,680,525</u>		<u>\$ 1,435,783</u>	

**Loan Portfolio Maturities.** The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2023. 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
	(Dollars in thousands)			
One year or less	\$ 888	\$ -	\$ 18,969	\$ 78,563
After one year through five years	30,535	-	19,074	345,668
After five years through 15 years	175,055	393	8,318	363,940
After 15 years	506,848	16,375	1,782	33,787
Total	<u>\$ 713,326</u>	<u>\$ 16,768</u>	<u>\$ 48,143</u>	<u>\$ 821,958</u>

	Obligations of States and Political Subdivisions	Home Equity Loans and Lines of Credit	Auto Loans	Other	Total
	(Dollars in thousands)				
One year or less	\$ 534	\$ 302	\$ 507	\$ 358	\$ 100,121
After one year through five years	2,466	5,082	16	1,186	404,027
After five years through 15 years	14,943	23,903	-	89	586,641
After 15 years	30,175	18,925	-	369	608,261
Total	<u>\$ 48,118</u>	<u>\$ 48,212</u>	<u>\$ 523</u>	<u>\$ 2,002</u>	<u>\$ 1,699,050</u>

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2023 that are contractually due after September 30, 2024.

	Due After September 30, 2024		Total
	Fixed	Adjustable (In thousands)	
Residential first mortgage loans:			
One- to four-family	\$ 649,361	\$ 63,077	\$ 712,438
Construction	12,376	4,392	16,768
Commercial	-	29,174	29,174
Commercial real estate	427,928	315,467	743,395
Obligations of states and political subdivisions	24,324	23,260	47,584
Home equity loans and lines of credit	28,120	19,790	47,910
Auto loans	16	-	16
Other	1,627	17	1,644
Total	<u>\$ 1,143,752</u>	<u>\$ 455,177</u>	<u>\$ 1,598,929</u>

**Loan Originations and Repayments.** We originate 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, Northampton, Lehigh, Lackawanna, Luzerne, Chester, Delaware, and Montgomery Counties, Pennsylvania. New loans are generated primarily from the efforts of employees and advertising, a network of select mortgage brokers, other parties with whom we do business, customer referrals, and from walk-in customers. Loan applications are centrally underwritten and processed at our corporate center. At September 30, 2023, \$713.3 million, or 42.0%, of our loan portfolio, consisted of one- to four-family residential loans. 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, including those that qualify for our First Time Home Buyers Program and Community First Loan Program. Private mortgage insurance is required to compensate for the risk. Fixed-rate loans are originated for terms of 10, 15, 20 and 30 years.

We also offer adjustable-rate mortgage loans which have initial fixed terms of one, three, five or seven-years before converting to an annual adjustment schedule based on changes in a designated United States Treasury index. We originated \$21.0 million and \$20.2 million in adjustable rate one- to four-family residential loans during the years ended September 30, 2023 and 2022, respectively. Our adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 500 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. As interest rates increase, the principal and 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. Adjustment of the contractual interest rate is limited by the periodic and lifetime interest rate adjustments specified by our loan documents and therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At September 30, 2023, \$63.1 million, or 8.9%, 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 a "due-on-sale" clause, which provides the right to declare a loan immediately due and payable in the event that the borrower sells or otherwise conveys title to 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 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 purchase money loans, we utilize outside independent appraisers approved in accordance with the Bank's appraisal policy. All purchase money and most refinance loans require a lender's title insurance policy. Certain modest refinance requests may utilize an exterior inspection report and title search. We also require fire and casualty insurance and, where circumstances warrant, flood insurance.

**Home Equity Loans and Lines of Credit.** Home equity loans and lines of credit are generated by our loan originators. Eligible properties include primary and vacation homes located in Monroe, Northampton, Lackawanna, Luzerne, Lehigh, Chester, Delaware, and Montgomery Counties, Pennsylvania and secondarily in other Pennsylvania counties contiguous to our primary market area. As of September 30, 2023, home equity loans and lines of credit totaled about \$48.2 million, or 2.8% of our loan portfolio.

The maximum combined loan-to-value originated is generally 80% although a maximum of 85% is permitted with more restrictive underwriting parameters depending on the collateral. There is a small portion of the portfolio originated in years past that contains original combined loan-to-values of up to 90%. Our home equity lines of credit typically feature a 10-year draw period with interest-only payments permitted, followed by another 20 years of fully amortizing payments with no further ability to draw funds. Similar combined loan-to-value characteristics and standards exist for the lines as are outlined above for the loans.

Loan underwriting standards limit the maximum size of a junior lien loan to between \$10,000 and \$500,000, depending on the loan type and collateral. All loans exceeding 75% of value require an appraisal by bank-approved, licensed appraisers. Loans up to \$25,000 with lesser loan-to-value ratios may utilize an automated valuation model. Title/lien searches are secured on all home equity loans and lines.

**Commercial Real Estate Loans.** At September 30, 2023, \$822.0 million, or 48.3%, of our total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office and industrial buildings, multi-family, mixed-use properties and other commercial properties. We generally originate fixed rate commercial real estate loans with an initial term of five to seven years and a repricing option, and a maximum term of up to 25 years for existing properties and 30 years for new construction. The maximum loan-to-value ratio for most commercial real estate loans is 75% to 80%.

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 \$500,000 are appraised by outside independent appraisers approved in accordance with the Bank's Appraisal Policy. Personal guarantees are obtained from commercial real estate borrowers although we may occasionally waive this requirement given very strong loan to value and debt service coverage ratios. All purchase money and most 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, 2023, \$16.8 million, or 1.0%, of our total loan portfolio consisted of first mortgage construction loans. Our first mortgage construction loans are for the 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. 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. First mortgage construction loans require only the payment of interest during the construction period. Once converted to permanent financing, they generally repay over a 30-year period. 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 other one- to four-family residential mortgage loans. The risk of loss on a construction loan depends, in part, upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost of construction and the successful completion of construction within budget.

For all such loans, we utilize outside independent appraisers approved in accordance with the Bank's Appraisal Policy. All borrowers are required to obtain title insurance. We also require fire and casualty insurance and, where circumstances warrant, flood insurance on properties.



**Commercial Loans.** At September 30, 2023, \$48.1 million, or 2.8%, of our loan portfolio, consisted of commercial loans. We generally offer commercial loans to businesses located in our primary market area. The commercial loan portfolio includes lines of credit, equipment loans, vehicle loans, improvement loans and term loans. These loans are primarily secured by vehicles, machinery and equipment, inventory, accounts receivable, marketable securities, deposit accounts and real estate.

**Obligations of States and Political Subdivisions.** At September 30, 2023, \$48.1 million, or 2.8%, of our total loan portfolio consisted of loan transactions including tax and revenue anticipation notes, general obligation notes, and authority general revenue notes. The financial strength of the state or political subdivision, type of transaction, relationship efforts, and profitability of return are considered when pricing and structuring each transaction.

**Auto Loans.** At September 30, 2023, \$523,000, or 0.1%, of our total loan portfolio consisted of auto loans. Although collateralized, these loans require stringent underwriting standards and procedures. Each loan decision is based primarily on the credit history of the individual(s) and their ability to repay the loan. Collision and comprehensive insurance is required and the Bank must be listed as the loss payee. As previously disclosed, the Bank discontinued originating indirect auto loans in July 2018.

Indirect auto loans are inherently risky as they are often secured by assets that depreciate rapidly. In some cases, repossessed collateral for a defaulted automobile loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Automobile loan collections depend on the borrower's continuing financial stability, and therefore, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

**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 and personal unsecured loans. At September 30, 2023, these other loans totaled \$2.0 million, or 0.1%, 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 the borrower. For all loans the Board has established a lending authority policy. Larger and more complex loan requests require the involvement of senior management or the Board.

#### **Non-Performing Loans and Problem Assets**

Performance of the loan portfolio is reviewed on a regular basis by Bank management. A number of factors regarding the borrower, such as overall financial strength, collateral values and repayment ability, are considered in deciding what actions should be taken when determining the collectability of interest for accrual purposes.

When a loan, including a loan that is impaired, is classified as nonaccrual, the accrual of interest on such a loan is discontinued. A loan is typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid accrued interest is fully reversed. Interest payments received on nonaccrual loans are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal.

Loans are usually 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 the ultimate collectability of the total contractual principal and interest is no longer in doubt.

**Non-performing Loans.** At September 30, 2023, \$11.1 million, or 0.65% of our total loans, were non-performing loans. The majority of these loans were commercial real estate loans and residential mortgage loans. Non-performing commercial real estate loans totaled \$7.8 million at September 30, 2023. Three loan relationships accounted for \$6.5 million of the total non-accrual commercial real estate loans. Non-performing residential first mortgage loans totaled \$2.6 million at September 30, 2023.

**Real Estate Owned.** At September 30, 2023, the Company had \$3.3 million of real estate owned consisting of two properties. This properties are being actively marketed and additional losses may occur.

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

	At September 30,	
	2023	2022
	(Dollars in thousands)	
Non-accrual loans:		
Residential first mortgage loans:		
One- to four-family	\$ 2,569	\$ 1,594
Construction	-	-
Commercial	652	958
Commercial real estate	7,763	12,165
Home equity loans and lines of credit	47	338
Auto loans	-	21
Other	30	6
Total	11,061	15,082
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	-	-
Auto Loans	-	-
Other	-	-
Total loans 90 days or more past due and accruing	-	-
Total non-performing loans	11,061	15,082
Real estate owned	3,311	29
Other repossessed assets	-	-
Total non-performing assets	\$ 14,372	\$ 15,111
Troubled Debt Restructurings <sup>(1)</sup> :		
Residential first mortgage loans:		
One- to four-family	\$ 425	\$ 620
Construction	-	-
Commercial	-	-
Commercial real estate	7,298	8,226
Home equity loans and lines of credit	30	35
Auto loans	-	3
Other	-	-
Total	\$ 7,753	\$ 8,884
Ratios:		
Total non-performing loans to total loans	0.65 %	1.04 %
Total non-performing loans to total assets	0.48 %	0.81 %
Total non-performing assets to total assets	0.63 %	0.81 %

(1) Non-performing troubled debt restructurings are included in non-accrual loans as part of the non-performing assets table.

At September 30, 2023, the principal balance of troubled debt restructurings ("TDRs") was \$7.8 million as compared to \$8.8 million at September 30, 2022. All of the \$7.8 million of TDRs at September 30, 2023 were non-accrual loans.

TDRs at September 30, 2023 were comprised of six residential loans totaling \$425,000, seven commercial real estate loans totaling \$7.3 million and two consumer loans (home equity loans, home equity lines of credit, auto and other) totaling \$30,000.

For the year ended September 30, 2023, 2 loans totaling \$6.7 million were removed from TDR status due to the completion of timely payments or paying off the balance.

**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				Total	
	60-89 Days Number	Amount	90 Days and Over Number	Amount (Dollars in thousands)	Number	Amount
<b>At September 30, 2023</b>						
Residential first mortgage loans:						
One- to four-family	5	\$ 199	10	\$ 2,045	15	\$ 2,244
Construction	-	-	-	-	-	-
Commercial	-	-	3	250	3	250
Commercial real estate	-	-	4	865	4	865
Obligations of states and political subdivisions	-	-	-	-	-	-
Home equity loans and lines of credit	-	-	1	21	1	21
Auto loans	1	1	-	-	1	1
Other	3	33	-	-	3	33
Total	9	\$ 233	18	\$ 3,181	27	\$ 3,414
<b>At September 30, 2022</b>						
Residential first mortgage loans:						
One- to four-family	6	\$ 367	14	\$ 1,140	20	\$ 1,507
Construction	-	-	-	-	-	-
Commercial	2	440	2	19	4	459
Commercial real estate	-	-	5	247	5	247
Obligations of states and political subdivisions	-	-	-	-	-	-
Home equity loans and lines of credit	2	144	4	63	6	207
Auto loans	2	2	3	13	5	15
Other	1	31	-	-	1	31
Total	13	\$ 984	28	\$ 1,482	41	\$ 2,466

**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.

At September 30, 2023, the Company classified approximately \$4.3 million of our assets as Special Mention, of which \$3.2 million were commercial and commercial real estate loans, and \$14.3 million as Substandard, of which \$12.7 million were commercial and commercial real estate loans. No loans were classified Doubtful or Loss. At September 30, 2022, we classified approximately \$8.0 million of our assets as Special Mention, of which \$7.8 million were commercial and commercial real estate loans, and \$16.5 million as Substandard, of which \$14.8 million were commercial and commercial real estate loans. No loans 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 (at least quarterly) 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 generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of September 30, 2023 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio.

In addition, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking and Securities, as an integral part of their examination process, periodically review our allowance for loan losses. The banking regulators may require that we recognize additions to the allowance based on their analysis and review of information available to them at the time of their 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,	
	2023	2022
	(Dollars in thousands)	
Balance at beginning of year	\$ 18,528	\$ 18,113
Charge-offs:		
Residential first mortgage loans:		
One- to four-family	-	(19)
Construction	-	-
Commercial	(269)	-
Commercial real estate	(615)	(23)
Obligations of states and political subdivisions	-	-
Home equity loans and lines of credit	-	(6)
Auto loans	(28)	(40)
Other	-	(22)
Total charge-offs	(912)	(110)
Recoveries:		
Residential first mortgage loans:		
One- to four-family	45	382
Construction	-	-
Commercial	-	-
Commercial real estate	20	35
Obligations of states and political subdivisions	-	-
Home equity loans and lines of credit	66	9
Auto loans	78	99
Other	-	-
Total recoveries	209	525
Net (charge-offs) recoveries	(703)	415
Provision for loan losses	700	-
Balance at end of year	<u>\$ 18,525</u>	<u>\$ 18,528</u>
<b>Net charge-offs to average loans outstanding:</b>		
Residential first mortgage loans:		
One- to four-family	0.00%	(0.03)%
Construction	0.00%	0.00%
Commercial	0.04%	0.00%
Commercial real estate	0.02%	0.00%
Obligations of states and political subdivisions	0.00%	0.00%
Home equity loans and lines of credit	0.00%	0.00%
Auto loans	0.00%	0.00%
Other	0.00%	0.00%
Total Net charge-offs (recoveries)	<u>0.05%</u>	<u>(0.03)%</u>
<b>Credit quality ratios:</b>		
Allowance for loan losses to non-performing loans at end of year	167.48%	122.85%
Allowance for loan losses to total loans at end of year	1.09%	1.27%

See "Non-Performing Loans and Problem Assets." There can be no assurance that we will not experience a deterioration of our loan portfolio, including increases in non-performing loans, problem assets and charge-offs, in the future.

**Allocation of Allowance for Loan Losses.** The following table sets 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.

	2023			2022		
	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	\$ 4,897	26.43 %	41.98 %	\$ 5,122	27.64 %	42.86 %
Construction	183	0.99	0.99	319	1.72	1.72
Commercial	941	5.08	2.84	698	3.77	2.62
Commercial real estate	11,983	64.69	48.28	10,754	58.04	46.68
Obligations of states and political subdivisions	110	0.59	2.84	283	1.53	2.78
Home equity loans and lines of credit	346	1.87	2.84	361	1.95	2.97
Auto loans	2	0.01	0.13	22	0.12	0.25
Other	22	0.12	0.10	22	0.12	0.12
Total allocated allowance	18,484	99.78	100.00	17,581	94.89	100.00
Unallocated allowance	41	0.22	-	947	5.11	-
Total allowance for loan losses	<u>\$ 18,525</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>\$ 18,528</u>	<u>100.00 %</u>	<u>100.00 %</u>

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 collectability 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 is either applied against principal or reported as interest income, according to managements' judgement as to the collectability of principal. Generally, residential and consumer loans are restored to accrual status when the obligation is brought current in accordance with the contractual terms for a reasonable period of time and ultimate collectability 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 collectability of total contractual principal and interest no longer is in doubt.

In our collection efforts, we will first attempt to cure any delinquent loan. If a real estate secured loan is placed on nonaccrual status, it could be subject to transfer to the real estate owned ("REO") portfolio (comprised of properties acquired by or in lieu of foreclosure), upon which our credit administration 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 comprised of the Chief Executive Officer, Chief Financial Officer, Controller, Chief Operating Officer, Chief Banking Officer, Director of Consumer Lending, Chief Risk Officer, Senior Credit Officer, Regional President - Lehigh Valley. Authority to make investments under the approved guidelines is delegated by the Committee to appropriate officers. While general investment strategies are developed and authorized by the ALCO/Investment Management Committee, the execution of specific actions rests with the Chief Financial Officer and Controller.

The approved investment officers are authorized to execute investment transactions up to \$5.0 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 \$5.0 million and \$10.0 million with the additional approval from the Chief Executive Officer. Each transaction in excess of \$10.0 million must receive prior approval of the ALCO/Investment Management Committee.

Our current investment policy generally permits investments in debt securities issued by the U.S. government and U.S. agencies, obligations of states and political subdivisions, and corporate debt obligations, as well as investments in 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 Government National Mortgage Association ("GNMA") as well as commercial paper. 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.

Our policy is 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 that are available-for-sale or held for trading are reported at fair value, while securities held to maturity are reported at amortized cost.

**FHLB Securities.** We hold Federal Home Loan Bank of Pittsburgh ("FHLB-Pittsburgh") common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB advance program. There is no market for the common stock.

The aggregate fair value of our FHLB-Pittsburgh common stock as of September 30, 2023 was \$17.8 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 FHLB-Pittsburgh common stock at September 30, 2023 with a par value that was equal to what 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 weekly by the FHLB-Pittsburgh.

**Evaluation of Securities Portfolio.** We review 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, credit related impairment charge in the amount of the decline, net of tax effect, against our current income.

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

Our policy is to evaluate for other-than-temporary impairment of debt securities where the fair value has been significantly below cost for four consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before its anticipated recovery in market value, declines in value below cost are not assumed to be other than temporary. We review our position quarterly and concluded that at September 30, 2023, declines represent temporary declines due to interest rate change, and we do not intend to sell those securities and it is more likely than not that we will not have to sell those securities before their anticipated recovery in market value.

**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio not carried at fair value at September 30, 2023 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 held to maturity:											
Mortgage-backed securities	-	- %	-	- %	4,582	1.33 %	45,215	1.63 %	49,797	40,156	1.61 %
U.S. government agency securities					2,445	2.03 %	-	-	2,445	1,934	2.03 %
Total investment securities held to-maturity	\$ -	- %	\$ -	- %	\$ 7,027	1.57 %	\$ 45,215	1.74 %	\$ 52,242	\$ 42,090	1.63 %

## Sources of Funds

**General.** Deposits, borrowings, repayments and prepayments of loans and securities, proceeds from maturing securities and cash flows from operations are the primary sources of our funds for use in lending, investing and for other general purposes.

**Deposits.** We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, interest bearing demand accounts, checking accounts, money market accounts, club accounts, certificates of deposit and IRAs and other qualified plan accounts. We provide commercial checking accounts for businesses.

At September 30, 2023, our deposits totaled \$1.7 billion. Interest-bearing demand, savings and club, and money market deposits totaled \$876.6 million at September 30, 2023. At September 30, 2023, we had a total of \$504.0 million in certificates of deposit. Noninterest-bearing demand deposits totaled \$280.5 million.

Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely on our favorable locations, customer service and competitive pricing to attract and retain these deposits. While we accept certificates of deposit in excess of \$100,000 for which we may provide preferential rates, we generally do not solicit such deposits as they are more difficult to retain than core deposits. At September 30, 2023, we had brokered certificates of deposits totaling \$214.2 million.

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	For the Years Ended September 30,					
	2023		2022			
Deposit type:	Average Balance	Percent	Average Rate Paid	Average Balance	Percent	Average Rate Paid
	(Dollars in thousands)					
Noninterest bearing demand accounts	\$ 262,089	18.10 %	- %	\$ 277,189	17.80 %	- %
Interest bearing demand accounts	330,772	22.85 %	0.67 %	325,281	20.88 %	0.10 %
Money market	358,520	24.76 %	1.48 %	426,771	27.40 %	0.16 %
Savings and club	177,576	12.26 %	0.06 %	197,616	12.69 %	0.05 %
Certificates of deposit	318,937	22.03 %	3.07 %	330,657	21.23 %	0.47 %
Total deposits	<u>\$ 1,447,894</u>	<u>100.00 %</u>	<u>1.20 %</u>	<u>\$ 1,557,514</u>	<u>100.00 %</u>	<u>0.17 %</u>



As of September 30, 2023, the aggregate amount of uninsured deposits (deposits in amounts greater than or equal to \$250,000, which is the maximum amount for federal deposit insurance) was \$541.3 million. In addition, as of September 30, 2023, the portion of certificates of deposit in excess of the FDIC insurance limit which are included in uninsured deposits previously noted was \$72.0 million. The following table sets forth the maturity of those certificates as of September 30, 2023.

