

ESSA Bancorp, Inc.  
Form S-4  
April 02, 2012  
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As filed with the Securities and Exchange Commission on April 2, 2012

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form S-4**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**ESSA Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

Pennsylvania

6036  
(Primary Standard Industrial

20-8023072  
(I.R.S. Employer

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(State or other jurisdiction of  
incorporation or organization)

Classification Code Number)

Identification Number)

200 Palmer Street

Stroudsburg, Pennsylvania 18360

(570) 421-0531

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Gary S. Olson

President and Chief Executive Officer

200 Palmer Street

Stroudsburg, Pennsylvania 18360

(570) 421-0531

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement and the conditions to the consummation of the merger described herein have been satisfied or waived.

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If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

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

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

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. (Check one):

Large accelerated filer "    Accelerated filer     Non-accelerated filer "    Smaller reporting company "

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)    "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)    "

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Title of each class of securities to be registered	Amount to be registered	Proposed	Proposed	Amount of registration fee
		maximum offering price per share	Proposed maximum aggregate offering price	
Common Stock, \$0.01 par value per share	1,312,099 shares (1)	\$10.05(2)	\$10,985,163(2)	\$1,259(3)

- (1) Represents the maximum number of shares of ESSA Bancorp, Inc. (Nasdaq: ESSA) common stock estimated to be issuable upon the completion of the merger of First Star Bancorp, Inc. (Pink Sheets: FSSB), with and into ESSA Bancorp, Inc., based on the product of (x) the number of shares of First Star Bancorp common stock outstanding or reserved for issuance upon the exercise of outstanding stock options, warrants and restricted stock awards as of December 21, 2011, (y) an exchange ratio of 1.2004 shares, and (z) 50% (the portion of the merger consideration consisting of ESSA Bancorp, Inc. common stock issuable in the merger).
- (2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act and calculated in accordance with Rule 457(f) (1) and Rule 457(c) of the Securities Act, based on the market value of the shares of First Star Bancorp common stock expected to be exchanged in connection with the merger, as established by the average of the high and low sales prices of First Star Bancorp common stock on the over the counter on March 27, 2012 of \$10.05.
- (3) Calculated in accordance with Section 6(b) of the Securities Act and SEC Fee Advisory #3 for Fiscal Year 2012 at a rate equal to 0.0001146 multiplied by the proposed maximum aggregate offering price.

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

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Information contained herein is subject to completion or amendment. A registration statement relating to the shares of ESSA Bancorp, Inc. common stock to be issued in the merger has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement become effective. This proxy statement/prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**[FIRST STAR BANCORP, INC. LOGO]**

**To the Shareholders of First Star Bancorp, Inc.:**

**A Merger Proposal Your Vote Is Very Important**

On December 21, 2011, the board of directors of First Star Bancorp, Inc. unanimously approved a merger agreement between First Star Bancorp, Inc. and ESSA Bancorp, Inc., pursuant to which First Star Bancorp, Inc. will be merged with and into ESSA Bancorp, Inc. First Star Bancorp, Inc. is sending you this document to ask you to vote to approve certain amendments to the Corporation's Articles of Incorporation to facilitate the merger and to approve and adopt the merger agreement with ESSA Bancorp, Inc.

If the merger agreement is adopted and the merger is subsequently completed, each outstanding share of First Star Bancorp, Inc. common stock and First Star preferred stock will be converted into the right to receive either 1.0665 shares of ESSA Bancorp, Inc. common stock or the cash equivalent thereof, subject to adjustment as described in the merger agreement and this document. The value of the merger consideration will fluctuate with the market price of ESSA Bancorp, Inc.'s common stock and is subject to adjustment based on the value of ESSA Bancorp's common stock at closing and may also be adjusted under a limited set of other circumstances, as more fully described in The Merger and the Merger Agreement-Merger Consideration. In addition, the aggregate merger consideration to be received by the shareholders of First Star will be 50% in cash and 50% in ESSA Bancorp common stock. Based on the closing price of ESSA Bancorp, Inc.'s common stock on December 21, 2011, the 1.0665 exchange ratio represented approximately \$11.20 in value for each share of First Star Bancorp, Inc. common stock and preferred stock. Based on the closing price of ESSA Bancorp, Inc.'s common stock on \_\_\_\_\_, 2012, the 1.0665 exchange ratio represented approximately \$ \_\_\_\_\_ in value for each share of First Star Bancorp, Inc.'s common stock and preferred stock. You should obtain current stock price quotations for ESSA Bancorp, Inc.'s and First Star Bancorp, Inc.'s common stock and preferred stock. ESSA Bancorp, Inc. common stock trades on the Nasdaq Global Market under the symbol ESSA and First Star Bancorp, Inc. common stock trades on the Over-the-Counter Market under the symbol FSSB.