	At September 30, 2023 (In thousands)
Three months or less	\$ 21,442
Over three months through six months	18,819
Over six months through one year	28,080
Over one year	3,653
Total	<u>\$ 71,994</u>

At September 30, 2023, \$457.2 million of our certificates of deposit had maturities of one year or less.

### ***Borrowings***

At September 30, 2023, we had the ability to borrow approximately \$852.4 million under our credit facilities with the FHLB-Pittsburgh.

### **Competition**

We face significant competition in both originating loans and attracting deposits. The counties in which we operate have a significant concentration of financial institutions, many of which are significantly larger institutions and have greater financial resources, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, leasing companies, insurance companies and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from nondepository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

We seek to meet this competition by the convenience of our branch locations, emphasizing personalized banking, electronic banking solutions and the advantage of local decision-making in our banking business. Specifically, we promote and maintain relationships and build customer loyalty within local communities by focusing our marketing and community involvement on the specific needs of individual neighborhoods. As of September 30, 2023, the Bank had the second largest deposit market share in Monroe County, Pennsylvania. We do not rely on any individual, group, or entity for a material portion of our deposits.

### **Employees and Human Capital Resources**

As of September 30, 2023, we had 232 full-time employees, and 19 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

We encourage and support the growth and development of our employees and, wherever possible, seek to fill positions by promotion and transfer from within the organization. Continual learning and career development is advanced through ongoing performance and development conversations with employees, internally developed training programs, customized corporate training engagements and educational reimbursement programs. Reimbursement is available to employees enrolled in pre-approved degree or certification programs at accredited institutions that teach skills or knowledge relevant to our business, in compliance with Section 127 of the Internal Revenue Code, and for seminars, conferences, and other training events employees attend in connection with their job duties.

We support flexible work arrangements for our employees. As part of this flexibility, we have adopted a hybrid work environment as the standard work arrangement for employees. We further promote the health and wellness of our employees by strongly encouraging work-life balance and keeping the employee portion of health care premiums to a minimum and sponsoring various wellness programs.

Employee retention helps us operate efficiently and achieve one of our business objectives, which is being a low-cost provider. We believe our commitment to living out our core values, actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable fringe benefits aids in retention of our

top-performing employees. In addition, nearly all of our employees are stockholders of the Company through participation in our employee stock ownership plan, which aligns associate and stockholder interests by providing stock ownership on a tax-deferred basis at no investment cost to our associates.

### **Subsidiary Activities**

The Bank has four wholly owned subsidiaries, ESSACOR, Inc., Pocono Investment Company, ESSA Advisory Services, LLC, and Integrated Financial Corporation and its fully owned subsidiary Integrated Abstract Incorporated. ESSACOR, Inc. is a Pennsylvania corporation that is used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments of the Bank, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned by the Bank. ESSA Advisory Services, LLC is a Pennsylvania limited liability company that is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short term and long term disability, dental, vision and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania corporation that provided investment advisory services to the general public and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania corporation that provided title insurance services and is currently inactive.

## **SUPERVISION AND REGULATION**

### **General**

The Company is a Pennsylvania corporation. As a bank holding company, we are required to file certain reports with, and otherwise comply with the rules and regulations of the Federal Reserve Board.

The Bank is a Pennsylvania-chartered savings bank and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC") under the Deposit Insurance Fund ("DIF"). We are subject to extensive regulation by the Pennsylvania Department of Banking and Securities (the "Department"), our chartering agency, and by the FDIC, our primary federal regulator. We must file reports with the Department and the FDIC concerning our activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions including, but not limited to, mergers with or acquisitions of other savings institutions. There are periodic examinations by the Department and the FDIC to test our compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the DIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and with their examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department or the FDIC could have a material adverse impact on us and our operations.

### **Regulation by the Pennsylvania Department of Banking and Securities**

The Pennsylvania Banking Code of 1965, as amended (the "Banking Code"), contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, employees, and depositors, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices. The Department may also take enforcement actions against savings banks and may appoint a receiver or conservator for a savings bank under certain circumstances.

The Department generally examines each savings bank not less frequently than once every two years. Although the Department may accept the examinations and reports of the FDIC in lieu of the Department's examination, the current practice is for the Department to conduct individual examinations. The Department may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, officer, attorney, or employee of a savings bank engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Department why such person should not be removed.

### **Regulation by the Federal Deposit Insurance Corporation**

The Bank is also subject to extensive regulation, examination and supervision by the FDIC as its primary federal regulator. Such regulation and supervision:

- limits the activities and investment authority of the Bank;
- establishes a continuing and affirmative obligation, consistent with the Bank's safe and sound operation, to help meet the credit needs of its community, including low and moderate income neighborhoods;
- establishes various capital categories resulting in various levels of regulatory scrutiny applied to the institutions in a particular category; and
- establishes standards for safety and soundness.

The FDIC is required by law to examine each regulated institution every twelve months, subject to an exception for institutions of less than \$3 billion of total assets that satisfy certain other criteria, which are on an eighteen-month examination schedule. The FDIC has the authority to order any savings bank and its directors, officers, attorneys or employees to discontinue any violation of law or unsafe or unsound banking practice.

Federal law and FDIC regulations generally limit the activities as principal and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before engaging in a new activity as principal that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured savings bank must seek approval from the FDIC to engage in such activity. The FDIC will not approve the activity unless the savings bank meets its minimum capital requirements, and the FDIC determines that the activity does not present a significant risk to the DIF. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a "financial subsidiary" are subject to additional restrictions. Although the Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries, it has not chosen to engage in such activities.

### **Transactions with Affiliates**

Transactions between an insured bank, such as the Bank, and any of its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and implementing regulations. An affiliate of a bank includes, but is not limited to, any company or entity that controls, is controlled by, or is under common control with, the bank. Generally, a subsidiary of a bank that is not also a depository institution or financial subsidiary is not treated as an affiliate of the bank under Sections 23A and 23B, but instead is considered part of the bank for purposes of the applicable limits and requirements.

#### **Section 23A:**

- limits the extent to which a bank and its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and surplus, and limits all "covered transactions" with all affiliates to an amount equal to 20% of such bank's capital stock and surplus; and
- requires that all "covered transactions" be on terms and conditions that are consistent with safe and sound banking practices

The term "covered transaction" includes extensions of credit, purchase of securities and assets, issuance of guarantees, and other types transactions defined by statute and regulation. Most loans by a bank to its affiliates must be secured by collateral in amounts ranging from 100% to 130% of the loan amounts, depending on the type of collateral.

In addition, under Section 23B, any "covered transaction" by a bank with an affiliate, and certain other specified transactions, including the purchase of assets or services by a bank from an affiliate, must be on terms that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions involving a non-affiliate.

### **Insurance of Accounts and Regulation by the Federal Deposit Insurance Corporation**

Deposit accounts in the Bank are insured by the FDIC's DIF generally up to a maximum of \$250,000 per depositor for each account ownership category.

The FDIC charges insured depository institutions risk-based assessments to maintain the DIF. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. Assessments for most banks are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure over three years. .

As of January 1, 2023, the assessment range (inclusive of possible adjustments) for institutions of the Bank's size is 2.5 basis points to 32 basis points of total assets less tangible equity.

The FDIC has authority to increase insurance assessments, except that no adjustment can be made without notice and comment rulemaking. No institution may pay a dividend if in default of the federal deposit insurance assessment.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank does not believe that it is taking or is subject to any action, condition or violation that could lead to termination of its deposit insurance.

## Capital Requirements

Federal regulations require FDIC insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets ratio, and a Tier 1 capital to total adjusted assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). The Bank elected to opt out of this requirement. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one- to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. A bank's failure to achieve the "capital conservation buffer" will result in restrictions on paying dividends, engaging in stock repurchases and paying discretionary bonuses.

Institutions with total consolidated assets of less than \$10 billion that meet certain other requirements (including off-balance sheet exposure of 25% or less of total assets and trading assets and liabilities of 5% or less of total assets) may elect to use the optional community bank leverage ratio framework, which requires maintaining a leverage ratio of greater than 8.5% for calendar year 2021 and 9% thereafter. Eligible institutions with a capital level meeting or exceeding the specified requirement and electing to use the community bank leverage ratio framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. An institution that ceases to meet any qualifying criteria is provided with a two-quarter grace period to either comply with the community bank leverage ratio requirements or comply with the general capital regulations, including the risk-based capital requirements. The Bank did not opt into the community bank leverage ratio framework as of September 30, 2023.

In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

At September 30, 2023, the Bank's capital exceeded all applicable requirements.

Any state-chartered savings bank that fails any of the capital requirements is subject to possible enforcement actions by the FDIC. Such actions could include a capital directive, a cease-and-desist order, civil money penalties, the establishment of restrictions on an institution's operations, termination of federal deposit insurance and the appointment of a conservator or receiver. Certain corrective actions are required by law, as described further under "Prompt Corrective Action."

We are also subject to capital regulations of the Department which generally incorporate federal leverage and risk-based capital requirements.

#### **Dividends from ESSA Bank & Trust**

Our ability to pay dividends depends, to a large extent, upon the Bank's ability to pay dividends to the Company. The Banking Code states that no dividend may be paid out of surplus without approval of the Department. Dividends may be paid out of accumulated net earnings. No dividend may generally be paid that would result in the Bank failing to comply with its regulatory capital requirements.

#### **Prompt Corrective Action**

Under the federal Prompt Corrective Action regulations, a savings bank is deemed to be (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, a Tier 1 risk-based capital ratio of 8.0% or more, a Tier 1 leverage capital ratio of 5.0% or more, a common equity Tier 1 ratio of 6.5% or more, and is not subject to any to any written agreement, order, capital directive or prompt corrective action directive issued under certain statutes and regulations, to maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a Tier 1 leverage capital ratio of 4.0% or more, a common equity Tier 1 capital ratio of 4.5% or more, and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 6.0%, a Tier 1 leverage capital ratio that is less than 4.0%, or a common equity Tier 1 leverage ratio of less than 4.5%; (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, a Tier 1 leverage capital ratio that is less than 3.0%, or a common equity Tier 1 ratio of less than 3%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal regulations also specify circumstances under which a federal banking agency may reclassify a well-capitalized institution as adequately capitalized and may require an adequately capitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

Generally, the FDIC is required to appoint a receiver or conservator within specific time frames for a savings bank that becomes "critically undercapitalized." The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date a savings bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." The holding company for a savings bank required to submit a capital restoration plan must guarantee the lesser of: an amount equal to 5% of a savings bank's assets at the time it was notified or deemed to be undercapitalized by the FDIC, or the amount necessary to restore the savings bank to adequately capitalized status. The guarantee remains in place until the FDIC notifies the savings bank that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Undercapitalized institutions are subject to certain mandatory restrictions, including on capital distributions and growth. Significantly undercapitalized and critically undercapitalized institutions are subject to additional restrictions. The FDIC may also take any one of a number of discretionary supervisory actions against an undercapitalized savings bank, including the issuance of a capital directive and the replacement of senior executive officers and directors.

The Prompt Corrective Action categories discussed above were effective January 1, 2015 and reflect the revised regulatory capital requirements effective the same date. The final rule establishing the community bank leverage ratio provides that an institution electing and complying with that alternative regulatory capital framework is considered to be "well capitalized" under the Prompt Corrective Actions regulations.

As of September 30, 2023, the Bank was a "well-capitalized institution" under the Prompt Corrective Action regulations.

#### **Community Reinvestment Act**

Under the Community Reinvestment Act (the "CRA"), every insured depository institution, including the Bank, has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC to assess the depository institution's record of meeting the credit needs of its community and consider that record in its consideration of certain applications by the institution, such as for a merger or the establishment of a branch office. The FDIC may use an unsatisfactory CRA examination rating as the basis for denying such an application. The Bank received a "Needs to Improve" CRA rating from the FDIC in its most recent CRA evaluation.

On October 24, 2023, the FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency issued a final rule to strengthen and modernize the CRA regulations. Under the final rule, banks with assets of at least \$600 million as of December 31 in both of the prior two calendar years and less than \$2 billion as of December 31 in either of the prior two calendar years will be an "intermediate bank," and banks with assets of at least \$2 billion as of December 31 in both of the prior two calendar years will be a "large bank." The agencies will evaluate large banks under four performance tests: the Retail Lending Test, the Retail Services and Products Test, the Community Development Financing Test, and the Community Development Services Test. The agencies will evaluate intermediate banks under the Retail Lending Test and either the current community development test, referred to in the final rule as the Intermediate Bank Community Development Test, or, at the bank's option, the Community Development Financing Test. The applicability date for the majority of the provisions in the CRA regulations is January 1, 2026, and additional requirements will be applicable on January 1, 2027.

#### **The Bank Secrecy Act and USA PATRIOT Act**

The Bank Secrecy Act ("BSA") and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act") require the Bank to implement a compliance program to detect and prevent money laundering, terrorist financing, and illicit crime. Together, the BSA and USA PATRIOT Act require the Bank to implement internal controls, conduct customer due diligence, maintain records, and file reports. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with the BSA, USA PATRIOT Act, and regulations implemented thereunder.

#### **Holding Company Regulation**

The Company is a bank holding company that has elected to be a financial holding company and is subject to examination, regulation and periodic reporting under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy regulations for bank holding companies on a consolidated basis. Consolidated regulatory capital requirements identical to those applicable to the subsidiary institutions apply to bank holding companies with \$3 billion or more in consolidated assets. Bank holding companies with under \$3 billion of consolidated assets, including the Company, are not subject to the consolidated requirements unless otherwise directed by the Federal Reserve Board.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. The Dodd-Frank Act codified the source of strength policy and required the issuance of implementing regulations. Under the prompt corrective action provisions of the Federal Deposit Insurance Act, a bank holding company parent of an undercapitalized subsidiary bank must guarantee, within limitations, the capital restoration plan that is required of an undercapitalized bank. If an undercapitalized bank fails to file an acceptable capital restoration plan or to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution. In addition, Federal Reserve Board policy is that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is consistent with the Company's capital needs, asset quality and overall financial condition.

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, will equal 10% or more of the Company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that is "well capitalized" under applicable regulations of the Federal Reserve Board, has received at least an overall "satisfactory" composite rating, as well as "satisfactory" rating for management, at its most recent bank holding company examination by the Federal Reserve Board, and that is not the subject of any unresolved supervisory issues. In addition, Federal Reserve Board

guidance provides for agency prior review of bank holding company dividends and stock redemptions and repurchases in certain circumstances, which may affect our ability to pay dividends, or engage in redemptions or repurchases.

As a financial holding company, we are permitted (1) to engage in other activities that the Federal Reserve Board determines to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity, and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally, or (2) to acquire shares of companies engaged in such activities. We may not, however, directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares, or substantially all of the assets, of a bank holding company or a bank without the prior approval of the Federal Reserve Board.

In order to maintain our status as a financial holding company, we must remain “well capitalized” and “well managed” under applicable regulations and maintain a “satisfactory” or better rating under the Community Reinvestment Act. Failure to meet one or more of the requirements would mean, depending on the requirements not met, that we could not undertake new activities, make acquisitions other than those permitted generally for bank holding companies, or continue certain activities.

### **Regulatory Enforcement Authority**

Federal law provides federal banking regulators with substantial enforcement powers over regulated depository institutions and their institution-affiliated parties (“IAPs”). This enforcement authority includes, among other things, the ability to assess civil money penalties and issue cease-and-desist orders, and to prohibit or remove IAPs from their positions. In general, these enforcement actions may be premised on violations of laws and regulations, unsafe or unsound practices, or non-compliance with agency conditions or agreements. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

### **Federal Securities Laws**

Shares of the Company’s common stock are registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company is also subject to the proxy rules, tender offer rules, insider trading restrictions, annual and periodic reporting, and other requirements of the Exchange Act.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Company has policies, procedures and systems designed to comply with this Act and its implementing regulations.

## **FEDERAL AND STATE TAXATION**

### **Federal Taxation**

**General.** ESSA Bancorp and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to ESSA Bancorp and the Bank.

**Method of Accounting.** For federal income tax purposes, ESSA Bancorp currently reports its income and expenses on the accrual method of accounting and uses a tax year ending September 30 for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

**Bad Debt Reserves.** Prior to the Small Business Protection Act of 1996, the Bank was permitted to establish a reserve for bad debts for tax purposes and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at the Bank’s taxable income. As a result of the Small Business Protection Act of 1996, the Bank must use the specific charge off method in computing its bad debt deduction for tax purposes.

**Taxable Distributions and Recapture.** Prior to the Small Business Protection Act of 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if the Bank failed to meet certain thrift asset and definition tests. The Small Business Protection Act of 1996 eliminated these thrift-related recapture rules. However, under current law, pre-1988 reserves remain subject to tax recapture should the Bank make certain distributions from its tax bad debt reserve or cease to maintain a financial institution charter. At September 30, 2023, the Bank's total federal pre-1988 reserve was approximately \$4.6 million. This reserve reflects the cumulative effects of federal tax deductions by the Bank for which no federal income tax provision has been made.

**Minimum Tax.** The alternative minimum tax for corporations has been repealed for tax years beginning after December 31, 2017. Any unused minimum tax credit of a corporation may be used to offset regular tax liability for any tax year. In addition, a portion of unused minimum tax credit was refundable in 2018 through 2021. The refundable portion is 100% for the tax years beginning after December 31, 2018 of the excess of the minimum tax credit for the year over any credit allowable against regular tax for that year. At September 30, 2023, the Bank had no minimum tax credit carryforward.

**Net Operating Loss Carryovers.** Effective with the passage of the Tax Cuts and Jobs Act, net operating loss carrybacks are no longer permitted, and net operating losses are allowed to be carried forward indefinitely. Net operating loss carryforwards arising from tax years beginning after January 1, 2019 are limited to offset a maximum of 80% of a future year's taxable income. At September 30, 2023, the Bank had no net operating loss carryforward for federal income tax purposes.

**Corporate Dividends.** We may exclude from our income 100% of dividends received from the Bank as a member of the same affiliated group of corporations.

**Audit of Tax Returns.** ESSA Bancorp's federal income tax returns have not been audited in the most recent three-year period. The 2019, 2020, 2021 and 2022 tax years remain open. The tax returns filed for the fiscal years ended September 30, 2020, 2021 and 2022 represents tax years 2019, 2020, and 2021, respectively. The Company has not yet filed its tax return for the fiscal year ended September 30, 2023 which represents the 2022 tax year.

## State Taxation

ESSA Bancorp, Inc. is subject to the Pennsylvania Corporate Net Income Tax. The Corporation Net Income Tax rate for fiscal year 2023 is 9.99% and is imposed on unconsolidated taxable income for federal purposes with certain adjustments. The Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, as amended to include thrift institutions having capital stock. Pursuant to the Mutual Thrift Institutions Tax, the tax rate is 11.5%. The Mutual Thrift Institutions Tax exempts the Bank from other taxes imposed by the Commonwealth of Pennsylvania for state income tax purposes and from all local taxation imposed by political subdivisions, except taxes on real estate and real estate transfers. The Mutual Thrift Institutions Tax is a tax upon net earnings or income received or accrued from all sources during the year, determined in accordance with generally accepted accounting principles with certain adjustments. The Mutual Thrift Institutions Tax, in computing income according to generally accepted accounting principles, allows for the deduction of interest earned on state and federal obligations, while disallowing a percentage of thrift's interest expense deduction in the proportion of interest income on those securities to the overall interest income of the Bank. Net operating losses, if any, thereafter, can be carried forward three years for Mutual Thrift Institutions Tax purposes.



## Item 1A. Risk Factors

In addition to factors discussed in the description of our business and elsewhere in this report, the following are factors that could adversely affect our future results of operations and financial condition.

### Economic and Market Area

*Changes in economic conditions, in particular an economic slowdown in the markets we operate in, could materially and negatively affect our business.*

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Any deterioration in economic conditions, whether caused by national or local concerns, in particular any further economic slowdown in the markets we operate in, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or non-interest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn or prolonged recession may result in the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt its business. If we experience an economic downturn or a prolonged economic recession occurs in the economy as a whole, borrowers will be less likely to repay their loans as scheduled. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

*Inflationary pressures and rising prices may affect our results of operations and financial condition.*

Inflation rose sharply at the end of 2021 and remained at an elevated level through 2022 and 2023. Small to medium-sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition.

*Concentration of Loans in Our Primary Market Area May Increase the Risk of Increased Nonperforming Assets.*

Our success depends primarily on the general economic conditions in the Pennsylvania counties of Monroe, Northampton, Lehigh, Lackawanna, Luzerne, Chester, Delaware and Montgomery as nearly all of our loans are to customers in these markets. Accordingly, the local economic conditions in these market areas have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, decline in real estate values in these market areas would also lower the value of the collateral securing loans on properties in these market areas. In addition, weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results.

*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 "Item 1. Business—Competition."

*The Soundness of Other Financial Services Institutions May Adversely Affect Our Credit Risk.*

We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other

financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition.

### **Interest Rate and Asset Quality**

#### *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.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of times. Like many banks, our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, as market interest rates change over time. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers speed up prepayments of mortgage loans, and mortgage-backed securities and callable investment securities are called, requiring us to reinvest those cash flows at lower interest rates. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. Furthermore, increases in interest rates may adversely affect our ability to originate loans and/or the ability of our borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase.

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. Alternatively, 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, 2023, the fair value of our investment securities available for sale totaled \$334.1 million. Unrealized net losses on these available for sale securities totaled approximately \$22.2 million at September 30, 2023 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 stockholders' equity.

We evaluate interest rate sensitivity by estimating the change in the Bank's Economic Value of Equity ("EVE") over a range of interest rate scenarios. EVE is the net present value of the Company's asset cash flows minus the net present value of the Company's liability cash flows. At September 30, 2023, in the event of an immediate 200 basis point increase in interest rates, the Company's model projects that we would experience a \$30.7 million, or 10.2%, decrease in net portfolio value. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

*A significant portion of our assets consists of investment securities, which generally have lower yields than loans, and we classify a significant portion of our investment securities as available for sale, which creates potential volatility in our equity and may have an adverse impact on our net income.*

As of September 30, 2023, our securities portfolio totaled \$386.3 million, or 16.8% of our total assets. Investment securities typically have lower yields than loans. For the year ended September 30, 2023, the weighted average yield of our investment securities portfolio was 4.50%, as compared to 4.65% for our loan portfolio.

Accordingly, our net interest margin is lower than it would have been if a higher proportion of our interest-earning assets consisted of loans. Additionally, at September 30, 2023, \$334.1 million, or 86.5% of our investment securities, are classified as available for sale and reported at fair value with unrealized gains or losses excluded from earnings and reported in other comprehensive income, which affects our reported equity. Accordingly, given the significant size of the investment securities portfolio classified as available for sale and due to possible mark-to-market adjustments of that portion of the portfolio resulting from market conditions, we may experience greater volatility in the value of reported equity. Moreover, given that we actively manage our investment securities portfolio classified as available for sale, we may sell securities which could result in a realized loss, thereby reducing our net income.

#### *Our Continued Emphasis on Commercial Real Estate Lending Increases Our Exposure 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,

2023, \$822.0 million, or 48.3%, 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 commercial real estate 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.

*Increases to the Allowance for Credit Losses May Cause Our Earnings to Decrease.*

Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. In addition, the estimates used to determine the fair value of such loans as of the acquisition date may be inconsistent with the actual performance of the acquired loans. Hence, we may experience significant credit losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability 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 loans. In determining the amount of the allowance for credit losses, we rely on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease our net income.

Our emphasis on the origination of commercial real estate and business loans is one of the more significant factors in evaluating our allowance for credit losses. As we continue to increase the amount of these loans, additional or increased provisions for credit losses may be necessary and as a result would decrease our earnings.

**Source of Funds**

*Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.*

A lack of liquidity could adversely affect our financial condition and results of operations and result in regulatory limits being placed on the Company.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize the generation of low-cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk/return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments. As we continue to grow, we may become more dependent on these sources, which could include Federal Home Loan Bank advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits.

*Our reliance on wholesale funding could adversely affect our liquidity and operating results.*

Among other sources of funds, we rely on wholesale funding, including short- and long-term borrowings, brokered deposits and non-brokered deposits acquired through listing services, to provide funds with which to make loans, purchase investment securities and provide for other liquidity needs. On September 30, 2023, wholesale funding totaled \$588.8 million, or approximately 25.7% of total assets.

In the future, this funding may not be readily replaced as it matures, or we may have to pay a higher rate of interest to maintain it. Not being able to maintain or replace those funds as they mature would adversely affect our liquidity. Paying higher interest rates to maintain or replace funding would adversely affect our net interest margin and operating results.

## **Regulatory Matters**

*A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.*

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for our first fiscal year beginning after December 15, 2022. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for credit losses. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses.

Bank regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or loan charge-offs. Any increase in our allowance for credit losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and/or financial condition.

*We Operate in a Highly Regulated Environment and May Be Adversely Affected by Changes in Laws and Regulations.*

We are subject to extensive regulation, supervision, and examination by the Federal Reserve Board, the FDIC and the Department. Such regulators govern the activities in which we may engage, primarily for the protection of depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank, the imposition of higher capital requirements, and the adequacy of a bank's allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on us and our operations. We believe that we are in substantial compliance with applicable federal, state and local laws, rules and regulations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. There can be no assurance that proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

## **Security**

*Risks Associated with System Failures, Interruptions, Or Breaches of Security Could Negatively Affect Our Earnings.*

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches), but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

*Risks Associated with Cyber-Security Could Negatively Affect Our Earnings.*

The financial services industry has experienced an increase in both the number and severity of reported cyber-attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions.

We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches.

We also rely on the integrity and security of a variety of third-party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption.

Our customers are also the target of cyber-attacks and identity theft. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses.

The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and subject us to additional regulatory scrutiny, and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

While our Board of Directors takes an active role in cybersecurity risk tolerance, we rely to a large degree on management and outside consultants in overseeing cybersecurity risk management.

Our Board of Directors takes an active role in the cybersecurity risk tolerance of the Company and all members receive cybersecurity training annually. The Board reviews the annual risk assessments and approves information technology policies, which include cybersecurity. Furthermore, our Audit Committee is responsible for reviewing all audit findings related to information technology general controls, internal and external vulnerability, and penetration testing. We also engage outside consultants to support our cybersecurity efforts. However, our directors do not have significant experience in cybersecurity risk management outside of the Company and therefore, its ability to fulfill its oversight function remains dependent on the input it receives from management and outside consultants.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

#### **Item 1C. Cybersecurity**

Not applicable.

#### **Item 2. Properties**

At September 30, 2023, the Company and the Bank conducted our business through 21 full-service branch offices located in Monroe, Northampton, Lehigh, Lackawanna, Luzerne, Chester, Delaware and Montgomery Counties, Pennsylvania. We own 13 properties and lease 12 properties inclusive of the 21 full service-branch offices referred to above.

The net book value of our premises, land and equipment was \$12.9 million at September 30, 2023.

#### **Item 3. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of Management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

The Company and its subsidiary, ESSA Bank and Trust ("ESSA B&T") were named as defendants, among others, in an action commenced on December 8, 2016 by one plaintiff who sought to pursue the suit as a class action on behalf of the entire class of people similarly situated. The plaintiff alleged that a bank previously acquired by the Company received unearned fees and kickbacks in the process of making loans, in violation of the Real Estate Settlement Procedures Act. In an order dated January 29, 2018, the district court granted the defendants' motion to dismiss the case. The plaintiff appealed the court's ruling. In an opinion and order dated April 26, 2019, the appellate court reversed the district court's order dismissing the plaintiff's case against the Company and remanded the case to the district court in order to continue the litigation. The litigation is now proceeding before the district court. On December 9, 2019, the court permitted an amendment to the complaint to add two new plaintiffs to the case asserting similar claims. On May 21, 2020, the court granted the plaintiffs' motion for class certification. Fact and expert discovery is now complete, and the Company and ESSA B&T filed motions seeking to have the case dismissed (in whole or in part) and/or the class de-certified, as well as for other relief. Plaintiffs opposed the motions. On

August 18, 2023 the Court granted the motions to dismiss as to the Company and ESSA B&T, with the result that the only remaining defendant is a now-dissolved former wholly-owned subsidiary of a previously-acquired company. The Court also amended its class certification order. Plaintiffs have sought permission to appeal from these and other related rulings. The Company and ESSA B&T will continue to vigorously defend against plaintiffs' allegations. To the extent that this matter could result in exposure to the Company and/or ESSA B&T, the amount or range of such exposure is not currently estimable but could be substantial.

On May 29, 2020, the Company and ESSA B&T were named as defendants in a second action commenced by three plaintiffs who also seek to pursue this action as a class action on behalf of the entire class of people similarly situated. The plaintiffs allege that a bank previously acquired by the Company received unearned fees and kickbacks from a different title company than the one involved in the previously discussed litigation in the process of making loans. The original complaint alleged violations of the Real Estate Settlement Procedures Act, the Sherman Act, and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The plaintiffs filed an Amended Complaint on September 30, 2020 that dropped the RICO claim, but they are continuing to pursue the Real Estate Settlement Procedures Act and Sherman Act claims. The defendants moved to dismiss the Sherman Act claim on October 14, 2020, and that motion was denied on April 2, 2021. On March 13, 2023 the court granted plaintiffs' motion for class certification. The case is currently in the discovery phase. The Company and ESSA B&T intend to vigorously defend against plaintiffs' allegations. To the extent that this matter could result in exposure to the Company and/or ESSA B&T, the amount or range of such exposure is not currently estimable but could be substantial.

#### *Settlement with the Department of Justice*

On May 31, 2023, ESSA Bank & Trust ("ESSA Bank"), a wholly owned subsidiary of the Company, entered into a consent order with the U.S. Department of Justice ("DOJ") to resolve allegations of violations of the fair lending laws within the Philadelphia Metropolitan Statistical Area ("MSA"). Under the settlement, ESSA Bank agrees to provide \$2.9 million in mortgage loan subsidies over a five-year period for majority Black and Hispanic census tracts, with at least 50% of those subsidies to be invested in specified Philadelphia MSA census tracts in proximity to ESSA Bank's two Delaware County branch locations. The remainder of the subsidies may be used in other qualifying areas.

ESSA Bank is also committing \$250,000 in additional focused marketing and outreach, \$125,000 in community development partnerships, and making investments in additional mortgage professionals and a community development officer focused on statistically underserved communities. The DOJ consent order was approved by the United States District Court for the Eastern District of Pennsylvania on June 9, 2023, and at that point all claims asserted by the DOJ against ESSA Bank were resolved according to its terms. The Company is committed to investing the \$2.9 million over five years and will record the related expenses in the period in which the activities occur.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's shares of common stock are traded on the Nasdaq Global Market under the symbol "ESSA." The approximate number of holders of record of ESSA Bancorp's common stock as of September 30, 2023 was 1,622. Certain shares of ESSA Bancorp are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

The Board of Directors has the authority to declare cash dividends on shares of common stock, subject to statutory and regulatory requirements. In determining whether and in what amount to pay a cash dividend in the future, the Board takes 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 cash dividends will not be reduced or eliminated in the future.

The sources of funds for the payment of a cash dividend are interest and principal payments with respect to ESSA Bancorp loan to the Employee Stock Ownership Plan, and dividends from the Bank. For a discussion of the limitations applicable to the Bank's ability to pay dividends, see "Item 1. Business—Supervision and Regulation."

On May 25, 2022 the Company announced that its Board of Directors had approved a tenth stock repurchase program for up to 500,000 shares of its common stock. The Company has purchased 110,149 shares pursuant to this plan during the fiscal year ended September 30, 2022 and no shares during the fiscal year ended September 30, 2023. The Company may repurchase the shares from time to time through open market purchases, privately negotiated stock transactions or in any other manner that is compliant with applicable securities law.

### Item 6. [Reserved]

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### 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 net interest and fee income and managing operating expenses efficiently;
- Remaining within our risk management parameters; and
- Employing affordable technology to increase profitability and improve customer service.

We intend to continue to pursue our business strategy, subject to changes necessitated by future market conditions and other factors. We also intend to continue focusing 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 regard to service, products, systems and operations. We have upgraded and expanded certain of our facilities, including our corporate center and added additional facilities to provide additional capacity to manage future growth and expand our delivery systems.

• ***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 our stock holding company structure to expand our market footprint through *de novo* branching as well as through additional 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 additional financial institutions in contiguous counties. We will continue to review and assess locations for new branches both within Monroe County and the counties around Monroe. There can be no assurance that we will be able to consummate any new acquisitions or establish any additional new branches. We may continue 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, 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.

### Critical Accounting Policies

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

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

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

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

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



**Goodwill and Intangible Assets.** Goodwill is not amortized, but it is tested at least annually for impairment in the fourth quarter, or more frequently if indicators of impairment are present. If the estimated current fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. The Company uses market capitalization and multiples of tangible book value methods to determine the estimated current fair value of its reporting unit. Based on this analysis, no impairment was recorded in fiscal 2023 or fiscal 2022.

The other intangibles assets are assigned useful lives, which are amortized on an accelerated basis over their weighted-average lives. The Company periodically reviews the intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Based on these reviews, no impairment was recorded in fiscal 2023 or fiscal 2022.

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

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

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

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

- Level I – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level II – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level III – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

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

Fair value measurements for most of our assets are obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid, and other market information. Subsequently, all of our financial instruments use either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. In certain cases, however, when market observable inputs for model-based valuation techniques may not be readily available, we are required to make judgments about assumptions market participants would use in estimating the fair value of financial instruments. The degree of management judgment involved in determining the fair value of a financial instrument is

dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations.

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

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

#### **Comparison of Financial Condition at September 30, 2023 and September 30, 2022**

**Total Assets.** Total assets increased \$431.4 million, or 23.2%, to \$2.3 billion at September 30, 2023, compared to \$1.9 billion at September 30, 2022. The increase primarily reflects the growth in total net loans outstanding, investments securities available for sale, and total cash and cash equivalents

**Cash and Due from Banks.** Cash and due from banks increased \$19.0 million, or 95.3%, to \$39.0 million at September 30, 2023 from \$20.0 million at September 30, 2022.

**Interest-Bearing Deposits with Other Institutions.** Interest-bearing deposits with other institutions increased \$38.4 million, or 482.3%, to \$46.4 million at September 30, 2023 from \$8.0 million at September 30, 2022.

**Investment Securities Available for Sale and Held to Maturity.** Investment securities available for sale increased \$125.4 million, or 60.1%, to \$334.1 million at September 30, 2023 from \$208.6 million at September 30, 2022. The increase was due primarily to increases in US government treasury securities of \$123.6 million and US government agency securities of \$19.6 million. The Company purchased \$125.0 million of US government treasury securities and \$25.0 million of US government agency securities during the quarter ended September 30, 2023. Held to maturity securities decreased \$5.0 million to \$52.2 million at September 30, 2023.

**Net Loans.** Net loans increased \$244.7 million, or 17.1%, to \$1.7 billion at September 30, 2023 from September 30, 2022. The primary reasons for the increase were increases in residential real estate loans, commercial loans, obligations of states and political subdivisions, commercial real estate loans, home equity loans and lines of credit and other loans, offset in part by decreases in construction loans and auto loans. Commercial real estate loans increased by \$143.1 million to \$822.0 million at September 30, 2023 from \$678.8 million at September 30, 2022. Commercial loans increased \$10.0 million to \$48.1 million at September 30, 2023 from \$38.2 million at September 30, 2022. Obligations of states and political subdivisions increased by \$7.7 million to \$48.1 million at September 30, 2023 from \$40.4 million at September 30, 2022. One- to four-family loans increased by \$90.0 million to \$713.3 million at September 30, 2023 from \$623.4 million at September 30, 2022. The Company restarted sales of one- to four-family mortgage loans to the Federal Home Loan Bank of Pittsburgh during the fiscal second quarter of the year due to stabilizing interest rates. Home equity loans and lines of credit increased by \$5.0 million to \$48.2 million at September 30, 2023 from \$43.2 million at September 30, 2022. Auto loans decreased \$3.1 million to \$523,000 at September 30, 2023 from \$3.6 million at September 30, 2022. The Company discontinued indirect auto lending in July 2018.

**Deposits.** Deposits increased by \$281.0 million, or 20.4%, to \$1.7 billion at September 30, 2023, primarily as a result of an increase in certificates of deposit partially offset by decreases in interest bearing demand accounts, money market accounts, savings

accounts and non-interest bearing demand accounts as customers moved monies to higher yielding certificates of deposit. Noninterest bearing demand accounts were \$280.5 million, down 3.3% from September 30, 2022. Interest bearing demand accounts decreased to \$346.5 million from September 30, 2022. Money market accounts were \$366.9 million at September 30, 2023, down 8.9% from September 30, 2022. Certificates of deposit increased to \$370.3 million from \$133.7 million at September 30, 2022.

**Borrowed Funds.** Borrowed funds, short term and other, increased to \$374.7 million at September 30, 2023 from \$230.8 million at September 30, 2022. FHLB borrowings were \$314.7 million and borrowings with the Federal Reserve Bank were \$60.0 million at September 30, 2023.

**Stockholders' Equity.** Stockholders' equity increased by \$7.4 million, or 3.5%, to \$219.7 million at September 30, 2023 from \$212.3 million at September 30, 2022. The increase was primarily due to net income of \$18.6 million partially offset by other comprehensive loss of \$6.6 million and cash dividends paid of \$5.8 million.

#### **Comparison of Operating Results for the Years Ended September 30, 2023 and September 30, 2022**

**Net Income.** Net income decreased by \$1.5 million, or 7.4%, to \$18.6 million for the fiscal year ended September 30, 2023 from \$20.1 million for the fiscal year ended September 30, 2022. The decrease was primarily due to increases in the provision for loan losses and noninterest expense and a decrease in noninterest income partially offset by an increase in net interest income and a decrease in income taxes.

**Net Interest Income.** Net interest income increased by \$1.8 million, or 3.0%, to \$61.6 million for fiscal year 2023 from \$59.8 million for fiscal year 2022, primarily due to an increase in total interest income partially offset by increases in interest expense from deposits and short-term borrowings.

**Interest Income.** Interest income increased \$22.7 million, or 36.1%, to \$85.5 million for fiscal year 2023 from \$62.8 million for fiscal year 2022. The increase resulted from an increase of 95 basis points in the overall yield on interest earning assets to 4.51% from 3.56%, which had the effect of increasing interest income by \$12.2 million along with an increase of \$129.8 million in average interest earning assets, which had the effect of increasing interest income by \$10.5 million. The increase in average interest earning assets during 2023 compared to 2022 included increases in average loans receivable of \$200.6 million and a decrease in other assets of \$121.5 million. Average mortgage backed securities increased \$26.9 million, average FHLB stock increased \$9.3 million and average investment securities increased \$14.5 million. The average yield on loans increased to 4.65% for the fiscal year 2023, from 4.07% for the fiscal year 2022. The average yields on investment securities increased to 4.50% for fiscal year 2023 from 2.78% for fiscal year 2022 and the average yields on mortgage backed securities increased to 2.79% for fiscal 2023 from 2.04% for the fiscal 2022 period.

**Interest Expense.** Interest expense increased \$20.9 million, or 687.4%, to \$23.9 million for fiscal year 2023 from \$3.0 million for fiscal year 2022. The increase in interest expense resulted from a 138 basis point decrease in the overall cost of interest bearing liabilities to 1.61% for fiscal 2023 from 0.23% for fiscal 2022 which had the effect of increasing interest expense by \$17.3 million along with an increase in average interest bearing liabilities which had the effect of increasing interest expense by \$3.6 million. For fiscal 2023, average borrowed funds increased \$241.9 million compared to fiscal 2022. Average savings and club accounts decreased by \$20.0 million, average interest bearing demand deposit accounts increased \$5.5 million, average money market accounts decreased \$68.3 million and average certificates of deposit decreased \$11.7 million. The cost of money market accounts increased to 1.48 % for fiscal year 2023 from 0.16% for fiscal year 2022. The cost of interest bearing demand deposit accounts increased to 0.67 % for fiscal year 2023 from 0.10% for fiscal year 2022. The cost of savings and club accounts increased to 0.06 % for fiscal year 2023 from 0.05% for fiscal 2022. The cost of certificates of deposit increased to 3.07% from 0.47% and the cost of borrowed funds increased to 2.14% from 0.61% for fiscal years 2023 and 2022, respectively.

**Provision for Loan Losses.** The Company 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, the Company made a loan loss provision of \$700,000 for fiscal year 2023 compared to no loan loss provision for fiscal year 2022. The allowance for loan losses was \$18.5 million, or 1.09% of loans outstanding, at September 30, 2023, compared to \$18.5 million, or 1.27% of loans outstanding, at September 30, 2022.

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, the Bank's 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 FDIC, 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 decreased \$604,000, or 7.1%, to \$7.9 million for the year ended September 30, 2023, from \$8.5 million for the comparable 2022 period. The decrease was primarily due to decreases in in service fees on deposit accounts of \$19,000, loss on sale of investments, net of \$121,000, gain on sale of loans, net of \$67,000, service charges and fees on loans of \$480,000 and loan swap fees of \$48,000. These decreases were offset, in part, by increases earnings on bank owned life insurance of \$27,000, insurance commissions of \$11,000, other noninterest income of \$96,000 and trust and investment fees of \$5,000.

**Non-Interest Expense.** Non-interest expense increased \$2.4 million, or 5.6%, to \$45.7 million for fiscal year 2023 from \$43.3 million for the comparable period in 2022. The primary reasons for the increase in noninterest expense were increases in compensation and employee benefits of \$388,000, professional fees of \$1.2 million, data processing of \$333,000, FDIC insurance premiums of \$505,000 and foreclosed real estate of \$457,000. These increases were partially offset by decreases in occupancy and equipment of \$232,000, advertising of \$119,000 and other expenses of \$118,000.