**A Proposal to Amend the Articles of Incorporation**

In order to facilitate the merger and to avoid the unanticipated and unintended application of certain conditions set forth in the articles of incorporation of First Star Bancorp, Inc., shareholders are being asked to vote to approve an amendment to the First Star Bancorp, Inc. Articles of Incorporation which will exempt the merger with ESSA Bancorp, Inc. from those additional conditions. If this amendment is not approved by the shareholders of First Star Bancorp, Inc., it is possible that the merger with ESSA Bancorp, Inc. will not be completed.

**Your board of directors has unanimously determined that the amendment to the Articles of Incorporation merger and the merger agreement are fair and in the best interests of First Star Bancorp, Inc. and its shareholders and unanimously recommends that you vote FOR adoption of the merger agreement.** The amendment to the articles of incorporation requires the affirmative vote of at least two-thirds of all of the outstanding shares of First Star Bancorp, Inc. common stock and preferred stock. The merger cannot be completed unless a majority of the issued and outstanding shares of common stock and preferred stock of First Star Bancorp, Inc. present at the special meeting of shareholders are voted in favor of adoption of the merger agreement. Whether or not you plan to attend the special meeting of shareholders, please take the time to vote by completing the enclosed proxy card and mailing it in the enclosed envelope. **If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote FOR both the proposed amendment to the Corporation's Articles of Incorporation and adoption of the merger agreement. If you fail to vote, or you do not instruct your broker how to vote any shares held for you in street name, it will have the same effect as voting AGAINST both the proposed amendment to the Corporation's Articles of Incorporation and the merger agreement.**

This proxy statement-prospectus gives you detailed information about the special meeting of shareholders to be held on \_\_\_\_\_, 2012, the amendment to the Corporation's Articles of Incorporation, the merger and other related matters. You should carefully read this entire document, including the appendices. **In particular, you should carefully consider the discussion in the section entitled Risk Factors on page 24.**

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On behalf of the board of directors, I thank you for your prompt attention to this important matter.

Joseph T. Svetik  
President and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this document is accurate or complete. Any representation to the contrary is a criminal offense.**

**The securities to be issued in connection with the merger are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

This document is dated \_\_\_\_\_, 2012, and is first being mailed on or about \_\_\_\_\_, 2012.

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**WHERE YOU CAN FIND MORE INFORMATION**

ESSA Bancorp, Inc. files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may obtain copies of these documents by mail from the public reference room of the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Please call the Securities and Exchange Commission at (800) SEC-0330 for further information on the public reference room. In addition, ESSA Bancorp, Inc. files reports and other information with the Securities and Exchange Commission electronically, and the Securities and Exchange Commission maintains a web site located at <http://www.sec.gov> containing this information.

This document incorporates by reference important business and financial information about ESSA Bancorp, Inc. from documents that are not included in or delivered with this proxy statement-prospectus. These documents are available without charge to you upon written or oral request at the applicable company's address and telephone number listed below:

ESSA Bancorp, Inc.

200 Palmer Street

Stroudsburg, Pennsylvania 18360

Attention: Corporation Secretary

(570) 421-0531

**To obtain timely delivery, you must request the information no later than .**

ESSA Bancorp, Inc. has filed a registration statement on Form S-4 to register with the Securities and Exchange Commission up to 1,312,099 shares of ESSA Bancorp, Inc. common stock. This document is a part of that registration statement. As permitted by Securities and Exchange Commission rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and copy the registration statement, including any amendments, schedules and exhibits at the addresses set forth above. Statements contained in this document as to the contents of any contract or other documents referred to in this document are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the registration statement. This document incorporates by reference documents that ESSA Bancorp, Inc. previously filed with the Securities and Exchange Commission. They contain important information about the companies and their financial condition. See **Incorporation of Certain Documents by Reference** on page 87.

ESSA Bancorp, Inc. common stock is traded on the Nasdaq Global Market under the symbol **ESSA**, and First Star Bancorp, Inc. common stock is traded on the Over-the-Counter Market under the symbol **FSSB**.

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**FIRST STAR BANCORP, INC.**

**418 WEST BROAD STREET**

**BETHLEHEM, PENNSYLVANIA 18018**

**NOTICE OF THE SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON \_\_\_\_\_, 2012**

NOTICE IS HEREBY GIVEN that a special meeting of the shareholders of First Star Bancorp, Inc. will be held at \_\_\_\_\_, at \_\_\_\_\_ a.m., Eastern Standard time, on \_\_\_\_\_, 2012, for the following purposes:

1. To consider and vote upon a proposal to amend the Corporation's Articles of Incorporation to provide that the provisions of Article 13 of the Articles of Incorporation shall not apply to the transaction with ESSA Bancorp, Inc. contemplated by that certain Agreement and Plan of Merger by and between the Corporation and ESSA Bancorp, Inc., dated as of December 21, 2011, as amended.
2. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger by and between ESSA Bancorp, Inc., and First Star Bancorp, Inc., dated as of December 21, 2011, as amended, and the transactions contemplated by the merger agreement, as discussed in the attached proxy statement-prospectus.
3. To transact any other business that properly comes before the special meeting of shareholders, or any adjournments or postponements of the special meeting, including, without limitation, a motion to adjourn the special meeting to another time or place for the purpose of soliciting additional proxies in order to adopt the merger agreement and the merger or otherwise.

The proposed amendment to the Articles of Incorporation and the proposed merger are both described in more detail in this proxy statement-prospectus, which you should read carefully in its entirety before voting. A copy of the merger agreement, as amended, is attached as Appendix A to this document and a copy of the Articles of Incorporation of First Star Bancorp, Inc. is attached as Appendix B. Only First Star Bancorp, Inc. shareholders of record as of the close of business on \_\_\_\_\_, 2012, are entitled to notice of and to vote at the special meeting of shareholders or any adjournments of the special meeting.

**Your vote is very important. To ensure your representation at the special meeting of shareholders, please complete, execute and promptly mail your proxy card in the return envelope enclosed.** This will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Your proxy may be revoked at any time before it is voted.

BY ORDER OF THE BOARD OF DIRECTORS

Joseph T. Svetik, Jr.  
President and Chief Executive Officer

Bethlehem, Pennsylvania

\_\_\_\_\_, 2012

**FIRST STAR BANCORP, INC. S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE AMENDMENT TO THE CORPORATION S ARTICLES OF INCORPORATION AND FOR ADOPTION OF THE MERGER AGREEMENT.**

**PLEASE MARK, SIGN, DATE AND RETURN YOUR PROXY CARD PROMPTLY, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING OF SHAREHOLDERS.**



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**DO NOT SEND STOCK CERTIFICATES WITH THE PROXY CARD. UNDER SEPARATE COVER, WHICH WILL BE SENT FOLLOWING THE CLOSING OF THE MERGER, YOU WILL RECEIVE INSTRUCTIONS FOR DELIVERING YOUR STOCK CERTIFICATES.**

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**QUESTIONS AND ANSWERS ABOUT VOTING AT THE  
SPECIAL MEETING OF SHAREHOLDERS**

*The following are answers to certain questions that you may have regarding the special meeting. We urge you to read carefully the remainder of this document because the information in this section may not provide all that might be important to you in determining how to vote. Additional important information is also contained in the appendices to, and the documents incorporated by reference in, this document.*

**Q. WHAT ARE HOLDERS OF FIRST STAR BANCORP, INC. STOCK BEING ASKED TO VOTE ON?**

A. Holders of First Star Bancorp, Inc. common stock and preferred stock are being asked to vote on the adoption of an amendment to the Articles of Incorporation, on the adoption of the merger agreement and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of adoption of the merger agreement.

**Q: WHAT DO I NEED TO DO NOW?**

A: After you have carefully read this document, you may vote using the internet at the address shown on your proxy card, or by telephone using the number on your proxy card or by completing, signing, dating and returning your proxy card in the enclosed prepaid return envelope as soon as possible. This will enable your shares to be represented and voted at the special meeting.

**Q: WHY IS MY VOTE IMPORTANT?**

A: The amendment to the articles of incorporation requires the affirmative vote of at least two-thirds of all of the outstanding shares of First Star Bancorp, Inc. common stock and preferred stock. If you fail to vote, that will have the same effect as a vote against the amendment to the articles of incorporation. The merger agreement must be adopted by the affirmative vote of a majority of the issued and outstanding shares of First Star Bancorp, Inc. common stock and preferred stock present at the shareholders meeting.

**Q: IF MY BROKER HOLDS MY SHARES IN STREET NAME WILL MY BROKER AUTOMATICALLY VOTE MY SHARES FOR ME?**

A: No. Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the instructions your broker provides.

**Q: WHAT IF I FAIL TO INSTRUCT MY BROKER TO VOTE MY SHARES?**

A: If you fail to instruct your broker to vote your shares, the broker will submit an unvoted proxy (a broker non-vote) as to your shares. Broker non-votes will count toward a quorum at the special meeting. However, broker non-votes will not count both the amendment to the Articles of Incorporation and as a vote with respect to the merger agreement, and therefore will have the same effect as a vote against the merger agreement.

**Q: CAN I ATTEND THE SPECIAL MEETING AND VOTE MY SHARES IN PERSON?**

A: Yes. All shareholders are invited to attend the special meeting. Shareholders of record can vote in person at the special meeting by executing a proxy card. If a broker holds your shares in street name, then you are not the shareholder of record and you must ask your broker how you can vote your shares at the special meeting.