**Income Taxes.** Income tax expense of \$4.5 million was recognized for fiscal year 2023 compared to an income tax expense of \$4.9 million recognized for fiscal year 2022. The effective tax rate for the year ended September 30, 2023 was 19.5% compared to 19.7% for the 2022 period.

## Average Balance Sheets for the Years Ended September 30, 2023 and 2022

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances, the yields set forth below include the effect of deferred fees and discounts and premiums that are amortized or accreted to interest income.

	For the Years Ended September 30,					
	Average Balance	2023 Interest Income/ Expense	Yield/ Cost (Dollars in thousands)	Average Balance	2022 Interest Income/ Expense	Yield/ Cost
<b>Interest-earning assets:</b>						
Loans <sup>(1) (2)</sup>	\$ 1,576,764	\$ 73,329	4.65 %	\$ 1,376,133	\$ 56,051	4.07 %
Investment securities						
Taxable <sup>(3)</sup>	115,574	5,229	4.52 %	100,019	2,788	2.79 %
Exempt from federal income tax <sup>(3) (4)</sup>	1,858	42	2.86 %	2,947	61	2.62 %
Total investment securities	117,432	5,271	4.50 %	102,966	2,849	2.78 %
Mortgage-backed securities	165,125	4,605	2.79 %	138,237	2,820	2.04 %
Regulatory stock	16,709	1,333	7.98 %	7,397	404	5.46 %
Other	20,958	961	4.59 %	142,473	688	0.48 %
Total interest-earning assets	1,896,988	85,499	4.51 %	1,767,206	62,812	3.56 %
Allowance for loan losses	(18,485)			(18,265)		
Noninterest-earning assets	132,826			114,939		
Total assets	<u>\$ 2,011,329</u>			<u>\$ 1,863,880</u>		
<b>Interest-bearing liabilities:</b>						
Interest bearing demand accounts	330,772	2,217	0.67 %	325,281	324	0.10 %
Money market accounts	358,520	5,294	1.48 %	426,771	678	0.16 %
Savings and club accounts	177,576	102	0.06 %	197,616	104	0.05 %
Certificates of deposit	318,937	9,786	3.07 %	330,657	1,546	0.47 %
Borrowed funds	305,623	6,546	2.14 %	63,754	389	0.61 %
Total interest-bearing liabilities	1,491,428	23,945	1.61 %	1,344,079	3,041	0.23 %
Non-interest bearing demand accounts	262,089			277,189		
Noninterest-bearing liabilities	38,283			30,693		
Total liabilities	1,791,800			1,651,961		
Equity	219,529			211,919		
Total liabilities and equity	<u>\$ 2,011,329</u>			<u>\$ 1,863,880</u>		
Net interest income		<u>\$ 61,554</u>			<u>\$ 59,771</u>	
Interest rate spread			2.90 %			3.33 %
Net interest-earning assets	<u>\$ 405,560</u>			<u>\$ 423,127</u>		
Net interest margin <sup>(5)</sup>			3.24 %			3.38 %
Average interest-earning assets to average interest-bearing liabilities		127.19 %			131.48 %	

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

(2) Interest income on loans includes net amortized costs on loans totaling \$486,000 in 2023 and \$1.2 million in 2022.

(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 21%.

(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. There were no out-of-period items or adjustments for 2023 or 2022.

	For the Years Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to		Net
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans	\$ 8,738	\$ 8,540	\$ 17,278
Investment securities	464	1,958	2,422
Mortgage-backed securities	618	1,167	1,785
Regulatory stock	680	249	929
Other	(30)	303	273
Total interest-earning assets	10,470	12,217	22,687
Interest-bearing liabilities:			
Interest bearing demand accounts	6	1,887	1,893
Money market accounts	(91)	4,707	4,616
Savings and club accounts	2	(4)	(2)
Certificates of deposit	(53)	8,293	8,240
Borrowed funds	3,707	2,450	6,157
Total interest-bearing liabilities	3,571	17,333	20,904
Net change in interest income	\$ 6,899	\$ (5,116)	\$ 1,783

## 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 loans, having longer maturities than our liabilities, consisting primarily of deposits and borrowings. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has approved guidelines for managing the interest rate risk inherent in our assets and liabilities, given our business strategy, operating environment, capital, liquidity and performance objectives. Senior management monitors the level of interest rate risk on a regular basis and the asset/liability committee meets quarterly to review our asset/liability policies and interest rate risk position. We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates.

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates and the relationship of different interest rates. To manage the impact of the rate changes, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities at approximately the same time intervals. The Company uses net interest simulation to assist in interest rate risk management. The process includes simulating various interest rate environments and their impact on net interest income. As of September 30, 2023, the level of net interest income at risk in a 200 basis points increase or a 200 basis point decrease was within the Company's policy limit of a decline less than 10% of net interest income.

The following table sets forth the results of the twelve month projected net interest income model as of September 30, 2023.

<u>Change in Interest Rates in Basis Points (Rate Shock)</u>	Amount \$	Net Interest Income	
		Change \$	Change (%)
		(Dollars in thousands)	
-400	63,781	(1,737)	(2.7)
-300	65,243	(275)	(0.4)
-200	66,031	513	0.8
-100	65,958	440	0.7
Static	65,518	-	-
+100	65,148	(370)	(0.6)
+200	64,342	(1,176)	(1.8)
+300	63,971	(1,547)	(2.4)
+400	62,945	(2,573)	(3.9)

The above table indicates that as of September 30, 2023, in the event of a 400 basis point instantaneous increase in interest rates, the Company would experience an 3.9%, or \$2.6 million, decrease in net interest income. In the event of a 400 basis point decrease in interest rates, the Company would experience a 2.7%, or \$1.7 million, decrease in net interest income.

Another measure of interest rate sensitivity is to model changes in the economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the economic value of equity model results as of September 30, 2023.

<u>Change in Interest Rates in Basis Points</u>	Amount \$	Economic Value of Equity	
		Change \$	Change (%)
		(Dollars in thousands)	
-400	313,592	13,140	4.4
-300	321,973	21,521	7.2
-200	320,677	20,225	6.7
-100	312,815	12,363	4.1
Flat	300,452	-	-
+100	286,689	(13,763)	(4.6)
+200	269,789	(30,663)	(10.2)
+300	254,243	(46,209)	(15.4)
+400	259,889	(40,563)	(13.5)

The preceding table indicates that as of September 30, 2023, in the event of an immediate and sustained 400 basis point increase in interest rates, the Company would experience a 13.5%, or \$40.6 million, decrease in the present value of equity. If rates were to decrease 400 basis points, the Company would experience a 4.4%, or \$13.1 million, increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the making of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company's interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on 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 FHLB advances and other borrowings. 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, 2023, \$85.4 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, increases in deposit accounts and borrowings. There were \$150.0 million in short-term investment securities (maturing in one year or less) at September 30, 2023. As of September 30, 2023, we had \$314.7 million in borrowings outstanding from the FHLB-Pittsburgh and \$60.0 million in borrowings at the Federal Reserve Bank. We have access to FHLB advances of up to approximately \$852.4 million.

At September 30, 2023, we had \$316.9 million in loan commitments outstanding, which included \$170.4 million in undisbursed construction loans, \$53.2 million in unused home equity lines of credit, \$77.4 million in commercial lines of credit and \$15.9 million in other unused commitments. Certificates of deposit due within one year of September 30, 2023 totaled \$457.3 million, or 90.7% 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, 2023. 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 \$20.9 million and \$22.7 million for the years ended September 30, 2023 and 2022, respectively. These amounts differ from our net income because of a variety of cash receipts and disbursements that did not affect net income for the respective periods. Net cash used for investing activities was \$377.1 million and \$128.1 million in fiscal years 2023 and 2022, respectively, principally reflecting our loan and investment security activities in the respective periods. Cash proceeds from principal repayments, maturities and sales of investment securities amounted to \$32.0 million and \$129.2 million in the years ended September 30, 2023 and 2022, respectively. Deposit and borrowing cash flows have traditionally comprised most of our financing activities which resulted in net cash provided by (used for) financing activities of \$424.8 million in fiscal year 2023, and \$(25.3) million in fiscal year 2022.

We also have obligations under our post retirement plan as described in Note 11 to the Consolidated Financial Statements. The post retirement benefit payments represent actuarially determined future payments to eligible plan participants. We froze our pension plan in fiscal year 2017.

**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 transactions 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, letters of credit and unused lines of credit, see Note 9 of the notes to the Consolidated Financial Statements. The Company also uses derivative financial instruments to manage interest rate risk. For information about the Company's derivatives and hedging activities, see Note 16 of the notes to the Consolidated Financial Statements.

For fiscal year 2023, 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. The Company used derivative financial instruments as part of its interest rate hedging activities in 2023.

### **Impact of Inflation and Changing Prices**

The financial statements and related notes of the Company 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.



**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding market risk, see "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operation."

**Item 8. Financial Statements and Supplementary Data**

The Financial Statements are included in Part IV, Item 15 of this Annual Report on Form 10-K.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not Applicable.

**Item 9A. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Principle Executive Officer and Principle Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal year (the "Evaluation Date"). Based upon that evaluation, the Principle Executive Officer and Principle Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

(b) Changes in internal controls.

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management report on internal control over financial reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of ESSA Bancorp; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ESSA Bancorp's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ESSA Bancorp, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2023. In making this assessment, we used the criteria set forth in 2013, by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of September 30, 2023, the Company's internal control over financial reporting is effective based on those criteria.

The Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to exemption rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

The Sarbanes-Oxley Act Section 302 Certifications have been filed with the SEC as Exhibit 31.1 and Exhibit 31.2 to this Annual Report on Form 10-K.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not Applicable.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors, executive officers and corporate governance of the Company is presented under the headings “Proposal 1 — Election of Directors,” “— Directors and Executive Officers,” “— Corporate Governance and Code of Ethics and Business Conduct” and “— Board Meetings and Committees” in the Company’s definitive Proxy Statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the Company’s fiscal year end (the “Proxy Statement”) and is incorporated herein by reference.

#### Item 11. Executive Compensation

Information regarding executive compensation is presented under the headings “Compensation Matters” “— Summary Compensation Table,” “— Other Benefit Plans and Agreements,” and “— Director Compensation” in the Proxy Statement and is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is presented under the heading “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement and is incorporated herein by reference.

#### Securities Authorized for Issuance Under Equity Compensation Plans

Set forth below is information, as of September 30, 2023 regarding equity compensation plans categorized by those plans that have been approved by stockholders and those plans that have not been approved by stockholders.

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders	—	\$ —	41,843
Equity compensation plans not approved by stockholders	—	—	—
Total	—	\$ —	41,843

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence is presented under the heading “Proposal I — Election of Directors” “— Director Independence” and “— Transactions with Certain Related Persons” in the Proxy Statement and is incorporated herein by reference.

#### Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services is presented under the heading “Proposal II — Ratification of the Appointment of Independent Registered Public Accountants” in the Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a)(1) Financial Statements

The following documents are filed as part of this Annual Report on Form 10-K.

(A) Report on Management's Assessment of Internal Control over Financial Reporting

(B) Report of Independent Registered Public Accounting Firm

(C) Consolidated Balance Sheet - at September 30, 2023 and 2022

(D) Consolidated Statement of Income - Years ended September 30, 2023 and 2022

(E) Consolidated Statement of Comprehensive Income (Loss) – Years ended September 30, 2023 and 2022

(F) Consolidated Statement of Changes in Stockholders' Equity - Years ended September 30, 2023 and 2022

(G) Consolidated Statement of Cash Flows - Years ended September 30, 2023 and 2022

(H) Notes to the Consolidated Financial Statements

#### (a)(2) Financial Statement Schedules

None.(a)(3) Exhibits

3.1	<a href="#"><u>Articles of Incorporation of ESSA Bancorp, Inc.<sup>(1)</sup></u></a>
3.2	<a href="#"><u>Bylaws of ESSA Bancorp, Inc.<sup>(1)</sup></u></a>
4.1	<a href="#"><u>Form of Common Stock Certificate of ESSA Bancorp, Inc.<sup>(1)</sup></u></a>
4.2	<a href="#"><u>Description of Capital Stock of ESSA Bancorp, Inc.<sup>(2)</sup></u></a>
10.1	<a href="#"><u>Amended and Restated Employment Agreement between ESSA Bancorp, Inc., ESSA Bank &amp; Trust and Gary S. Olson dated April 23, 2013<sup>(3)</sup></u></a>
10.2	<a href="#"><u>Amended and Restated Employment Agreement between ESSA Bancorp, Inc., ESSA Bank &amp; Trust and Allan A. Muto dated January 3, 2022<sup>(4)</sup></u></a>
10.3	<a href="#"><u>Amended and Restated Employment Agreement between ESSA Bancorp, Inc., ESSA Bank &amp; Trust and Peter A. Gray dated January 3, 2022<sup>(4)</sup></u></a>
10.4	<a href="#"><u>Amended and Restated Employment Agreement between ESSA Bancorp, Inc., ESSA Bank &amp; Trust and Charles D. Hangen dated January 3, 2022<sup>(4)</sup></u></a>
10.5	<a href="#"><u>Supplemental Executive Retirement Plan<sup>(5)</sup></u></a>
10.6	<a href="#"><u>Endorsement Split Dollar Life Insurance Agreement for Gary S. Olson<sup>(5)</sup></u></a>
10.7	<a href="#"><u>Endorsement Split Dollar Life Insurance Agreement for Allan A. Muto<sup>(5)</sup></u></a>
10.8	<a href="#"><u>Endorsement Split Dollar Life Insurance Agreement for Charles D Hangen<sup>(5)</sup></u></a>
10.9	<a href="#"><u>Endorsement Split Dollar Life Insurance Agreement for Ms. Weekes and Messrs. Henning, Kutteroff, Selig, and Regan<sup>(5)</sup></u></a>
10.10	<a href="#"><u>ESSA Bancorp, Inc. 2016 Equity Incentive Plan<sup>(6)</sup></u></a>
10.11	<a href="#"><u>ESSA Bank &amp; Trust Performance Based Long-Term Incentive Plan<sup>(7)</sup></u></a>
10.12	<a href="#"><u>ESSA Bank &amp; Trust Amended and Restated Executive/Management Annual Incentive Compensation Plan<sup>(8)</sup></u></a>
21	<a href="#"><u>Subsidiaries of Registrant</u></a>
23	<a href="#"><u>Consent of S.R. Snodgrass, P.C.</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32	<a href="#"><u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
97	<a href="#"><u>ESSA Bank and Trust Clawback Plan</u></a>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive data File (formatted as Inline XBRL and contained in Exhibit 101)

1 Incorporated by reference to the Registration Statement on Form S-1 of ESSA Bancorp, Inc. (file no. 333-139157), originally filed with the Securities and Exchange Commission on December 7, 2006.

2 Incorporated by reference to Exhibit 4.2 of ESSA Bancorp, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 14, 2020.

3 Incorporated by reference to ESSA Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 1, 2013.

4 Incorporated by reference to ESSA Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2022.

5 Incorporated by reference to ESSA Bancorp, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 6, 2008.

6 Incorporated by reference to Appendix A to the Proxy Statement for the Annual Meeting of Stockholders of ESSA Bancorp, Inc. (file no. 001-33384), filed by ESSA Bancorp, Inc. under the Exchange Act on January 26, 2016.

7 Incorporated by reference to ESSA Bancorp, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 16, 2019.

8 Incorporated by reference to ESSA Bancorp, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 14, 2021.

**Item 16. Form 10-K Summary**

None.

ESSA BANCORP, INC. AND SUBSIDIARY  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2023

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REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL  
OVER FINANCIAL REPORTING

ESSA Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of the Company, are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Company's system of internal control over financial reporting as of September 30, 2023, in relation to criteria for effective internal control over financial reporting as described in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management concludes that, as of September 30, 2023, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control — Integrated Framework".

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

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

December 14, 2023



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ESSA Bancorp, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of ESSA Bancorp, Inc. and subsidiary (the "Company") as of September 30, 2023 and 2022; the related consolidated statement of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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(304) 233-5030

S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia



## Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involve our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Allowance for Loan Losses (ALL) – Qualitative Factors**

#### *Description of the Matter*

The Company's loan portfolio totaled \$1.7 billion as of September 30, 2023, and the associated ALL was \$18.5 million. As discussed in Note 4 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in economic conditions, portfolio composition trends, classified loan trends, and delinquency trends.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

#### *How We Addressed the Matter in Our Audit*

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and peer bank data and considered the existence of new or contrary information. We also compared the ALL to a range of historical losses to evaluate the ALL, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports.



#### **Allowance for Loan Losses (ALL) – Qualitative Factors (Continued)**

##### *How We Addressed the Matter in Our Audit*

We also utilized internal credit review specialists to perform procedures on a sample of commercial loans to test the Company's credit risk ratings by comparing key attributes used in the determination of the credit risk rating to supporting documentation such as borrowers' financial statements, underlying collateral, financial health of the guarantor, and loan payment history.

We have served as the Company's auditor since 2005.



S.R. Snodgrass, P.C.

King of Prussia, Pennsylvania  
December 14, 2023

ESSA BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET

	2023	September 30, (dollars in thousands)	2022
<b>ASSETS</b>			
Cash and due from banks			
	\$	39,008	\$ 19,970
Interest-bearing deposits with other institutions			
		46,394	7,967
Total cash and cash equivalents		85,402	27,937
Investment securities available for sale, at fair value			
		334,056	208,647
Investment securities held to maturity, at amortized cost			
		52,242	57,285
Loans receivable (net of allowance for loan losses of \$ 18,525 and \$ 18,528 )		1,680,525	1,435,783
Loans held for sale		250	-
Regulatory stock, at cost		17,890	14,393
Premises and equipment, net		12,913	13,126
Bank-owned life insurance		39,026	38,240
Foreclosed real estate		3,311	29
Intangible assets, net		91	281
Goodwill		13,801	13,801
Deferred income taxes		6,877	5,375
Derivative and hedging assets		19,662	24,481
Other assets		27,200	22,439
TOTAL ASSETS		2,293,246	1,861,817
	\$	\$	
<b>LIABILITIES</b>			
Deposits			
	\$	1,661,016	\$ 1,380,021

Short-term borrowings	374,652	230,810
Advances by borrowers for taxes and insurance	6,550	11,803
Derivative and hedging liabilities	9,579	9,176
Other liabilities	21,741	17,670
<b>TOTAL LIABILITIES</b>	<b>2,073,538</b>	<b>1,649,480</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock (\$		
.01		
par value;		
10,000,000		
shares authorized,		
none		
issued)	-	-
Common stock (\$		
.01		
par value;		
40,000,000		
shares authorized,		
18,133,095		
issued;		
10,394,689		
and		
10,371,022		
outstanding at September 30, 2023 and 2022,	181	181
respectively)		
Additional paid-in capital	182,681	182,173
Unallocated common stock held by the Employee Stock Ownership Plan ("ESOP")	(	(
	6,009	6,462
	)	)
Retained earnings	151,856	139,139
Treasury stock, at cost;		
7,738,406		
and		
7,762,073	(	(
shares at September 30, 2023	99,508	99,800
and 2022, respectively	)	)
Accumulated other comprehensive loss	(	(
	9,493	2,894
	)	)

TOTAL STOCKHOLDERS' EQUITY

219,708212,337

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$2,293,246\$1,861,817

See accompanying notes to the consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF INCOME

Years Ended September 30,  
2023                      2022  
(dollars in thousands except per share data)

<b>INTEREST INCOME</b>		
Loans receivable, including fees		
	\$ 73,329	\$ 56,051
Investment securities:		
Taxable		
	9,834	5,608
Exempt from federal income tax		
	42	61
Other investment income		
	2,294	1,092
Total interest income	85,499	62,812
<b>INTEREST EXPENSE</b>		
Deposits		
	17,399	2,652
Short-term borrowings		
	6,546	389
Total interest expense	23,945	3,041
<b>NET INTEREST INCOME</b>	61,554	59,771
Provision for loan losses	700	-
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	60,854	59,771
<b>NONINTEREST INCOME</b>		
Service fees on deposit accounts		
	3,075	3,094
Services charges and fees on loans		
	1,350	1,830
Loan swap fees		
	263	311
Unrealized (loss) gain on equity securities	( 4 )	4
Trust and investment fees		
	1,640	1,635
Loss on sale of investment securities, net	( 121 )	-
Gain on sale of loans, net	172	239

Earnings on bank-owned life insurance	786	759
Insurance commissions	584	573
Other	161	65
Total noninterest income	7,906	8,510
NONINTEREST EXPENSE		
Compensation and employee benefits	26,621	26,233
Occupancy and equipment	4,341	4,573
Professional fees	4,760	3,512
Data processing	4,910	4,577
Advertising	648	767
Federal Deposit Insurance Corporation ("FDIC") premiums	1,078	573
Loss (gain) on foreclosed real estate	231	( 226 )
Amortization of intangible assets	190	239
Other	2,911	3,029
Total noninterest expense	45,690	43,277
Income before income taxes	23,070	25,004
Income taxes	4,494	4,934
NET INCOME	18,576	20,070
	\$	\$
Earnings per share:		
Basic	1.91	2.06
	\$	\$
Diluted	1.91	2.06
	\$	\$
Dividends per share	0.60	0.54
	\$	\$

See accompanying notes to the consolidated financial statements.





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

	Years Ended September 30,	
	2023	2022
	(dollars in thousands)	
Net income		
	\$ 18,576	\$ 20,070
Other comprehensive loss:		
Investment securities available for sale:		
Unrealized holding loss	( 4,737 )	( 20,053 )
Tax effect	995	4,212
Reclassification of losses recognized in net income	121	-
Tax effect	( 25 )	-
Net of tax amount	( 3,646 )	( 15,841 )
Pension plan adjustment:		
Unrealized holding gain	1,486	749
Tax effect	( 312 )	( 158 )
Reclassification adjustment related to actuarial gain	-	263
Tax effect	-	( 55 )
Net of tax amount	1,174	799
Derivative and hedging activities adjustments:		
Changes in unrealized gain on derivative included in net income	3,900	15,330
Tax effect	( 821 )	( 3,214 )
Reclassification adjustment for gains on derivatives included in net income	( 9,122 )	( 823 )
Tax effect	1,916	173
Net of tax amount	( 4,127 )	11,466
Total other comprehensive loss	( 6,599 )	( 3,576 )
Comprehensive income	\$ 11,977	\$ 16,494

See accompanying notes to the consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Number of Shares	Amount	Additional Paid-In Capital	Unallocated Common Stock Held by the ESOP (dollars in thousands except share and per share data)	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, September 30, 2021				(		(		
	10,461,443	181	181,659	6,915	124,342	98,127	682	201,822
		\$	\$	\$	\$	\$	\$	
Net income								
					20,070			20,070
Other comprehensive loss							(	(
							3,576	3,576
							)	)
Cash dividends declared (\$					(			(
0.54								
per share)					5,273			5,273
					)			)
Stock-based compensation								
			517					517
Allocation of ESOP stock								
			339	453				792
Allocation of treasury shares			(					(
to								
incentive plan	19,728		342			211		131
			)					)
Treasury shares purchased	(					(		(
	110,149					1,884		1,884
	)					)		)
Balance, September 30, 2022				(		(	(	
	10,371,022	181	182,173	6,462	139,139	99,800	2,894	212,337
				)		)	)	
Net income								
					18,576			18,576
Other comprehensive loss							(	(
							6,599	6,599
							)	)
Cash dividends declared (\$					(			(
0.60								
per share)					5,859			5,859
					)			)
Stock-based compensation								
			560					560
Allocation of ESOP stock								
			345	453				798
Allocation of treasury shares			(					(
to								
incentive plan	23,667		397			292		105
			)					)

Balance, September 30, 2023

			(		(		(	
				151,856				
10,394,689	181	182,681	6,009		99,508	9,493	219,708	
<u>          </u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>          </u> )	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>          </u>

See accompanying notes to the consolidated financial statements.

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

	Years Ended September 30,	
	2023	2022
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income		
	\$ 18,576	\$ 20,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700	-
Provision for depreciation and amortization	1,110	1,073
Amortization and accretion of discounts and premiums, net	( 1,390 )	( 377 )
Net loss on sale of investment securities	121	-
Compensation expense on ESOP	798	792
Stock-based compensation	560	517
Amortization of right-of-use-asset	815	869
Unrealized loss (gain) on equity securities	4	( 4 )
Gain on sale of loans, net	( 172 )	( 239 )
Origination of residential real estate loans for sale	( 13,031 )	( 12,939 )
Proceeds from sale of residential real estate loans	12,953	13,559
Increase in accrued interest receivable	( 3,282 )	( 1,154 )
Increase in accrued interest payable	4,993	155
Earnings on bank-owned life insurance	( 786 )	( 759 )
Deferred federal income taxes	252	188
Decrease in accrued pension liability	( 312 )	( 410 )
Loss (gain) on foreclosed real estate	231	226

Amortization of intangible assets	190	239
Other, net	(	
	1,470	1,729
	)	
Net cash provided by operating activities	20,860	22,707
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sale of investment securities	881	-
Proceeds from principal repayments and maturities	26,192	123,760
Purchases	(	(
	156,233	112,657
	)	)
Investment securities held to maturity:		
Proceeds from principal repayments and maturities	4,961	5,429
Purchases		(
	-	41,231
		)
Increase in loans receivable, net	(	(
	248,502	93,586
	)	)
Redemption of regulatory stock	31,425	423
Purchase of regulatory stock	(	(
	34,922	10,165
	)	)
Proceeds from sale of foreclosed real estate	33	469
Purchase of premises, equipment, and software	(	(
	955	571
	)	)
Net cash used for investing activities	(	(
	377,120	128,129
	)	)
FINANCING ACTIVITIES		
Increase (decrease) in deposits, net		(
	280,995	256,094
		)
Net increase in short-term borrowings	143,842	230,810
(Decrease) increase in advances by borrowers for taxes and insurance	(	
	5,253	6,854
	)	
Purchase of common stock		(
	-	1,884
		)
Dividends on common stock	(	(
	5,859	5,273
	)	)
Net cash provided by (used for) financing activities		(
	413,725	25,587
		)

Increase (decrease) in cash and cash equivalents		(
	57,465	131,009
		)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	27,937	158,946
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	85,402	27,937
	\$	\$

See accompanying notes to the consolidated financial statements.



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

SUPPLEMENTAL CASH FLOW DISCLOSURES

	Years Ended September 30,	
	2023	2022
	(dollars in thousands)	
Cash paid:		
Interest		
	\$ 18,952	\$ 2,886
Income taxes		
	3,600	3,447
Noncash items:		
Transfers from loans to foreclosed real estate		
	3,546	54
Initial recognition of operating right-of-use asset		
	840	805
Initial recognition of operating lease liability		
	840	805
Unrealized holding loss on investment securities available for sale	(	(
	4,616	20,053
	)	)

See accompanying notes to the consolidated financial statements.

**ESSA BANCORP, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

**Nature of Operations and Basis of Presentation**

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

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned

100

percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania Corporation that provided investment advisory services to the general public and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania Corporation that provided title insurance services and is currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates in the Preparation of Financial Statements**

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

**Securities**

The Company determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

Securities available for sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income (loss), net of the related deferred tax effects. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the Company's intent to sell the security or whether it's more likely than not that the Company would be required to sell the security before its anticipated recovery in market value.

Securities classified as held-to-maturity are those that the Company has the positive intent and ability to hold until maturity. These securities are reported at amortized cost.

The fair market value of the equity securities tends to fluctuate with the overall equity markets as well as the trends specific to each institution. The equity securities portfolio is reviewed in a similar manner as that of the debt securities with greater emphasis placed on the length of time the market value has been less than the carrying value and the financial sector outlook. The Company also reviews dividend payment activities, levels of non-performing assets and loan loss reserves. The starting point for the equity analysis is the length and severity of market value decline. The realized loss is recognized as impairment charges on securities on the consolidated statements of income. The previous cost basis less the OTTI recognized in earnings becomes the new cost basis of the investment.

Certain equity securities that do not have a readily determinable fair value are stated at cost, adjusted for observable price changes in orderly transactions for identical or similar investments of the same issuer. These securities include restricted stock of the Federal Home Loan Bank of Pittsburgh, as well as other equity securities.

### **Loans Receivable**

Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or the Company has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to the Company's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

### **Loans Acquired**

Loans acquired including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. Loans are evaluated individually to determine if there is evidence of deterioration of credit quality since origination. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. Any valuation allowances on these impaired loans reflect only losses incurred after acquisition.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Loans are aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Company records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

### **Allowance for Loan Losses**

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is maintained at a level by management which represents the evaluation of known and inherent risks in the loan portfolio at the Consolidated Balance Sheet date. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective, since it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

The allowance for loan losses consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans an allowance for loan losses is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors.

All loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement and all loan types are considered impaired if the loan is restructured in a troubled debt restructuring. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures unless such loans are part of a larger relationship that is impaired or classified as a troubled debt restructuring or is more than 180 days past due.

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

### **Regulatory Stock**

Regulatory stock consists of Federal Home Loan Bank ("FHLB") of Pittsburgh stock and Atlantic Community Bankers Bank stock. Regulatory stock is carried at cost. The Company is a member of the Federal Home Loan Bank System and holds stock in the Federal Home Loan Bank of Pittsburgh. As a member, the Company maintains an investment in the capital stock of the FHLB of Pittsburgh in an amount not less than

10  
basis points of the outstanding member asset value plus

4.0  
percent of its outstanding FHLB borrowings, as calculated throughout the year. The equity security is accounted for at cost and classified separately on the Consolidated Balance Sheet. The stock is bought from and sold to the FHLB based upon its \$

100  
par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. With consideration given to these factors, management concluded that the stock was not impaired at September 30, 2023.

### **Loan Servicing**

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for

impairment based upon a third-party appraisal. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. The Company's loan servicing assets at September 30, 2023 and 2022, were not impaired. Total servicing assets included in other assets as of September 30, 2023 and 2022, were \$

874,000  
and \$

788,000  
, respectively.

### **Premises and Equipment**

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the useful lives of the related assets, which range from 10 to 40 years for buildings, land improvements, and leasehold improvements and three to seven years for furniture, fixtures, and equipment. Expenditures for maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

### **Derivative Instruments and Hedging Activities**

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

In accordance with the FASB's fair value measurement guidance, the Company has elected to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

### **Bank-Owned Life Insurance ("BOLI")**

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increase in cash surrender value is recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit which would be recorded as noninterest income.

### **Foreclosed Real Estate**

Real estate owned acquired in settlement of foreclosed loans is carried at fair value minus estimated costs to sell. At acquisition of real estate acquired in settlement of foreclosed loans, the excess of the remaining loan balance over the asset's estimated fair value less cost to sell is charged off against the allowance for loan losses. Subsequent declines in the asset's value are recognized as noninterest expense in the Consolidated Statement of Income. Operating expenses of such properties, net of related income, are expensed in the period incurred.

### **Goodwill and Intangible Assets**

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

no

impairment was recorded in 2023 or 2022.

The other intangible assets are assigned useful lives, which are amortized on an accelerated basis over their weighted-average lives. The Company periodically reviews intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Based on these reviews,

no

impairment was recorded in 2023 and 2022.

The following tables provide information for the carrying amount of goodwill and intangible assets (in thousands):

<u>Goodwill</u>	2023	2022
Balance at beginning of year		
	\$ 13,801	\$ 13,801
Goodwill acquired	-	-
Balance at end of year		
	\$ 13,801	\$ 13,801
	<u>\$</u>	<u>\$</u>
<u>Intangible assets</u>	2023	2022
Balance at beginning of year		
	\$ 281	\$ 520
Intangible assets acquired	-	-
Amortization	(	(
	190	239
	)	)
Balance at end of year		
	\$ 91	\$ 281
	<u>\$</u>	<u>\$</u>

Amortizable intangible assets were composed of the following (in thousands):

	Gross Carrying Amount	September 30, 2023	September 30, 2022
		Accumulated Amortization	
		(dollars in thousands)	
Core deposit intangible			
	\$ 4,787	\$ 4,696	\$ 4,506

	2023	2022
Aggregate amortization expense:		
As of the years ended September 30		
	\$ 190	\$ 239

Estimated future amortization expense (in thousands):

2024	
	91
	<u>\$ 91</u>

#### **Employee Benefit Plans**

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

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

#### **Advertising Costs**

The Company expenses all advertising expenditures incurred.

#### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### **Income Taxes**

Deferred tax assets and liabilities are reflected based on the differences between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expense and benefit are based on the changes in the deferred tax assets or liabilities from period to period. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which such items are expected to be realized or settled. As changes in tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files a consolidated federal income tax return and individual state income tax returns.

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

### **Cash and Cash Equivalents**

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits with other institutions with original maturities of less than 90 days.

### **Earnings Per Share**

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported as the numerator and average shares outstanding as the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any options are adjusted for in the denominator.

### **Comprehensive Income (Loss)**

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed of net unrealized holding gains or losses on its available-for-sale investment and mortgage-backed securities portfolio and derivative instruments, and changes in unrecognized pension cost.

### **Fair Value Measurements**

The Company groups assets and liabilities carried at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level I – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level II – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level III – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

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



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

#### **Reclassification of Comparative Amounts**

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect consolidated net income or consolidated stockholders' equity.

#### **Recent Accounting Pronouncements**

*ASU 2016-13: The FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as further amended.

The ASU requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model, referred to as the current expected credit loss model ("CECL"). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets") should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance is added to the purchase price to determine the initial amortized cost basis, referred to as the gross up approach. The subsequent accounting for PCD assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale ("AFS") debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. Certain incremental disclosures are required.

Subsequently, the FASB issued ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10, and ASU 2019-11 and ASU 2020-02 to clarify, improve, or defer the adoption of ASU 2016-13. In October 2019, the FASB issued ASU 2019-10 which deferred the implementation date of ASU 2016-13 until October 1, 2023.

The Company has finalized the methodology determination, software models, quantitative framework, and policies and procedures for how to determine expected credit losses under the new guidance. Management is finalizing the qualitative component of the CECL calculation, reviewing internal procedures, policies, assumptions, and is working with an independent third-party consultant to validate system models.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (ASC 815): Fair Value Hedging - Portfolio Layer Method*. ASC 815 currently permits only prepayable financial assets and one or more beneficial interests secured by a portfolio of prepayable financial instruments to be included in a last-of-layer closed portfolio. The amendments in this Update allow non-prepayable financial assets to also be included in a closed portfolio hedged using the portfolio layer method. That expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and non-prepayable financial assets,

thereby allowing consistent accounting for similar hedges. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

ASU No. 2022-02: The FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*.

This ASU eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether a modification represents a new loan or a continuation of an existing loan. In addition, this ASU enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.

For entities that have adopted the amendments in update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in update 2016-13, the effective dates for the amendments in this update are the same as the effective dates in Update 2016-13.

In March 2023, the FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)*. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in Accounting Standards Codification (ASC) 323-740-25-1. While the ASU does not significantly alter the existing eligibility criteria, it does provide clarifications to address existing interpretive issues. It also prescribes specific information reporting entities must disclose about tax credit investments each period. This ASU is effective for reporting periods beginning after December 15, 2023, for public business entities, or January 1, 2024 for the Company. The Company does not expect the adoption of this ASU to have a material impact on the Company's financial statements.

## 2. EARNINGS PER SHARE

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ended September 30, 2023 and 2022.

	2023	2022
Weighted-average common shares outstanding	18,133,095	18,133,095
Average treasury stock shares	( 7,732,056 )	( 7,668,387 )
Average unearned ESOP shares	( 631,882 )	( 656,281 )
Average unearned nonvested shares	( 43,953 )	( 46,990 )
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	9,725,204	9,761,437
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	-	3,720
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	-	-
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	9,725,204	9,765,157

At September 30, 2023, there were

11,588  
shares of nonvested stock outstanding at an average weighted price of \$

16.54  
per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive. At September 30, 2022 there were

21,340  
shares of nonvested stock outstanding at an average weighted price of \$

16.55  
per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

### 3. INVESTMENT SECURITIES

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

		2023		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale</b>				
Fannie Mae			(	
	55,878		6,418	49,460
	\$	\$	-	\$
Freddie Mac			(	
	49,833	1	5,552	44,282
			)	
Governmental National Mortgage Association securities			(	
	6,986		397	6,589
		-	)	
Total mortgage-backed securities			(	
	112,697	1	12,367	100,331
			)	
Obligations of states and political subdivisions			(	
	9,794		742	9,052
		-	)	
U.S. government treasury securities			(	
	123,562	19	1	123,580
			)	
U.S. government agency securities			(	
	29,089		137	28,952
		-	)	
Corporate obligations			(	
	73,962		8,241	65,721
		-	)	
Other debt securities			(	
	7,139		719	6,420
		-	)	
Total debt securities			(	
	356,243	20	22,207	334,056
	\$	\$	\$	\$
			)	
<b>Held to maturity</b>				
Fannie Mae			(	
	27,652		5,217	22,435
	\$	\$	-	\$
Freddie Mac			(	
	22,145		4,424	17,721
		-	)	
Total			(	
	49,797		9,641	40,156
		-	)	
U.S. government agency securities			(	
	2,445		511	1,934
		-	)	

Total debt securities				(
	52,242		10,152	42,090
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		2022		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale</b>				
Fannie Mae				(
	61,118	1	5,432	55,687
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Freddie Mac				(
	53,842	-	4,532	49,310
Governmental National Mortgage Association securities				(
	5,411	-	248	5,163
Total mortgage-backed securities				(
	120,371	1	10,212	110,160
Obligations of states and political subdivisions				(
	10,815	-	895	9,920
U.S. government agency securities				(
	9,530	-	200	9,330
Corporate obligations				(
	76,692	14	5,587	71,119
Other debt securities				(
	8,810	2	694	8,118
Total debt securities				(
	226,218	17	17,588	208,647
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Held to maturity</b>				
Fannie Mae				(
	30,659	-	5,127	25,532
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Freddie Mac				(
	24,187	-	4,142	20,045
Total				(
	54,846	-	9,269	45,577
U.S. government agency securities				(
	2,439	-	470	1,969
Total debt securities				(
	57,285	-	9,739	47,546
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the twelve months ended September 30, 2023 and 2022.

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(Dollars in thousands)	2023	2022
	(	
Net (losses) gains recognized during the period on equity securities	\$ 4 )	\$ 4
Less: Net gains recognized during the period on equity securities sold during the period	-	-
	(	
Unrealized (losses) gains recognized during the reporting period on equity securities still held at the reporting date	\$ 4 )	\$ 4

The amortized cost and fair value of debt securities at September 30, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less				
	\$ 150,017	\$ 149,999	\$ -	\$ -
Due after one year through five years				
	39,045	36,789	-	-
Due after five years through ten years				
	71,145	62,520	7,027	5,945
Due after ten years				
	96,036	84,748	45,215	36,145
Total				
	\$ 356,243	\$ 334,056	\$ 52,242	\$ 42,090

For the year ended September 30, 2023 the Company realized

no  
gross gains and gross losses of \$

121,000  
on proceeds from the sale of investment securities of \$

1.0  
million. For the year ended September 30, 2022, the Company did

no  
t sell any investment securities.

Investment securities with carrying values of \$

289.4  
million and \$

245.5  
million at September 30, 2023 and 2022, respectively, were pledged to secure public deposits and other purposes as required by law.

Investment securities with carrying values of \$

57.3  
million at September 30, 2023 were pledged to the Federal Reserve Bank.

No  
securities were pledged to the Federal Reserve Bank in 2022.

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

Number of Securities	Less than Twelve Months		2023 Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

Fannie Mae			(		(		(
	77	\$ 5,675	\$ 196	\$ 66,220	\$ 11,439	\$ 71,895	\$ 11,635
			)		)		)
Freddie Mac			(		(		(
	63	3,828	159	57,168	9,817	60,996	9,976
			)		)		)
Governmental National Mortgage Association securities			(		(		(
	14	2,151	51	4,438	346	6,589	397
			)		)		)
Obligations of states and political subdivisions					(		(
	11	-	-	9,052	742	9,052	742
					)		)
U.S. government treasury securities			(				(
	1	24,705	1	-	-	24,705	1
			)				)
U.S. government agency securities			(		(		(
	4	24,582	6	6,304	642	30,886	648
			)		)		)
Corporate obligations			(		(		(
	87	6,045	273	59,677	7,968	65,722	8,241
			)		)		)
Other debt securities					(		(
	17	395	-	6,025	719	6,420	719
					)		)
Total			(		(		(
	274	\$ 67,381	\$ 686	\$ 208,884	\$ 31,673	\$ 276,265	\$ 32,359
			)		)		)



				2022			
	Number of Securities	Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Fannie Mae			(		(		(
	74	67,101	8,344	13,759	2,215	80,860	10,559
		\$	\$	\$	\$	\$	\$
Freddie Mac			(		(		(
	63	59,954	6,868	9,401	1,806	69,355	8,674
			)		)		)
Governmental National Mortgage Association securities			(		(		(
	13	2,924	194	2,182	54	5,106	248
			)		)		)
Obligations of states and political subdivisions			(				(
	12	9,920	895	-	-	9,920	895
			)				)
U.S. government agency securities			(				(
	4	11,299	670	-	-	11,299	670
			)				)
Corporate obligations			(		(		(
	88	49,333	3,394	19,773	2,193	69,106	5,587
			)		)		)
Other debt securities			(		(		(
	17	5,764	610	1,759	84	7,523	694
			)		)		)
Total			(		(		(
	271	206,295	20,975	46,874	6,352	253,169	27,327
		\$	\$	\$	\$	\$	\$

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

The Company reviews its position quarterly and has asserted that at September 30, 2023 and 2022, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio at September 30, 2023 and 2022, is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

#### 4. LOANS RECEIVABLE

Loans receivable consist of the following (in thousands):

	2023	2022
Real estate loans:		
Residential		
	713,326	623,375
	\$	\$
Construction		
	16,768	25,024
Commercial		
	821,958	678,841

Commercial		
	48,143	38,158
Obligations of states and political subdivisions		
	48,118	40,416
Home equity loans and lines of credit		
	48,212	43,170
Auto loans		
	523	3,611
Other		
	2,002	1,716
	1,699,050	1,454,311
Less allowance for loan losses		
	18,525	18,528
Net loans		
	<u>\$ 1,680,525</u>	<u>\$ 1,435,783</u>

Loans serviced by the Company for others amounted to \$

217.0  
million and \$

200.2  
million at September 30, 2023 and 2022, respectively. The Company began selling current production residential real estate loans to the FHLB in February 2020.