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**Q: CAN I CHANGE MY VOTE?**

A: Yes. If you have not voted through your broker, you can change your vote after you have sent in your proxy card by:

providing written notice to the Secretary of First Star Bancorp, Inc.;

submitting a new proxy card or vote again by telephone or internet (any earlier proxies will be revoked automatically); or

attending the special meeting and voting in person. Any earlier proxy will be revoked. However, simply attending the special meeting without voting will not revoke your proxy.

If you have instructed a broker to vote your shares, you must follow your broker's directions to change your vote.

**Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?**

A: Please **DO NOT** send your stock certificates with your proxy card. Instructions will be sent to you under separate cover following completion of the merger.

**Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?**

A: ESSA Bancorp, Inc. and First Star Bancorp, Inc. currently expect to complete the merger in the second quarter of 2012, assuming all of the conditions to completion of the merger have been satisfied.

**Q: WHAT WILL SHAREHOLDERS OF FIRST STAR BANCORP, INC. RECEIVE IN THE MERGER?**

A: If the merger agreement is adopted and the merger is subsequently completed, each outstanding share of First Star Bancorp, Inc. common stock and preferred stock will be converted into the right to receive either 1.0665 shares of ESSA Bancorp, Inc. or the cash equivalent thereof, subject to adjustment as described in the merger agreement and in this document.

**Q: ARE DISSENTING FIRST STAR BANCORP SHAREHOLDERS ENTITLED TO APPRAISAL RIGHTS?**

A: Yes. Pennsylvania law provides dissenters' rights in the merger to First Star Bancorp shareholders.

Under Pennsylvania Business Corporation Law, record holders of First Star Bancorp shareholders may dissent from the merger and, upon complying with the requirements of Pennsylvania law, receive cash in the amount of the fair value of their shares instead of shares of ESSA Bancorp common stock and/or the cash consideration specified in the Merger Agreement. To exercise their dissenters' rights, First Star Bancorp shareholders must follow exactly the procedures specified under Pennsylvania law. These procedures are summarized in this proxy statement-prospectus. In addition, the text of the applicable provisions of Pennsylvania law is included as Appendix C to this document. Failure to strictly comply with these provisions may result in the loss of dissenters' rights. For a more complete discussion of appraisal rights, please refer to the section entitled "Pennsylvania law on Dissenters' Rights" beginning on page D-1.

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Q: WHOM SHOULD I CALL WITH QUESTIONS?

A: You should direct any questions regarding the special meeting of shareholders or the merger to Joseph Svetik at First Star Bancorp, Inc., who can be contacted at (610) 691-2233, Monday to Friday, 9:00 a.m. to 5:00 p.m. Eastern Standard Time.

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**SUMMARY**

This summary highlights selected information included in this document and does not contain all of the information that may be important to you. You should read this entire document and its appendices and the other documents to which we refer you before you decide how to vote with respect to the merger agreement. In addition, we incorporate by reference important business and financial information about ESSA Bancorp, Inc. into this document. For a description of this information, see [Incorporation of Certain Documents by Reference](#) on page 87. You may obtain the information incorporated by reference into this document without charge by following the instructions in the section entitled [Where You Can Find More Information](#) on the inside front cover of this document. Each item in this summary includes a page reference directing you to a more complete description of that item.

This document, including information included or incorporated by reference in this document, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to: (i) statements of goals, intentions and expectations; (ii) statements regarding business plans, prospects, growth and operating strategies; (iii) statements regarding the asset quality of loan and investment portfolios; (iv) statements regarding estimates of risks and future costs and benefits; and (v) other statements identified by words such as *expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning*. These forward-looking statements are based on current beliefs and expectations of the management of ESSA Bancorp, Inc. and First Star and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond ESSA Bancorp, Inc.'s and First Star's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements. See [Forward Looking Statements](#) on page 88.

**THE AMENDMENT TO FIRST STAR BANCORP, INC. ARTICLES OF INCORPORATION**

The Articles of Incorporation of First Star Bancorp, Inc. (*First Star*) contain certain specific and complex provisions which are designed to protect the corporation and its shareholders from the potential harmful effects of certain *business combinations* following a hostile takeover. Specifically, Article 13 may have certain unintended consequences in the proposed transaction with ESSA Bancorp, Inc. (*ESSA Bancorp*) due to the fact that certain long standing shareholders of First Star each hold more than 20% of the voting securities of First Star, and that one of the shareholders, namely Joseph T. Svetik, President and Chief Executive Officer of First Star, is being designated to serve on the Board of Directors of ESSA Bancorp after completion of the merger. As a result, under the definitions contained in the Articles of Incorporation, Mr. Svetik is an *Interested Shareholder*, ESSA Bancorp will be an *Associate* of Mr. Svetik, and the transaction with ESSA Bancorp will be a *Business Combination* subject to the additional requirements contained in the Articles of Incorporation. See Appendix B for a copy of the Articles of Incorporation of First Star as presently in effect.