The Company's primary business activity is with customers located in counties where its branch offices are located and to a lesser extent, the contiguous counties in the Commonwealth of Pennsylvania. Commercial, residential, and consumer loans are granted. The Company also funds commercial and residential loans originated outside its immediate trade area provided such loans meet the Company's credit policy guidelines. Although the Company has a diversified loan portfolio at September 30, 2023 and 2022, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

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

	Total Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
<b>September 30, 2023</b>			
Real estate loans:			
Residential			
	\$ 713,326	\$ 1,393	\$ 711,933
Construction			
	16,768	-	16,768
Commercial			
	821,958	7,664	814,294
Commercial			
	48,143	648	47,495
Obligations of states and political subdivisions			
	48,118	-	48,118
Home equity loans and lines of credit			
	48,212	27	48,185
Auto Loans			
	523	-	523
Other			
	2,002	3	1,999
Total			
	<u>\$ 1,699,050</u>	<u>\$ 9,735</u>	<u>\$ 1,689,315</u>

	Total Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
<b>September 30, 2022</b>			
Real estate loans:			
Residential			
	\$ 623,375	\$ 1,342	\$ 622,033
Construction			
	25,024	-	25,024
Commercial			
	678,841	12,165	666,676
Commercial			
	38,158	937	37,221

Obligations of states and political subdivisions			
	40,416	-	40,416
Home equity loans and lines of credit			
	43,170	36	43,134
Auto Loans			
	3,611	16	3,595
Other			
	1,716	6	1,710
Total			
	<u>\$ 1,454,311</u>	<u>\$ 14,502</u>	<u>\$ 1,439,809</u>

The Company maintains 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 the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. The Company does not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, excluding purchased impaired credit loans. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired (in thousands).

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
<b>September 30, 2023</b>					
<b>With no specific allowance recorded:</b>					
Real estate loans:					
Residential					
	\$ 1,294	\$ 2,091	\$ -	\$ 1,140	\$ 3
Construction	-	-	-	-	-
Commercial					
	6,240	7,094	-	8,182	1
Commercial					
	648	960	-	549	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit					
	27	62	-	32	-
Auto loans					
	-	-	-	3	-
Other					
	3	17	-	5	-
Subtotal					
	8,212	10,224	-	9,911	4
<b>With an allowance recorded:</b>					
Real estate loans:					
Residential					
	99	103	7	101	-
Construction	-	-	-	-	-
Commercial					
	1,424	1,562	35	1,490	-
Commercial					
	-	-	-	267	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Auto loans	-	-	-	-	-
Other	-	-	-	-	-
Subtotal					
	1,523	1,665	42	1,858	-
<b>Total:</b>					
Real estate loans:					
Residential					
	1,393	2,194	7	1,241	3
Construction	-	-	-	-	-

Commercial

	7,664	8,656	35	9,672	1
Commercial					
	648	960	-	816	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit					
	27	62	-	32	-
Auto loans					
	-	-	-	3	-
Other					
	3	17	-	5	-
Total					
	9,735	11,889	42	11,769	4
	\$	\$	\$	\$	\$

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
<b>September 30, 2022</b>					
<b>With no specific allowance recorded:</b>					
Real estate loans:					
Residential					
	\$ 1,239	\$ 2,029	\$ -	\$ 1,776	\$ 8
Construction	-	-	-	-	-
Commercial					
	8,384	8,987	-	5,898	-
Commercial					
	865	905	-	139	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit					
	36	68	-	271	-
Auto loans					
	16	28	-	18	-
Other					
	6	19	-	7	-
Subtotal					
	10,546	12,036	-	8,109	8
<b>With an allowance recorded:</b>					
Real estate loans:					
Residential					
	103	108	12	113	-
Construction	-	-	-	-	-
Commercial					
	3,781	3,928	301	957	-
Commercial					
	72	83	38	529	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit	-	-	-	-	-
Auto loans					
	-	-	-	3	-
Other	-	-	-	-	-
Subtotal					
	3,956	4,119	351	1,602	-
<b>Total:</b>					
Real estate loans:					
Residential					
	1,342	2,137	12	1,889	8
Construction	-	-	-	-	-

## Commercial

	12,165	12,915	301	6,855	-
Commercial					
	937	988	38	668	-
Obligations of states and political subdivisions	-	-	-	-	-
Home equity loans and lines of credit					
	36	68	-	271	-
Auto loans					
	16	28	-	21	-
Other					
	6	19	-	7	-
Total					
	14,502	16,155	351	9,711	8
	\$	\$	\$	\$	\$

The Company uses a dual risk rating methodology to monitor the credit quality of the overall commercial loan portfolio. This rating system consists of a borrower rating scale from 1 to 14 and a collateral coverage rating scale from A to J that provides a mechanism to separate borrower creditworthiness from the value of collateral recovery in the event of default. The two ratings are combined using a matrix to develop an overall composite loan quality risk rating. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are fundamentally sound yet, exhibit potentially unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the Loss category are considered uncollectible and of little value that their continuance as bankable assets is not warranted.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death, occurs to raise awareness of a possible credit event. The Company's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Company's credit management team performs an annual review of all commercial relationships \$

2,000,000

or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Company engages an external consultant to conduct loan reviews on at least a semiannual basis. Generally, the external consultant reviews commercial relationships greater than



\$

1,000,000

and/or all criticized relationships equal to or greater than \$

500,000

Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Substandard category that are evaluated for impairment are given separate consideration in the determination of the allowance.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of September 30, 2022 and 2022 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
<b>September 30, 2023</b>					
Commercial real estate loans					
	807,736	3,200	11,022	-	821,958
	\$	\$	\$	\$	\$
Commercial					
	46,452	-	1,691	-	48,143
Obligations of states and political subdivisions					
	48,118	-	-	-	48,118
Total					
	902,306	3,200	12,713	-	918,219
	\$	\$	\$	\$	\$

	Pass	Special Mention	Substandard	Doubtful	Total
<b>September 30, 2022</b>					
Commercial real estate loans					
	659,104	6,060	13,677	-	678,841
	\$	\$	\$	\$	\$
Commercial					
	35,322	1,690	1,146	-	38,158
Obligations of states and political subdivisions					
	40,416	-	-	-	40,416
Total					
	734,842	7,750	14,823	-	757,415
	\$	\$	\$	\$	\$

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or nonperforming.

For residential real estate loans, construction real estate loans, home equity loans and lines of credit, auto loans, and other loans, the Company evaluates credit quality based on the performance of the individual credits. The following tables present the recorded investment in the loan classes based on payment activity as of September 30, 2023 and 2022 (in thousands):

	Performing	Nonperforming	Total
<b>September 30, 2023</b>			
Real estate loans:			
Residential			
	710,757	2,569	713,326
	\$	\$	\$
Construction			
	16,768	-	16,768

Home equity loans and lines of credit			
	48,165	47	48,212
Auto loans			
	523	-	523
Other			
	1,972	30	2,002
Total			
	778,185	2,646	780,831
	<u>\$</u>	<u>\$</u>	<u>\$</u>
	Performing	Nonperforming	Total
<b>September 30, 2022</b>			
Real estate loans:			
Residential			
	621,781	1,594	623,375
	\$	\$	\$
Construction			
	25,024	-	25,024
Home equity loans and lines of credit			
	42,832	338	43,170
Auto loans			
	3,590	21	3,611
Other			
	1,710	6	1,716
Total			
	694,937	1,959	696,896
	<u>\$</u>	<u>\$</u>	<u>\$</u>

The Company further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans, purchased credit impaired loans and nonaccrual loans as of September 30, 2023 and 2022 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans
<b>September 30, 2023</b>						
Real estate loans:						
Residential						
	710,290	792	199	2,045	3,036	713,326
	\$	\$	\$	\$	\$	\$
Construction	16,768	-	-	-	-	16,768
Commercial	820,853	240	-	865	1,105	821,958
Commercial	47,893	-	-	250	250	48,143
Obligations of states and political subdivisions	48,118	-	-	-	-	48,118
Home equity loans and lines of credit	48,191	-	-	21	21	48,212
Auto loans	485	37	1	-	38	523
Other	1,959	10	33	-	43	2,002
Total	1,694,557	1,079	233	3,181	4,493	1,699,050
	\$	\$	\$	\$	\$	\$
<b>September 30, 2022</b>						
Real estate loans:						
Residential						
	621,270	598	367	1,140	2,105	623,375
	\$	\$	\$	\$	\$	\$
Construction	25,024	-	-	-	-	25,024
Commercial	672,875	5,719	-	247	5,966	678,841
Commercial	37,160	539	440	19	998	38,158
Obligations of states and political subdivisions	40,416	-	-	-	-	40,416
Home equity loans and lines of credit	42,842	121	144	63	328	43,170
Auto loans	3,462	134	2	13	149	3,611
Other	1,685	-	31	-	31	1,716

Total

	1,444,734	7,111	984	1,482	9,577	1,454,311
	\$	\$	\$	\$	\$	\$

#### Non-Accrual Loans

September 30, 2023

September 30, 2022

#### Real estate loans:

##### Residential

2,569 1,594

\$

\$

##### Construction

-

-

##### Commercial

7,763 12,165

#### Commercial

652 958

#### Obligations of states and political subdivisions

- -

#### Home equity loans and lines of credit

47 338

#### Auto loans

21

#### Other

30 6

#### Total

11,061 15,082

\$

\$

There were

no

loans greater than 90 days delinquent and still accruing interest at September 30, 2023 and 2022.

The allowance for loan losses ("ALL") is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. The allowance for loan losses consists of three elements: (1) an allocated allowance, which comprises allowances established on specific loans and class allowances based on historical loss experience and current trends, (2) an allocated allowance based on general economic conditions and other risk factors in our markets and portfolios, and (3) an unallocated allowance not to exceed

10

% of total reserves which acts as a contingency against unforeseen future events which may negatively impact the Company's loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral, and financial condition of the borrowers. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans that are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary, based on changing economic conditions. Payments received on impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. The allowance for loan losses as of September

The following table summarizes the primary segments of the ALL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of September 30, 2023 and 2022 (in thousands):

[illegible]

Individually evaluated for  
impairment

	7		35							42
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Collectively evaluated for  
impairment

4,890	183	11,948	941	110	346	2	22	41	18,483
-------	-----	--------	-----	-----	-----	---	----	----	--------

ALL balance at September  
30, 2023

4,897	183	11,983	941	110	346	2	22	41	18,525
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date. During the year ended September 30, 2023 the Company recorded provision expense for the commercial real estate loans and commercial loans segments due to either increased loan balances, changes in the loan mix within the pool, and/or charge-off activity in those segments. Credit provisions were recorded for loan loss for the residential real estate loans, construction loans, obligations of states and political subdivisions, home equity loans and lines of credit, other loans and auto loans segments due to either decreased loan balances, improved asset quality, changes in the loan mix within the pool, and/or decreased charge-off activity in those segments. During the year ended September 30, 2022 the Company recorded provision expense for the residential real estate loans, construction real estate loans, commercial real estate loans, home equity loans and lines of credit and other loans segments due to either increased loan balances, changes in the loan mix within the pool, and/or charge-off activity in those segments.

During the year ended September 30, 2023, the allowance for loan loss for commercial real estate loans increased \$

1.8  
million due primarily to an increase in commercial real estate loans of \$

143.1  
million. Credit provisions were recorded for loan loss for the commercial loans, obligations of states and political subdivisions, and auto loans segments due to either decreased loan balances, improved asset quality, changes in the loan mix within the pool, and/or decreased charge-off activity in those segments. During the year ended September 30, 2022, the allowance for loan loss for residential real estate loans increased \$

1.0  
million due primarily to an increase in residential real estate loans of \$

43.1  
million.

The following is a summary of troubled debt restructurings granted during the periods indicated (dollars in thousands).

	For the Year Ended September 30, 2023		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled debt restructurings</u>			
Real estate loans:			
Residential	3	295	355
		\$	\$
Construction	-	-	-
Commercial	3	6,058	6,058
Commercial	-	-	-
Obligations of states and political subdivisions	-	-	-
Home equity loans and lines of credit	-	-	-
Auto loans	-	-	-
Other	-	-	-
Total	6	6,353	6,413
		\$	\$

	For the Year Ended September 30, 2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<u>Troubled debt restructurings</u>			
Real estate loans:			
Residential	2	83	93
		\$	\$
Construction	-	-	-
Commercial	-	-	-
Commercial	-	-	-
Obligations of states and political subdivisions	-	-	-
Home equity loans and lines of credit	-	-	-
Auto loans	-	-	-
Other	-	-	-
Total	2	83	93
		\$	\$

One  
new troubled debt restructuring granted for the year ended September 30, 2023 totaled \$

211,000  
and was granted interest rate concessions .

Four  
new troubled debt restructurings granted for the year ended September 30, 2023 totaled \$

6.1  
million and were terms concessions.

One  
new troubled debt restructuring granted for the year ended September 30, 2023 totaled \$

33,000  
and was granted interest rate and terms concessions.

One  
new troubled debt restructuring granted for the year ended September 30, 2022 totaled \$

44,000  
and was granted interest rate and terms concessions.

One  
new troubled debt restructuring granted for the year ended September 30, 2022 totaled \$

39,000

and was granted interest rate and interest capitalization concessions.

For the years ended September 30, 2023 and 2022 there was

no

loan modifications classified as troubled debt restructurings that subsequently defaulted within one year of modification.

As of September 30, 2023, the Company has initiated formal foreclosure proceedings on \$

568,000

of consumer residential mortgages which have not yet been transferred into foreclosed assets.



## 5. PREMISES AND EQUIPMENT

Premises and equipment consist of the following (in thousands):

	2023	2022
Land and land improvements		
	\$ 6,075	\$ 6,075
Buildings and leasehold improvements		
	16,100	16,030
Furniture, fixtures, and equipment		
	14,565	13,961
Construction in process		
	44	7
	36,784	36,073
Less accumulated depreciation	(	(
	23,871	22,947
	)	)
Total		
	\$ 12,913	\$ 13,126

Depreciation expense amounted to \$

919,000  
and \$

896,000  
for the years ended September 30, 2023 and 2022 respectively.

## 6. DEPOSITS

Deposits and their respective weighted-average interest rates consist of the following major classifications (dollars in thousands):

	2023		2022	
	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate	Amount
Noninterest-bearing demand accounts				
	- %	\$ 280,473	- %	\$ 290,061
Interest bearing demand accounts				
	0.65	346,458	0.10	357,516
Money market accounts				
	2.02	366,866	0.73	402,080
Savings and club accounts				
	0.06	163,248	0.05	196,696
Certificates of deposit				
	3.99	503,971	0.49	133,668

Total

1.80	1,661,016	0.29	1,380,021
%	\$	%	\$

At September 30, 2023 scheduled maturities of certificates of deposit are as follows (in thousands):

2024	
	457,232
	\$
2025	
	32,308
2026	
	5,732
2027	
	3,990
2028	
	4,709
Total	
	503,971
	\$

Brokered deposits totaled \$

214.2 million at September 30, 2023. The Company had no brokered deposits at September 30, 2022. The aggregate amount of certificates of deposit with a minimum denomination of \$250,000 were \$72.0 million and \$14.6 million at September 30, 2023 and 2022, respectively.

The scheduled maturities of certificates of deposit in denominations of \$250,000 or more as of September 30, 2023, are as follows (in thousands):

Within three months	
	21,442
	\$
Three through six months	
	18,819
Six through twelve months	
	28,080
Over twelve months	
	3,653
Total	
	71,994
	\$

## 7. SHORT-TERM BORROWINGS

As of September 30, 2023, and 2022, the Company had \$

374.7  
million and \$

230.8  
million of short-term borrowings, respectively. There were \$

59.7  
million and \$

4.8  
million in advances in 2023 and 2022, respectively on a \$

150.0  
million line of credit with the FHLB. There were also \$

255.0  
million and \$

226.0  
million in advances on other short term borrowings in 2023 and 2022, respectively with the FHLB. The Company also had a \$

60.0  
advance with the Federal Reserve Bank in 2023.

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans that are owned by the Company free and clear of any liens or encumbrances. The Federal Reserve borrowing is secured by investment securities. At September 30, 2023, the Company had a borrowing limit of approximately \$

852.4 million, with a variable rate of interest, based on the FHLB's cost of funds.

The following table sets forth information concerning short-term borrowings (in thousands):

	2023	2022
Balance at year-end		
	\$ 374,652	\$ 230,810
Maximum amount outstanding at any month-end		
	464,041	230,810
Average balance outstanding during the year		
	305,623	63,754
Weighted-average interest rate:		
As of year-end		
	5.56%	3.37%
Paid during the year		
	2.14%	0.62%

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expenses divided by the related average balance.

## 8. INCOME TAXES

The provision for income taxes consists of (in thousands):

	2023	2022
Current:		
Federal		
	\$ 4,183	\$ 4,915
State		
	59	207
Total current taxes		
	4,242	5,122
Deferred income tax expense		(
	252	188
Total income tax provision		)
	\$ 4,494	\$ 4,934

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Allowance for loan losses		
	\$ 3,890	\$ 3,891
Net unrealized loss on pension plan		
	—	294

## Investment losses subject to Section 382 limitation

	1,516	1,685
Net unrealized loss on securities		
	4,659	3,690
Deferred compensation		
	293	315
Other real estate owned		
	195	146
Nonaccrual interest		
	95	99
Employee stock ownership plan		
	596	544
Other		
	2,102	2,352
Total gross deferred tax assets		
	13,346	13,016
Deferred tax liabilities:		
Pension plan		
	1,152	1,087
Mortgage servicing rights		
	184	166
Premises and equipment		
	264	281
Net unrealized gain on derivatives		
	2,118	3,215
Low income housing tax credits		
	1,164	1,081
Other		
	1,587	1,811
Total gross deferred tax liabilities		
	6,469	7,641
Net deferred tax assets		
	6,877	5,375
	<u>\$</u>	<u>\$</u>

The Company establishes a valuation allowance for deferred tax assets when management believes that the deferred tax assets are not likely to be realized either through a carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income.

Accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in

the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently

no  
liability for uncertain tax positions and

no  
known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2018 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

The reconciliation of the federal statutory rate and the Company's effective income tax rate is as follows (dollars in thousands):

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 4,845	21.0 %	\$ 5,251	21.0 %
Income from bank-owned life insurance	( 165 )	0.7 %	( 159 )	0.6 %
Tax-exempt income	( 317 )	1.3 %	( 292 )	1.2 %
Low-income housing credits	( 36 )	0.1 %	( 45 )	0.2 %
Other, net	167	0.7 %	179	0.7 %
Actual tax expense and effective rate	\$ 4,494	19.5 %	\$ 4,934	19.7 %

The Bank is subject to the Pennsylvania Mutual Thrift Institutions Tax that is calculated at

11.5  
percent of earnings based on U.S. generally accepted accounting principles with certain adjustments.

## 9. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, management makes various commitments that are not reflected in the consolidated financial statements. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. Losses, if any, are charged to the allowance for loan losses. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements, as deemed necessary, in compliance with lending policy guidelines.

The off-balance sheet commitments consist of the following (in thousands):

	2023	2022
Commitments to extend credit	\$ 188,685	\$ 292,563
Standby letters of credit	13,815	14,490
Unfunded lines of credit	114,350	124,656

The commitments outstanding at September 30, 2023, contractually mature in less than one year .

The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the lending policy guidelines. Since many of the credit line commitments are expected to expire without being fully drawn upon, the total contractual amounts do not necessarily represent future funding requirements.

Standby letters of credit and financial guarantees represent conditional commitments issued to guarantee performance of a customer to a third party. The coverage period for these instruments is typically a one-year period with renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Company deposit instruments.

The Company is required to maintain a reserve balance with certain third party providers. At September 30, 2023 the reserve balance was \$

1.2  
million.

## Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of Management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

The Company and its subsidiary, ESSA Bank and Trust ("ESSA B&T") were named as defendants, among others, in an action commenced on December 8, 2016 by

one

plaintiff who sought to pursue the suit as a class action on behalf of the entire class of people similarly situated. The plaintiff alleged that a bank previously acquired by the Company received unearned fees and kickbacks in the process of making loans, in violation of the Real Estate Settlement Procedures Act. In an order dated January 29, 2018, the district court granted the defendants' motion to dismiss the case. The plaintiff appealed the court's ruling. In an opinion and order dated April 26, 2019, the appellate court reversed the district court's order dismissing the plaintiff's case against the Company and remanded the case to the district court in order to continue the litigation. The litigation is now proceeding before the district court. On December 9, 2019, the court permitted an amendment to the complaint to add

two

new plaintiffs to the case asserting similar claims. On May 21, 2020, the court granted the plaintiffs' motion for class certification. Fact and expert discovery is now complete, and the Company and ESSA B&T filed motions seeking to have the case dismissed (in whole or in part) and/or the class de-certified, as well as for other relief. Plaintiffs opposed the motions. On August 18, 2023 the Court granted the motions to dismiss as to the Company and ESSA B&T, with the result that the only remaining defendant is a now-dissolved former wholly-owned subsidiary of a previously-acquired company. The Court also amended its class certification order. Plaintiffs have sought permission to appeal from these and other related rulings. The Company and ESSA B&T will continue to vigorously defend against plaintiffs' allegations. To the extent that this matter could result in exposure to the Company and/or ESSA B&T, the amount or range of such exposure is not currently estimable but could be substantial.

On May 29, 2020, the Company and ESSA B&T were named as defendants in a second action commenced by

three

plaintiffs who also seek to pursue this action as a class action on behalf of the entire class of people similarly situated. The plaintiffs allege that a bank previously acquired by the Company received unearned fees and kickbacks from a different title company than the one involved in the previously discussed litigation in the process of making loans. The original complaint alleged violations of the Real Estate Settlement Procedures Act, the Sherman Act, and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The plaintiffs filed an Amended Complaint on September 30, 2020 that dropped the RICO claim, but they are continuing to pursue the Real Estate Settlement Procedures Act and Sherman Act claims. The defendants moved to dismiss the Sherman Act claim on October 14, 2020, and that motion was denied on April 2, 2021. On March 13, 2023 the court granted plaintiffs' motion for class certification. The case is currently in the discovery phase. The Company and ESSA B&T intend to vigorously defend against plaintiffs' allegations. To the extent that this matter could result in exposure to the Company and/or ESSA B&T, the amount or range of such exposure is not currently estimable but could be substantial.

### *Settlement with the Department of Justice*

On May 31, 2023, ESSA Bank & Trust ("ESSA Bank"), a wholly owned subsidiary of the Company, entered into a consent order with the U.S. Department of Justice ("DOJ") to resolve allegations of violations of the fair lending laws within the Philadelphia Metropolitan Statistical Area ("MSA"). Under the settlement, ESSA Bank agrees to provide \$

2.9

million in mortgage loan subsidies over a five-year period for majority Black and Hispanic census tracts, with at least

50

% of those subsidies to be invested in specified Philadelphia MSA census tracts in proximity to ESSA Bank's two Delaware County branch locations. The remainder of the subsidies may be used in other qualifying areas.

ESSA Bank is also committing \$

250,000

in additional focused marketing and outreach, \$

125,000

in community development partnerships, and making investments in additional mortgage professionals and a community development officer focused on statistically underserved communities. The DOJ consent order was approved by the United States District Court for the Eastern District of Pennsylvania on June 9, 2023, and at that point all claims asserted by the DOJ against ESSA Bank were resolved according to its terms. The Company is committed to investing the \$

2.9

million over five years and will record the related expenses in the period in which the activities occur.

## 10. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company accounts for all its leases in accordance with Topic 842. For the Company, Topic 842 primarily affects the accounting treatment for operating lease agreements in which the Company is the lessee.



## Lessee Accounting

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2044. All of our leases are classified as operating leases on the Company's Consolidated Balance Sheet for both periods.

The following table presents the Consolidated Balance Sheet classification of the Company's right-of-use assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the Consolidated Balance sheet.

(in thousands)		September 30, 2023
Lease Right-of-Use Assets	Classification	
Operating lease right-of-use assets	Other assets	
		6,046
		\$
<b>Total Lease Right-Of-Use Assets</b>		
		6,046
		\$

(in thousands)		September 30, 2023
Lease Liabilities	Classification	
Operating lease liabilities	Other liabilities	
		6,288
		\$
<b>Total Lease Liabilities</b>		
		6,288
		\$

(in thousands)		September 30, 2022
Lease Right-of-Use Assets	Classification	
Operating lease right-of-use assets	Other assets	
		6,075
		\$
<b>Total Lease Right-Of-Use Assets</b>		
		6,075
		\$

(in thousands)		September 30, 2022
Lease Liabilities	Classification	
Operating lease liabilities	Other liabilities	
		6,275
		\$
<b>Total Lease Liabilities</b>		
		6,275
		\$

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

		September 30, 2023
<b>Weighted average remaining lease term</b>		
Operating leases		
		11.7 years
<b>Weighted average discount rate</b>		
Operating leases		%
		3.29

		September 30, 2022
<b>Weighted average remaining lease term</b>		
Operating leases		
		12.2 years
<b>Weighted average discount rate</b>		

Operating leases	%
	2.38

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities.

Lease Costs (in thousands)	Twelve Months Ended September 30, 2023
Operating lease cost	
	\$ 977
Variable lease cost	
	245
Net lease cost	\$ 1,222
Lease Costs (in thousands)	Twelve Months Ended September 30, 2022
Operating lease cost	
	\$ 1,025
Variable lease cost	
	330
Net lease cost	\$ 1,355

Future minimum payments for leases with initial or remaining terms of one year or more as of September 30, 2023 were as follows:

(in thousands)	Leases
<b>Twelve months Ended:</b>	
September 30, 2024	\$ 988
September 30, 2025	792
September 30, 2026	738
September 30, 2027	604
September 30, 2028	579
Thereafter	4,029
<b>Total future minimum lease payments</b>	<b>7,730</b>
	( )
Amounts representing interest	1,442
<b>Present Value of Net Future Minimum Lease Payments</b>	<b>\$ 6,288</b>

## 11. EMPLOYEE BENEFITS

### Employee Stock Ownership Plan ("ESOP")

The Company created an ESOP for the benefit of employees who meet the eligibility requirements, which include having completed one year of service with the Company or its subsidiary and attained age 21. The ESOP trust acquired

1,358,472

shares of the Company's stock in 2007 from proceeds from a loan with the Company. The Company makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required loan payments. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP. The ESOP trust's outstanding loan bears interest at prime, adjustable each January 1<sup>st</sup>, which was

7.50

% at September 30, 2023 and requires an annual payment of principal and interest through December of 2036. The Company's ESOP, which is internally leveraged, does not report the loans receivable extended to the ESOP as assets and does not report the ESOP debt due to the Company.

As the debt is repaid, shares are released from the collateral and allocated to qualified employees based on the proportion of payments made during the year to the remaining amount of payments due on the loan through maturity. Accordingly, the shares pledged as collateral are reported as unallocated common stock held by the ESOP shares in the Consolidated Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. The Company recognized ESOP expense of \$

798,000  
and \$

792,000

, for the years ended September 30, 2023 and 2022, respectively.

The following table presents the components of the ESOP shares:

	2023	2022
Allocated shares	411,696	390,547

Shares committed to be released

33,962 33,962

Unreleased shares

599,992 645,274

Total ESOP shares

1,045,650 1,069,783

Fair value of unreleased shares (in thousands)

\$ 9,516 \$ 13,170

### **Equity Incentive Plan**

The Company previously maintained the ESSA Bancorp, Inc. 2007 Equity Incentive Plan (the "Plan"). The Plan provided for a total of

2,377,326

shares of common stock for issuance upon the grant or exercise of awards. Of the shares available under the Plan,

1,698,090

were available to be issued in connection with the exercise of stock options and

679,236

were available to be issued as restricted stock. The Plan allowed for the granting of non-qualified stock options ("NSOs"), incentive stock options ("ISOs"), and restricted stock. Options under the plan were granted at no less than the fair value of the Company's common stock on the date of the grant. As of the effective date of the 2016 Equity Incentive Plan (detailed below),

no

further grants will be made under the plan and forfeitures of outstanding awards under the plan will be added to the shares available under the 2016 Equity Incentive Plan.

The Company replaced the 2007 Equity Incentive Plan with the ESSA Bancorp, Inc. 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan provides for a total of

250,000

shares of common stock for issuance upon the grant or exercise of awards. The 2016 Plan allows for the granting of restricted stock, restricted stock units, incentive stock options and non-qualified stock options.

The Company classifies share-based compensation for employees and outside directors within "Compensation and employee benefits" in the Consolidated Statement of Income to correspond with the same line item as compensation paid.

Restricted stock shares outstanding at September 30, 2023 vest over periods ranging from 1 year to 3 years. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted shares under the Company's restricted stock plan. The Company expenses the fair value of all share based compensation grants over the requisite service period.

During the years ended September 30, 2023 and 2022, the Company recorded \$

560,000  
and \$

517,000  
of share-based compensation expense consisting of restricted stock expense. Expected future compensation expense relating to the restricted shares outstanding, at September 30, 2023 is \$

450,000  
over the remaining vesting period of 3.0 years.

The following is a summary of the status of the Company's nonvested restricted stock as of September 30, 2023, and changes therein during the year then ended:

	Number of Restricted Stock	Weighted- Average Grant Date Fair Value
Nonvested at September 30, 2022		
	35,639	14.88
		\$
Granted		
	31,696	19.06
Vested	(	
	33,675	16.69
	)	
Forfeited	(	
	1,148	16.35
	)	
Nonvested at September 30, 2023		
	32,512	17.03
		\$

#### **Defined Benefit Plan**

The Bank sponsors a trustee, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary. In February 2017, the Bank amended the defined benefit pension plan to provide that no additional participants would enter the plan and no additional benefits would accrue beyond February 28, 2017.

The following table sets forth the change in plan assets and benefit obligation at September 30 (in thousands):

	2023	2022
Change in benefit projected obligation:		
Projected benefit obligation at beginning of year		
	12,776	20,895
	\$	\$
Service cost	-	-
Interest cost		
	656	556
Actuarial (gains) losses	(	(
	568	5,129
	)	)
Benefits paid	(	(
	668	3,546
	)	)

Projected benefit obligation at end of year		
	12,196	12,776
Change in plan assets:		
Fair value of plan assets at beginning of year		
	16,551	23,248
Actual return on plan assets		(
	1,886	3,152
		)
Contributions	-	-
Benefits paid	(	(
	668	3,545
	)	)
Fair value of plan assets at end of year		
	17,769	16,551
Funded status		

	5,573	3,775
	<u>\$</u>	<u>\$</u>

Amounts not yet recognized as a component of net periodic pension cost at September 30 (in thousands):

	2023	2022
Amounts recognized in accumulated other comprehensive income consist of:		
Net (gain) loss	(	
	85	1,401
	\$ )	\$

The accumulated benefit obligation for the defined benefit pension plan was \$

12.2  
million and \$

12.8  
million at September 30, 2023 and 2022, respectively.

The following table comprises the components of net periodic benefit cost for the years ended September 30 (in thousands):

	2023	2022
Service cost	\$ -	\$ -
Interest cost	656	556
Expected return on plan assets	( 968 )	( 1,228 )
Recognized net actuarial loss	-	2
Settlement loss	-	260
Net periodic benefit	( 312 )	( 410 )
	<u>\$</u>	<u>\$</u>

Weighted-average assumptions used to determine benefit obligations for the years ended September 30:

	2023	2022
Discount rate	5.80 %	5.31 %
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30:

	2023	2022
Discount rate <sup>1</sup>	5.31 %	2.61 %
Expected long-term return on plan assets	6.00 %	6.00 %
Rate of compensation increase	N/A	N/A

The expected long-term rate of return was estimated using market benchmarks by which the plan assets would outperform the market in the future, based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on similar investments compared with past periods.

<sup>1</sup> For September 30, 2022 discount rates were

2.61

% for October 1 - December 31, 2021;

2.66

% for January 1 - March 31, 2022;

3.54

% for April 1 - June 30, 2022; and

4.50

% for July 1 - September 30, 2022

### **Plan Assets**

The following tables set forth by level, within the fair value hierarchy, the plan's financial assets at fair value as of September 30, 2023 and 2022 (in thousands):

	September 30, 2023			
	Level I	Level II	Level III	Total
Investment in collective trusts:				

Fixed income

			7,081		7,081			
	\$	-	\$	\$	-	\$		
Equity								
			10,661			10,661		
		-		-				
Investment in short-term investments			27			27		
		-		-				
Total assets at fair value								
	\$	-	\$	17,769	\$	-	\$	17,769

	September 30, 2022				
	Level I	Level II	Level III	Total	
Investment in collective trusts:					
Fixed income					
		6,670			6,670
	\$ -	\$	\$ -	\$	
Equity					
		9,831			9,831
		-		-	
Investment in short-term investments					
		50			50
		-		-	
Total assets at fair value					
		16,551			16,551
	\$ -	\$	\$ -	\$	

Investments in collective trusts and short-term investments are valued at the net asset value of shares held by the plan.



The Bank's defined benefit pension plan weighted-average asset allocations at September 30, 2023 and 2022 by asset category, are as follows:

Asset Category	September 30,	
	2023	2022
Fixed income securities	39.8 %	40.3 %
Equity securities	60.0	59.4
Other	0.2	0.3
Total	100.0 %	100.0 %

The Bank believes that the plan's risk and liquidity position are, in large part, a function of the asset class mix. The Bank desires to utilize a portfolio mix that results in a balanced investment strategy. Three asset classes are outlined, as above. The target allocations of these classes are as follows: equity securities,

65  
percent, and cash and fixed income securities,

35  
percent.

#### **Cash Flows**

The Bank does

no  
t expect to make any contributions to its pension plan in fiscal 2024.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (in thousands):

2024	645
2025	1,328
2026	950
2027	1,378
2028	609
2029-2033	3,292

#### **401(k) Plan**

The Bank also has a savings plan qualified under Section 401(k) of the Internal Revenue Code, which covers substantially all employees over 21 years of age. Employees can contribute to the plan, but are not required to. Employer contributions were reinstated in March 2017. Employer contributions are allocated based on employee contribution levels. The expense related to the plan for the year ended September 30, 2023 and 2022 was \$

517,000  
and \$

496,000  
, respectively.

### **Supplemental Executive Retirement Plan**

The Bank maintains a salary continuation agreement with certain executives of the Bank, which provides for benefits upon retirement to be paid to the executive for no less than 192 months, unless the executive elects to receive the present value of the payments as a lump sum. The Bank has recorded accruals of \$

3.0  
million and \$

2.6  
million at September 30, 2023 and 2022, respectively which represent the estimated present value (using a discount rate of

6.00  
percent) of the benefits earned under this agreement. There was \$

391,000  
and \$

63,000  
in expense related to the supplemental executive retirement plan for the years ended September 30, 2023 and 2022, respectively.

## **12. REGULATORY RESTRICTIONS**

### **Reserve Requirements**

The Bank is required to maintain reserve funds in cash or in deposit with the Federal Reserve Bank. The Federal Reserve Bank reduced the reserve requirement to

zero  
effective March 26, 2020. As a result, there was

no

required reserve at September 30, 2023 and 2022.

### **Dividend Restrictions**

Federal banking laws, regulations, and policies limit the Bank's ability to pay dividends to the Company. Dividends may be declared and paid by the Bank only out of net earnings for the then current year. A dividend may not be declared or paid if it would impair the general reserves of the Bank as required to be maintained under the Pennsylvania Banking.

### 13. REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Bank and the Company to maintain certain minimum amounts of capital. Specifically, the Bank is required to maintain certain minimum dollar amounts and ratios of Total and Tier 1 capital to risk-weighted assets, of Tier 1 capital to average total assets, and common equity Tier 1 capital to risk-weighted assets.

Bank holding companies are generally subject to statutory capital requirements, which were implemented by certain of the new capital regulations described above that became effective on January 1, 2015. However, the Small Banking Holding Company Policy Statement exempts certain small bank holding companies like the Company from those requirements provided that they meet certain conditions.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions. Management believes that, as of September 30, 2023, the Bank met all capital adequacy requirements to which it is subject.

As of September 30, 2023, and 2022, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Total risk-based, Tier 1 risk-based, common equity Tier 1 capital and Tier 1 leverage capital must be at least

10

percent,

8

percent,

6.5

percent, and

5

percent, respectively. There have been no conditions or events since the notification that management believes have changed the Bank's or the Company's category.

The Bank's actual capital ratios for the years ended September 30 are presented in the following table (dollars in thousands):

	2023		2022	
	Amount	Ratio	Amount	Ratio
<b>Total capital</b>				
<b><u>(to risk-weighted assets)</u></b>				
Actual				
	\$ 224,683	13.0	\$ 211,390	13.3
		%		%
<b>For capital adequacy purposes</b>				
	138,582	8.0	126,843	8.0
<b>To be well capitalized</b>				
	173,228	10.0	158,554	10.0
<b>Tier 1 capital</b>				
<b><u>(to risk-weighted assets)</u></b>				
Actual				
	\$ 206,106	11.9	\$ 192,810	12.2
		%		%
<b>For capital adequacy purposes</b>				
	103,937	6.0	95,132	6.0
<b>To be well capitalized</b>				
	138,582	8.0	126,843	8.0
<b>Common equity tier 1 capital</b>				
<b><u>(to risk-weighted assets)</u></b>				

Actual

	\$	206,106	11.9 %	\$	192,810	12.2 %
For capital adequacy purposes						
		77,953	4.5		71,349	4.5
To be well capitalized						
		112,598	6.5		103,060	6.5

Tier 1 capital  
(to adjusted assets)

Actual

	\$	206,106	9.4 %	\$	192,810	10.5 %
For capital adequacy purposes						
		87,671	4.0		73,656	4.0
To be well capitalized						
		109,589	5.0		92,070	5.0

#### 14. FAIR VALUE

The following disclosures show the hierarchal disclosure framework associated within the level of pricing observations utilized in measuring assets and liabilities at fair value. The definition of fair value maintains the exchange price notion in earlier definitions of fair value but focuses on the exit price of the asset or liability. The exit price is the price that would be received to sell the asset or paid to transfer the liability adjusted for certain inherent risks and restrictions. Expanded disclosures are also required about the use of fair value to measure assets and liabilities.

### Assets and Liabilities Required to be Measured and Reported at Fair Value on a Recurring Basis

The following tables provide the fair value for assets and liabilities required to be measured and reported at fair value on a recurring basis on the Consolidated Balance Sheet as of September 30, 2023 and September 30, 2022 by level within the fair value hierarchy (in thousands).

	Reoccurring Fair Value Measurements at Reporting Date			
	Level I	Level II	Level III	Total
<b>Assets:</b>				
Investment securities available for sale:				
Mortgage-backed securities				
	\$ -	\$ 100,331	\$ -	\$ 100,331
Obligations of states and political subdivisions				
	-	9,052	-	9,052
U.S. government treasury securities				
	-	123,580	-	123,580
U.S. government agency securities				
	-	28,952	-	28,952
Corporate obligations				
	-	62,885	2,836	65,721
Other debt securities				
	-	6,420	-	6,420
<b>Total debt securities</b>				
	-	331,220	2,836	334,056
Equity securities - financial services				
	32	-	-	32
Derivatives and hedging activities				
	-	19,662	-	19,662
<b>Liabilities:</b>				
Derivatives and hedging activities				
	-	9,579	-	9,579

	Reoccurring Fair Value Measurements at Reporting Date			
	Level I	Level II	Level III	Total
<b>Assets:</b>				
Investment securities available for sale:				
Mortgage-backed securities				
	\$ -	\$ 110,160	\$ -	\$ 110,160
Obligations of states and political subdivisions				
	-	9,920	-	9,920
U.S. government agency securities				
	-	9,330	-	9,330

Corporate obligations

		63,745	7,374	71,119
	-			
Other debt securities				
		8,118		8,118
	-		-	
<b>Total debt securities</b>				
		201,273	7,374	208,647
	-			
Equity securities - financial services				
	36			36
		-	-	
Derivatives and hedging activities				
		24,481		24,481
	-		-	
<b>Liabilities:</b>				
Derivatives and hedging activities				
		9,176		9,176
	-		-	

The following tables present a summary of changes in the fair value of the Company's Level III investments for years ended September 30, 2023 and 2022 (in thousands).