Article 13 of the First Star Articles of Incorporation imposes a variety of additional conditions on the amount of cash and the market value of the other securities to be received in the business combination with ESSA Bancorp, Inc. based upon any acquisitions of First Star securities made by Mr. Svetik during the last five years. In addition, it is likely that Article 13 would require the consideration to be paid entirely in cash, contrary to the merger agreement with ESSA Bancorp, Inc. In this context, the application of these provisions is unclear and confusing, and requires complex calculations and analysis.

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In light of the uncertainty of the effect of these provisions and the cost of attempting to complete the necessary calculations and analysis, the First Star Board of Directors has concluded that an amendment to the Articles of Incorporation to exempt the transaction with ESSA Bancorp, Inc. from the unintended consequences of Article 13 is in the best interest of shareholders and the corporation, and unanimously recommends that shareholders approve the proposed amendment to the Articles of Incorporation to exempt the merger with ESSA Bancorp, Inc. from the application of Article 13 entirely. Approval of this amendment requires the affirmative vote of at least two-thirds of all of the outstanding shares of First Star common stock and preferred stock.

### **THE MERGER**

**The merger agreement, as amended, is attached to this document as Appendix A. We encourage you to read this agreement carefully, as it is the legal document that governs the merger of First Star with and into ESSA Bancorp, Inc. References in this document will refer to the merger agreement as amended.**

#### **Parties to the Merger**

##### **ESSA Bancorp, Inc. (page 40)**

##### **ESSA Bank & Trust**

ESSA Bancorp, Inc. is the Pennsylvania-chartered stock holding company of ESSA Bank & Trust ( ESSA Bank ). ESSA Bancorp, Inc. owns 100% of the outstanding shares of common stock of ESSA Bank. Since being formed in 2006, ESSA Bancorp has engaged primarily in the business of holding the common stock of ESSA 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 December 31, 2011, ESSA Bancorp had consolidated assets of \$1.1 billion, consolidated deposits of \$640.3 million and consolidated stockholders' equity of \$161.5 million. Its consolidated net income for the fiscal year ended September 30, 2011 was \$5.3 million.

ESSA Bank was organized in 1916. ESSA Bank is a Pennsylvania chartered full-service, community-oriented savings association. We provide financial services to individuals, families and businesses through our seventeen full-service banking offices, located in Monroe, Northampton and Lehigh Counties, Pennsylvania. ESSA Bank is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation.

ESSA 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, commercial and consumer 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 PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor. We offer insurance benefit consulting services through our wholly owned subsidiary, ESSA Advisory Services, LLC.

##### **First Star Bancorp, Inc. (page 41)**

##### **First Star Bank**

First Star Bancorp, Inc., a bank holding company and Pennsylvania corporation owns 100% of the issued and outstanding voting stock of First Star Bank. First Star, as a bank holding company, is regulated and supervised by the Board of Governors of the Federal Reserve System.

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First Star Bank, originally chartered in 1893, is a Pennsylvania chartered stock savings bank headquartered in Bethlehem, Pennsylvania. First Star Bank operates nine (9) full-service community banking offices in Northampton and Lehigh Counties, Pennsylvania. It is also regulated by the Department and the Federal Deposit Insurance Corporation (the FDIC). As of December 31, 2011, First Star Bank had approximately \$423.7 million in total assets, \$325.0 million in total deposits, and was classified as well-capitalized for regulatory purposes.

First Star has four direct or indirect wholly-owned subsidiaries in addition to First Star Bank. First Star Capital Trust II is a direct subsidiary of First Star. First Star Capital Trust II does not engage in business with the public but exclusively acts as the issuer of \$8 million of trust preferred securities, which occurred in March 2000. First Star Financial Services (FSFS) is a wholly-owned subsidiary of First Star Bank. FSFS engages in the activity of selling nondeposit investment products, such as annuities and insurance. Its business is minimal. Integrated Abstract, Inc. is a wholly-owned subsidiary of FSFS. Integrated Abstract, Inc. engages in the sale of title insurance and provides loan closing services. It also has minimal business. Integrated Delaware, Inc. is a wholly-owned subsidiary of the First Star Bank. Integrated Delaware, Inc. engages in the activity of holding bank-eligible investments.

**What First Star Bancorp, Inc. Shareholders Will Receive In the Merger (page 41)**

Under the terms of the merger agreement, stockholders of First Star will receive, at their election, cash or shares of stock of ESSA Bancorp, subject to the total aggregate consideration being paid 50% in cash and 50% in stock. If ESSA Bancorp's closing price, as defined in the merger agreement, is between \$9.77 per share and \$11.94 per share, First Star's shareholders will receive a fixed exchange ratio of 1.0665 per share, or the cash equivalent thereof. If ESSA Bancorp's closing price is between \$11.94 per share and \$13.02 per share, First Star's shareholders will receive a fixed price valued at \$12.73 per share in either ESSA Bancorp common stock or cash. If ESSA Bancorp's closing price is between \$8.68 per share and \$9.77 per share, First Star's shareholders will receive a fixed price valued at \$10.42 per share in either ESSA Bancorp common stock or cash. If ESSA Bancorp's closing price is above \$13.02 per share, First Star's shareholders will receive a fixed exchange ratio of 0.9780, or the cash equivalent thereof; or if ESSA Bancorp's closing price is below \$8.68 per share a fixed exchange ratio of 1.2004, or the cash equivalent thereof.

**Material United States Federal Income Tax Consequences of the Merger (page 71)**

ESSA Bancorp and First Star will not be required to complete the merger unless they receive legal opinions from their respective counsel to the effect that the merger will qualify as a tax-free reorganization for United States federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The federal tax consequence of the merger to First Star shareholders will depend on whether they exchange their First Star common stock and preferred stock solely for cash, solely for ESSA Bancorp common stock, or a combination of cash and ESSA Bancorp common stock. First Star shareholders who exchange their shares solely for ESSA Bancorp common stock should not recognize gain or loss except with respect to the cash received instead of any fractional share of ESSA Bancorp common stock. First Star shareholders who exchange their shares solely for cash should recognize gain or loss on the exchange. First Star shareholders who exchange their shares for a combination of ESSA Bancorp common stock and cash should recognize gain, but not any loss, on the exchange in an amount equal to the lesser of (i) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the ESSA Bancorp common stock received pursuant to the merger over such shareholder's adjusted tax basis in the shares of First Star common stock and preferred stock surrendered) and (ii) the amount of cash received pursuant to the merger. In addition, cash received by a First Star



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shareholder instead of a fractional share of ESSA Bancorp common stock generally will be treated as received in exchange for the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of First Star common stock and preferred stock surrendered that is allocable to the fractional share. See *The Merger and the Merger Agreement* Material United States Federal Income Tax Consequences of the Merger on page 71.

Because the allocations of cash and ESSA Bancorp common stock received will depend on the elections of other First Star shareholders, the actual tax consequences of the merger will not be known until the allocations are completed.

**This tax treatment may not apply to all First Star shareholders. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. You should consult your tax advisor to fully understand the tax consequences of the merger to you. You should also consult your tax advisor about the state and local tax consequences to you, if any, of the merger because this discussion only relates to the U.S. federal income tax consequences.**

**Your Board of Directors Unanimously Recommends Shareholder Adoption of the Merger (page 49)**

First Star's board of directors unanimously approved the merger agreement and all directors have agreed to vote shares of First Star stock they own as of the record date in favor of the adoption of the merger agreement. First Star's board of directors believes that the merger and the merger agreement are fair to and in the best interests of First Star and its shareholders and unanimously recommends that you vote FOR adoption of the merger agreement. See *The Merger and the Merger Agreement* First Star's Reasons for the Merger and Recommendation of the First Star Bancorp, Inc. Board of Directors and Reasons for the Merger.

**Opinion of First Star Bancorp, Inc.'s Financial Advisor (page 84 and Appendix C)**

On December 21, 2011, Keefe Bruyette & Woods, Inc. ( KBW ) rendered its opinion to the board of directors of First Star that as of the date of the opinion, and based upon and subject to the factors and assumptions set forth in the opinion, the merger consideration in the proposed merger was fair, from a financial point of view, to First Star's common and preferred shareholders. The full text of KBW's written opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this document as Appendix C. First Star shareholders are urged to read the opinion in its entirety. KBW's written opinion is addressed to the board of directors of First Star, is directed only to the merger consideration in the merger and does not constitute a recommendation as to how any holder of First Star common stock or preferred stock should vote with respect to the merger or any other matter.

**Special Meeting of Shareholders of First Star Bancorp, Inc. (page 36)**

First Star will hold a special meeting of its shareholders on \_\_\_\_\_, 2012, at \_\_\_\_\_ a.m., Eastern Standard time, at \_\_\_\_\_. At the special meeting of shareholders, you will be asked to vote to adopt the merger agreement.

You may vote at the special meeting of shareholders if you owned shares of First Star common stock or preferred stock at the close of business on the record date, \_\_\_\_\_, 2012. On that date, there were \_\_\_\_\_ shares of First Star common stock and preferred stock outstanding and entitled to vote at the special meeting of shareholders. You may cast one vote for each share of First Star common stock and preferred stock you owned on the record date.

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Even if you expect to attend the special meeting of shareholders, First Star recommends that you promptly complete and return your proxy card in the enclosed return envelope.