	Fair Value Measurement Using Significant Unobservable Inputs (Level III)	
	September 30, 2023	September 30, 2022
Beginning balance		
	\$ 7,374	\$ 11,112
Purchases, sales, issuances, settlements, net		
		1,515
		-
Total unrealized gain:		
Included in earnings	-	-
Included in other comprehensive income	(	(
	188	753
	)	)
Transfers into Level III	-	-
Transfers out of Level III	(	(
	4,350	4,500
	)	)
	\$ 2,836	\$ 7,374

Each financial asset and liability is identified as having been valued according to a specified level of input, 1, 2 or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases,

the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparable. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering factors specific to the measurement (qualitative and quantitative). Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on a security's relationship to other benchmark quoted securities. Most of the securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Securities reported at fair value utilizing Level 1 inputs are limited to actively traded equity securities whose market price is readily available from the New York Stock Exchange or the NASDAQ exchange. A few securities are valued using Level 3 inputs, all of these are classified as available for sale and are reported at fair value using Level 3 inputs.

#### Assets and Liabilities Required to be Measured and Reported on a Non-Recurring Basis

The following tables provide the fair value for assets required to be measured and reported at fair value on a non recurring basis on the Consolidated Balance Sheet as of September 30, 2023 and September 30, 2022 by level within the fair value hierarchy:

September 30, 2023				
	Level I	Level II	Level III	Total Fair Value
Financial assets:				
Foreclosed real estate				
	\$ -	\$ -	\$ 3,311	\$ 3,311
Impaired loans				
	-	-	9,693	9,693

September 30, 2022				
	Level I	Level II	Level III	Total Fair Value
Financial assets:				
Foreclosed real estate				
	\$ -	\$ -	\$ 29	\$ 29
Impaired loans				
	-	-	14,151	14,151

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

	Fair Value Estimate	Quantitative Information About Level III Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Average)
<u>September 30, 2023</u>				
Impaired loans				0 % to
				35 % (
	\$ 9,693	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	20.8 %)
Foreclosed real estate owned				10 to
				35 % (
	3,311	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	10.2 %)

September 30, 2022

Impaired loans

				0 % to
				35 %
				(
	\$	14,151	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>
Foreclosed real estate owned				20.6 %)
				20 %
				(
		29	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>
				20.0 %)



(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

#### **Investment Securities Available for Sale**

The fair value of securities available for sale are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) are used to support fair values of certain Level 3 investments, if applicable.

#### **Equity Securities**

The fair value of equity securities are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1).

#### **Impaired Loans**

The Company has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Evaluating impaired loan collateral is based on Level II inputs utilizing outside appraisals. Those impaired loans for which management incorporates significant adjustments for sales costs and other discount assumptions regarding market conditions are considered Level III fair values. The fair value consists of the loan balances of \$

9.7  
million less their valuation allowances of \$

42,000  
at September 30, 2023. The fair value consists of the loan balances of \$

14.5  
million less their valuation allowances of \$

351,000  
at September 30, 2022.

#### **Foreclosed Real Estate Owned**

Foreclosed real estate owned is measured at fair value, less cost to sell at the date of foreclosure; valuations are periodically performed by management; and the assets are carried at fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from foreclosed real estate.

#### **Derivatives**

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed payments. The fair value of the swap asset and liability is based on an external derivative model using data inputs as of the valuation date and are classified Level 2.

### Assets and Liabilities not Required to be Measured and Reported at Fair Value

The methods and assumptions used by the Company in estimating fair values of financial instruments at September 30, 2023 and 2022 is in accordance with ASC Topic 825, *Financial Instruments* which requires public entities to use exit pricing in the calculations of the tables below.

		September 30, 2023				
	Carrying Value	Level I	Level II	Level III	Total Fair Value	
Financial assets:						
Loans receivable, net						
	1,680,525			1,524,615	1,524,615	
	\$	\$	\$	\$	\$	
Mortgage servicing rights		-	-			
	874			1,470	1,470	
Investment securities held to maturity						
	52,242		42,090		42,090	
		-		-		
Financial liabilities:						
Deposits						
	1,661,016	1,157,045		499,101	1,656,146	
			-			
Short-term borrowings						
	374,652			364,291	364,291	
		-	-			
		September 30, 2022				
	Carrying Value	Level I	Level II	Level III	Total Fair Value	
Financial assets:						
Loans receivable, net						
	1,435,783			1,351,823	1,351,823	
	\$	\$	\$	\$	\$	
Mortgage servicing rights		-	-			
	788			1,390	1,390	
Investment securities held to maturity						
	57,285		47,546		47,546	
		-		-		
Financial liabilities:						
Deposits						
	1,380,021	1,246,353		128,533	1,374,886	
			-			
Short-term borrowings						
	230,810			215,287	215,287	
		-	-			

For Cash and Cash Equivalents, Accrued Interest Receivable, Regulatory Stock, Bank Owned Life Insurance, Advances by Borrowers for Taxes and Insurance, and Accrued Interest Payable the carrying value is a reasonable estimate of the fair value and are considered Level 1 measurements.

The fair value approximates the current book value.

## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive loss for the years ended September 30, 2023 and 2022, is as follows (in thousands):

	Accumulated Other Comprehensive Loss <sup>(1)</sup>			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available for Sale	Derivatives	Total
Balance at September 30, 2022	(	(		(
	1,108	13,879	12,093	2,894
	\$ )	\$ )	\$	\$ )
Other comprehensive income (loss) before reclassifications		(		
	1,174	3,742	3,079	511
		)		
Amounts reclassified from accumulated other comprehensive loss			(	(
	-	96	7,206	7,110
		)	)	)
Period change		(	(	(
	1,174	3,646	4,127	6,599
		)	)	)
Balance at September 30, 2023		(		(
	66	17,525	7,966	9,493
	\$ )	\$ )	\$	\$ )
Balance at September 30, 2021	(			
	1,907	1,962	627	682
	\$ )	\$	\$	\$
Other comprehensive income (loss) before reclassifications		(		(
	591	15,841	12,116	3,134
		)		)
Amounts reclassified from accumulated other comprehensive loss			(	(
	208	-	650	442
		)	)	)
Period change		(		(
	799	15,841	11,466	3,576
		)		)
Balance at September 30, 2022	(	(		(
	1,108	13,879	12,093	2,894
	\$ )	\$ )	\$	\$ )

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximating

21

% in Fiscal 2023 and 2022.

Details About Accumulated Other Comprehensive Income (Loss) Components (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended September 30, <sup>(3)</sup>		Affected Line Item in the Consolidated Statement of Income
	2023	2022	
Securities available for sale <sup>(1)</sup> :			
Net securities gains reclassified into earnings	(		
	121		Gain on sale of investment securities, net
	\$ )	\$	-

Related income tax expense	25	-	Income taxes
Net effect on accumulated other comprehensive loss for the period	(96)	-	
Defined benefit pension plan <sup>(2)</sup> :			
Amortization of net (loss) gain and prior service costs	-	(263)	Other expense
Related income tax expense	-	55	Income taxes
Net effect on accumulated other comprehensive loss for the period	-	(208)	
Derivatives and Hedging Activities <sup>(2)</sup> :			
Interest expense, effective portion	9,122	823	Interest expense
Related income tax expense	(1,916)	(173)	Income taxes
Net effect on accumulated other comprehensive loss for the period	7,206	650	
Total reclassifications for the period	\$ 7,110	\$ 442	

(1) For additional details related to unrealized gains on securities and related amounts reclassified from accumulated other comprehensive income (loss) see Note 3, "Investment Securities."

(2) For additional details related to derivative financial instruments see Note 17, "Derivatives and Hedging Activities."

(3) Amounts in parenthesis indicate debits.

## 16. DERIVATIVES AND HEDGING ACTIVITIES

### Risk Management Objective of Using Derivatives

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

### Fair Values of Derivative Instruments on the Consolidated Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of September 30, 2023 and 2022, (in thousands).

Hedged Item	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
	Notional Amount	As of September 30, 2023 Balance Sheet Location	Fair Value	Notional Amount	As of September 30, 2022 Balance Sheet Location	Fair Value
FHLB Advances	230,000	Derivative and hedging assets	10,086	225,000	Derivative and hedging assets	15,310
Commercial Loans	86,265	Derivative and hedging assets	9,576	79,602	Derivative and hedging assets	9,171
Total derivatives designated as hedging instruments	<u>\$ 316,265</u>		<u>\$ 19,662</u>	<u>\$ 304,602</u>		<u>\$ 24,481</u>

  

Hedged Item	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
	Notional Amount	As of September 30, 2023 Balance Sheet Location	Fair Value	Notional Amount	As of September 30, 2022 Balance Sheet Location	Fair Value
Commercial Loans	117,516	Derivative and hedging liabilities	9,579	111,668	Derivative and hedging liabilities	9,176
Total derivatives designated as hedging instruments	<u>\$ 117,516</u>		<u>\$ 9,579</u>	<u>\$ 111,668</u>		<u>\$ 9,176</u>

### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed payments. As of September 30, 2023, the Company had

ten  
interest rate swaps with a notional of \$

230  
million associated with the Company's cash outflows associated with various FHLB advances and \$

204  
million associated with commercial loans. As of September 30, 2022, the Company had

ten  
interest rate swaps with a notional of \$

225  
million associated with the Company's cash outflows associated with various brokered deposits and \$

191  
million associated with commercial loans.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the periods ended September 30, 2023 and 2022.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income/expense as interest payments are made/received on the Company's variable-rate assets/liabilities. During the 12 months ended September 30, 2023 and 2022, the Company had \$

9.1  
million and \$

823,000  
in gains, classified to interest expense, respectively. During the next twelve months, the Company estimates that \$

7.8  
million will be reclassified as a decrease in interest expense.

The table below presents the effect of the Company's cash flow hedge accounting on Accumulated Other Comprehensive Income for the periods ended September 30, 2023 and 2022 (in thousands).

The Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income					
Derivatives in Hedging Relationships	Amount of (Loss) Gain Recognized in OCI on Derivative		Location of Gain Reclassified from Accumulated OCI into Income	Amount of Gain Reclassified from Accumulated OCI into Income	
	Year Ended September 30,	Year Ended September 30,		Year Ended September 30,	Year Ended September 30,
	2023	2022			2023
<u>Derivatives in Cash Flow Hedging Relationships</u>					
	(				
Interest Rate Products	\$ 5,222	\$ 14,507	Interest Expense	\$ 9,122	\$ 823
	(				
Total	\$ 5,222	\$ 14,507		\$ 9,122	\$ 823

### Credit-risk-related Contingent Features

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

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

As of September 30, 2023 and 2022 the Company had derivatives in a net asset position and was not required to post collateral against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2023 and 2022, it could have been required to settle its obligations under the agreements at the termination value.

## 17. REVENUE RECOGNITION

The Company accounts for its applicable revenue in accordance with ASC Topic 606 – *Revenue from Contracts with Customers*. The core principle of Topic 606 is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise judgment when considering the terms of a contract. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope.

Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams, such as income from bank-owned life insurance, gains on loans sold, and gains and losses on sales of debt and equity securities, are out of scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation beyond what is presented in the Consolidated Statement of Income was not necessary.

The main types of non interest income within the scope of the standard are:

### Trust and Investment Fees

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customer's accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e. as incurred). Payment is received shortly after services are rendered.

### Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e. net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for



service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

#### Fees, Exchange, and Other Service Charges

Fees, interchange, and other service charges are primarily comprised of debit card income, ATM fees, cash management income, and other services charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a company ATM. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

#### Insurance Commissions

Insurance income primarily consists of commissions received on product sales. The Company acts as an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the policy. Shortly after the policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue.

### 18. PARENT COMPANY

Condensed financial statements of ESSA Bancorp, Inc. are as follows (in thousands):

#### CONDENSED BALANCE SHEET

	2023	September 30, 2022
<b>ASSETS</b>		
Cash and due from banks		
	\$ 5,564	\$ 6,355
Equity securities		
	32	36
Investment in subsidiary		
	210,505	203,998
Premises and equipment, net		
	381	391
Other assets		
	3,377	1,702
<b>TOTAL ASSETS</b>		
	\$ 219,859	\$ 212,482
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Other liabilities		
	\$ 151	\$ 145
Stockholders' equity		
	219,708	212,337
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
	\$ 219,859	\$ 212,482

# CONDENSED STATEMENT OF INCOME

	Year Ended September 30,	
	2023	2022
<b>INCOME</b>		
Interest income		
	\$ 718	\$ 334
Unrealized gain on equity securities	4	( 4 )
Dividends	6,000	10,000
Total income	6,722	10,330
<b>EXPENSES</b>		
Professional fees	657	537
Other	30	30
Total expenses	687	567
Income before income tax benefit	6,035	9,763
Income tax benefit	7	( 52 )
Income before equity in undistributed net earnings of subsidiary	6,028	9,815
Equity in undistributed net earnings of subsidiary	12,548	10,255
NET INCOME	18,576	20,070
COMPREHENSIVE INCOME	11,977	16,494

# CONDENSED STATEMENT OF CASH FLOWS

	Year Ended September 30,	
	2023	2022
<b>OPERATING ACTIVITIES</b>		
Net income	18,576	20,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net earnings of subsidiary	( 12,548 )	( 10,255 )
Provision for depreciation	10	10

Increase in accrued income taxes	(	
	1,443	52
	)	
Decrease (increase) in accrued interest receivable	(	
	248	8
	)	
Other, net		
	721	424
Net cash provided by operating activities		
	5,068	10,309
FINANCING ACTIVITIES		
Purchase of treasury stock shares		(
		1,884
	-	)
Dividends on common stock	(	(
	5,859	5,273
	)	)
Net cash used for financing activities	(	(
	5,859	7,157
	)	)
Decrease in cash	(	
	791	3,152
	)	
CASH AT BEGINNING OF YEAR		
	6,355	3,203
CASH AT END OF YEAR		
	5,564	6,355
	<u>\$</u>	<u>\$</u>

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **ESSA BANCORP, INC.**

December 14, 2023

By: /s/ Gary S. Olson  
Gary S. Olson  
President and Chief Executive Officer  
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Gary S. Olson Gary S. Olson	President, Chief Executive Officer and Director (Principal Executive Officer)	December 14, 2023
/s/ Allan A. Muto Allan A. Muto	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 14, 2023
/s/ Robert C. Selig, Jr. Robert C. Selig, Jr.	Chairman of the Board	December 14, 2023
/s/ Joseph S. Durkin Joseph S. Durkin	Director	December 14, 2023
/s/ Daniel J. Henning Daniel J. Henning	Director	December 14, 2023
/s/ Christine D. Gordon, J.D. Christine D. Gordon, J.D.	Director	December 14, 2023
/s/ Philip H. Hosbach, IV Philip H. Hosbach, IV	Director	December 14, 2023
/s/ Tina Q. Richardson Tina Q. Richardson	Director	December 14, 2023
/s/ Carolyn P. Stennett Carolyn P. Stennett	Director	December 14, 2023
/s/ Elizabeth B. Weekes Elizabeth B. Weekes	Director	December 14, 2023

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Subsidiaries of the Registrant

Name	State of Incorporation
ESSA Bank & Trust	Pennsylvania (direct)
ESSA Advisory Services, LLC	Pennsylvania (indirect)
ESSACOR, Inc.	Pennsylvania (indirect)
Pocono Investment Company	Delaware (indirect)
Integrated Financial Corporation	Pennsylvania (indirect)
Integrated Abstract Incorporated	Pennsylvania (indirect) (Subsidiary of Integrated Financial Corporation)

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-157524 and File No. 333-163761 on Form S-8, and Registration Statement File No. 333-139157 on Form S-1/A of ESSA Bancorp, Inc. of our report dated December 14, 2023, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K of ESSA Bancorp, Inc. for the year ended September 30, 2023.

*S.R. Snodgrass P.C.*

King of Prussia, Pennsylvania  
December 14, 2023

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

I, Gary S. Olson, certify that:

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

Date: December 14, 2023

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

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

I, Allan A. Muto, certify that:

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

Date: December 14, 2023

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

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

Gary S. Olson, Chief Executive Officer and President of ESSA Bancorp, Inc., a Pennsylvania corporation (the "Company") and Allan A. Muto, Executive Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that he has reviewed the Annual Report on Form 10-K for the year ended September 30, 2023 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 14, 2023

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

Date: December 14, 2023

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

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

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**ESSA BANCORP, INC.**  
**CLAWBACK POLICY**

The Board of Directors (the "Board") of ESSA Bancorp, Inc. (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (this "Policy"), which provides for the recovery of certain incentive compensation in the event of an accounting restatement.

The Company has adopted this Policy as a supplement to any other clawback policies or provisions in effect now or in the future at the Company. To the extent this Policy applies to compensation payable to a person covered by this Policy, it shall supersede any other conflicting provision or policy maintained by the Company and shall be the only clawback policy applicable to such compensation and no other clawback policy shall apply; provided that, if such other policy or provision provides that a greater amount of such compensation shall be subject to clawback, such other policy or provision shall apply to the amount in excess of the amount subject to clawback under this Policy.

This Policy shall be interpreted to comply with the clawback rules found in 17 C.F.R. §240.10D and the related listing rules of the national securities exchange or national securities association (the "Exchange") on which the Company has listed securities, and, to the extent this Policy is in any manner deemed inconsistent with such rules, this Policy shall be treated as retroactively amended to be compliant with such rules.

1. Definitions. The terms "Executive Officer," "Incentive-Based Compensation," and "Received" shall have the same meaning as defined in Rule 10D-1(d) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

2. Application of the Policy. This Policy shall only apply in the event that the Company is required to prepare an accounting restatement due to its material noncompliance with any financial reporting requirement under the Federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

3. Recovery Period. The Incentive-Based Compensation subject to clawback is the Incentive-Based Compensation Received during the three completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement as described in Section 2; provided that the individual served as an Executive Officer at any time during the performance period applicable to the Incentive-Based Compensation in question. The date that the Company is required to prepare an accounting restatement shall be determined pursuant to Exchange Act Rule 10D-1(b)(1)(ii).

a. Notwithstanding the foregoing, the Policy shall only apply if the Incentive-Based Compensation is Received(1) while the Company has a class of securities listed on an Exchange and (2) on or after October 2, 2023.

b. See Exchange Act Rule 10D-1(b)(1)(i)(D) for certain circumstances under which this Policy will apply to Incentive-Based Compensation received during a transition period arising due to a change in the Company's fiscal year.

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4. Erroneously Awarded Compensation. The amount of Incentive-Based Compensation subject to the Policy ("Erroneously Awarded Compensation") is the amount of Incentive-Based Compensation Received that exceeds the amount of Incentive Based-Compensation that otherwise would have been Received had it been determined based on the restated amounts in the Company's financial statements and shall be computed without regard to any taxes paid.

a. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an accounting restatement:

(1) the amount shall be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the Incentive- Based Compensation was received; and (2) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Exchange.

5. Recovery Exceptions. The Company shall recover reasonably promptly any Erroneously Awarded Compensation except to the extent that the conditions of paragraphs (a), (b) or

(c) below apply. The Compensation Committee of the Board of Directors (the "Committee") shall determine the repayment schedule for each amount of Erroneously Awarded Compensation in a manner that complies with this "reasonably promptly" requirement. Such determination shall be consistent with any applicable legal guidance by the Securities and Exchange Commission, judicial opinion, or otherwise. The determination of "reasonably promptly" may vary from case to case and the Committee is authorized to adopt additional rules to further describe what repayment schedules satisfy this requirement.

a. Erroneously Awarded Compensation need not be recovered if the direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered and the Committee has made a determination that recovery would be impracticable. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Exchange, as required.

b. If applicable, Erroneously Awarded Compensation need not be recovered if recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company shall obtain an opinion of home countrycounsel, acceptable to the Exchange, that recovery would result in such a violation and shall provide such opinion to the Exchange.

c. Erroneously Awarded Compensation need not be recovered if recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and regulations thereunder.

6. Committee Decisions. Decisions of the Committeewith respect to this Policyshall be final, conclusive and binding on all ExecutiveOfficers subject to this Policy,unless determined by a court of competent jurisdiction to be an abuse of discretion.

7. No Indemnification. Notwithstanding anything to the contrary in any other policy of the Company,the governing documents of the Company or any agreement between the Company and an Executive Officer,

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no Executive Officer shall be indemnified by the Company against the loss of any Erroneously Awarded Compensation.

8. Agreement to Policy by Executive Officers. The Committee shall take reasonable steps to inform Executive Officers of this Policy and the Executive Officers shall acknowledge receipt and adherence to this Policy in writing.

9. Exhibit Filing Requirement. A copy of this Policy and any amendments thereto shall be filed as an exhibit to the Company's Annual Report on Form 10-K.

10. Amendment. The Board may amend, modify or supplement all or any portion of this Policy at any time and from time to time in its discretion.

Clawback Policy Acknowledgment

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of the ESSA Bancorp, Inc. Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy") and that I have been provided a copy of the Policy. In the event of any inconsistency between the Policy and the terms of any employment or similar agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. If the Committee determines that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement.

Name

Date

Title

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