### **Shareholder Vote Required (page 37)**

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of First Star common stock and preferred stock issued and outstanding on the record date. A failure to vote or an abstention will have the same effect as a vote against the merger. As of the record date, directors and executive officers of First Star beneficially owned approximately \_\_\_\_\_ shares of First Star common stock and preferred stock entitled to vote at the special meeting of shareholders. This represents approximately \_\_\_\_\_ % of the total votes entitled to be cast at the special meeting of shareholders. These individuals have agreed to vote FOR adoption of the merger agreement.

### **Holders of First Star Bancorp, Inc. Common Stock Have Dissenters Rights (page 59)**

Dissenters' rights are statutory rights that, if available under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Dissenters' rights are available under the Pennsylvania Business Corporation Law of 1988, as amended, to the shareholders of First Star common stock. Under Pennsylvania law, to maintain his or her dissenters' rights, a First Star shareholder must, among other requirements, (1) file a written notice with First Star of the of your intention to demand payment of the fair value of your shares if the merger is consummated, prior to the vote of shareholders on the merger at the meeting, (2) make no change in your beneficial ownership of stock from the date you give notice through the day of completion of the merger and (3) refrain from voting your shares to approve the merger. See The Merger and the Merger Agreement Dissenters' Rights on page 59.

First Star shareholders may dissent from the merger and, upon complying with the requirements of Pennsylvania law, receive cash in the amount of the fair value of their shares instead of shares of ESSA Bancorp common stock and/or the cash consideration specified in the Merger Agreement. A copy of the section of the Pennsylvania Business Corporation Law pertaining to dissenters' rights is also attached as Appendix D to this proxy statement-prospectus. **You should read the statute carefully and consult with your legal counsel if you intend to exercise these rights.**

### **Interests of First Star Bancorp, Inc.'s Directors and Officers In the Merger (page 63)**

In considering the recommendation of the board of directors of First Star to adopt the merger agreement, you should be aware that officers and directors of First Star have employment and other compensation agreements or plans that give them interests in the merger that are somewhat different from, or in addition to, their interests as First Star shareholders. These interests and agreements include:

employment agreements that provide for severance payments in connection with a termination of employment following a change in control;

change in control agreements that provide for severance payments in connection with a termination of employment without cause or for good reason following a change in control;

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supplemental executive benefit agreements that provide for payments upon termination of employment following a change in control; and

rights of First Star officers and directors to indemnification and directors and officers liability insurance.

**Regulatory Approvals Required For the Merger (page 68)**

The merger cannot be completed without prior regulatory approval. ESSA Bancorp has applied to the Pennsylvania Department of Banking for approval to merge First Star into ESSA Bancorp as well as to merger of First Star Bank into ESSA Bank. In addition, an application has been submitted to the FDIC to approve the bank merger. As part of the regulatory approvals being requested, and as a condition to closing the merger, ESSA Bancorp and ESSA Bank are seeking approval for ESSA Bank to distribute \$25.0 million to ESSA Bancorp to provide the cash merger consideration and pay off all outstanding First Star junior subordinated debentures. While ESSA Bancorp does not know of any reason why it would not be able to obtain the necessary regulatory approvals in a timely manner, ESSA Bancorp cannot assure you that these approvals will occur or what the timing may be or that these approvals will not be subject to one or more conditions that affect the advisability of the merger.

**Conditions to the Merger (page 67)**

Completion of the merger depends on a number of conditions being satisfied or waived, including the following:

First Star shareholders must have adopted the merger agreement;

the representations and warranties of the parties to the merger agreement must be, subject to certain limited exceptions;

the receipt of all regulatory approvals and other necessary approvals of governmental entities (other than those the failure of which to obtain would not cause a material adverse effect);

there must be no statute, rule, regulation, order, injunction or decree in existence which prohibits or makes completion of the merger illegal;

there must be no litigation, statute, law, regulation, order or decree by which the merger is restrained or enjoined;

ESSA Bancorp's registration statement of which this document is a part shall have become effective and no stop order suspending its effectiveness shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the Securities and Exchange Commission;

the shares of ESSA Bancorp common stock to be issued to First Star shareholders in the merger must have been approved for listing on the Nasdaq Global Market and such shares must be delivered to the exchange agent before the closing date of the transaction;

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ESSA Bancorp and First Star must have received a legal opinion from their respective counsels that the merger will qualify as a tax-free reorganization for United States federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended; and

all necessary third party consents shall have been obtained.

Although we anticipate the closing will occur during the second quarter of 2012, because the satisfaction of certain of these conditions is beyond our control, we cannot be certain when, or if, the conditions to the merger will be satisfied or waived or whether or not the merger will be completed.

**No Solicitation (page 69)**

Subject to certain exceptions, First Star has agreed not to initiate, solicit, induce or knowingly encourage any inquiries or the making of any proposal or offer from any third party relating to an acquisition of First Star, or enter into an agreement relating to an acquisition proposal by a third party. Notwithstanding these restrictions, however, the merger agreement provides that, under specified circumstances, in response to an unsolicited acquisition proposal or inquiry from a third party which, in the good faith judgment of the First Star board of directors, is or reasonable likely to result in a proposal which is superior to the merger with ESSA Bancorp, First Star may furnish information regarding First Star and participate in discussions and negotiations with such third party.

**Termination of the Merger Agreement (page 69)**

ESSA Bancorp and First Star may mutually agree at any time to terminate the merger agreement without completing the merger, even if the First Star shareholders have adopted it. Also, either party may decide, without the consent of the other party, to terminate the merger agreement under specified circumstances, including if the merger is not consummated by September 30, 2012, if the required regulatory approvals are not received or if the shareholders of First Star do not approve the merger. In addition, either party may terminate the merger agreement if there is a breach of the agreement by the other party that would cause the failure of conditions to the terminating party's obligation to close, unless the breach is capable of being cured and is cured within 30 days of the notice of breach (provided that the terminating party is not then in material breach of the merger agreement). ESSA Bancorp may also terminate the merger agreement if First Star's delinquent loans equal or exceed \$19.3 million as of any month end prior to the closing date of the merger, and/or if from October 1, 2011 through the closing date of the merger, the First Star investment portfolio realizes cumulative net losses from either (i) securities sales, or (ii) other than temporary impairment write-downs, which in the aggregate exceed \$4.25 million as of the any month end prior to the closing date of the merger. In addition, First Star may terminate the merger agreement if ESSA Bancorp's stock price falls below thresholds set forth in the merger agreement and ESSA Bancorp does not increase aggregate merger consideration to \$21.11 million or, under certain limited circumstances, if First Star has received a proposal which its board of directors determines is superior to the merger with ESSA Bancorp.

**Termination Fee (page 71)**

If the merger is terminated pursuant to specified situations in the merger agreement (and First Star accepts a superior proposal, as defined in the merger agreement, or enters into an acquisition proposal under certain circumstances), First Star may be required to pay a termination fee to ESSA Bancorp of \$875,000. First Star agreed to this termination fee arrangement in order to induce ESSA Bancorp to enter into the merger agreement. The termination fee requirement may discourage other companies from trying or proposing to combine with First Star before the merger is completed.

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**Comparison of Shareholders Rights (page 77)**

The rights of First Star shareholders who continue as ESSA Bancorp shareholders after the merger will be governed by Pennsylvania law and the certificate of incorporation and bylaws of ESSA Bancorp rather than by the certificate of incorporation and bylaws of First Star.

**Table of Contents****SELECTED HISTORICAL FINANCIAL DATA FOR ESSA BANCORP, INC. AND FIRST STAR****BANCORP, INC.****ESSA Bancorp, Inc. Selected Historical Financial and Other Data**

The following tables set forth selected historical financial and other data of ESSA Bancorp for the periods and as of the dates indicated. The information at and for the three months ended December 31, 2011 and 2010 is unaudited. However, in the opinion of management of ESSA Bancorp, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the three months ended December 31, 2011, are not necessarily indicative of a full year's operations.

	At or for the Three Months Ended December 31,		2011	As of or for the Years Ended September 30,			2007
	2011 (Unaudited)	2010		2010	2009	2008	
(In thousands)							
<b>Selected Financial Condition Data:</b>							
Total assets	\$ 1,097,071	\$ 1,081,041	\$ 1,097,480	\$ 1,071,997	\$ 1,042,119	\$ 993,482	\$ 910,415
Cash and cash equivalents	29,064	7,346	41,694	10,890	18,593	12,614	16,779
Investment securities:							
Available for sale	254,746	249,457	245,393	252,341	217,566	204,078	205,267
Held to maturity		11,429		12,795	6,709	11,857	17,130
Loans, net	742,100	747,822	738,619	730,842	733,580	706,890	619,845
Federal Home Loan Bank stock	16,038	19,690	16,882	20,727	20,727	19,188	16,453
Premises and equipment	11,470	12,059	11,494	12,189	10,620	10,662	11,277
Bank-owned life insurance	23,454	15,755	23,256	15,618	15,072	14,516	13,941
Deposits	640,344	581,270	637,924	540,410	408,855	370,529	384,716
Borrowed funds	283,410	322,513	288,410	350,076	438,598	412,757	313,927
Equity	161,517	166,160	161,679	171,623	185,506	200,086	204,692

	At or for the Three Months Ended December 31,		2011	For the Years Ended September 30,			2007
	2011 (Unaudited)	2010		2010	2009	2008	
(In thousands)							
<b>Selected Data:</b>							
Interest income	\$ 11,029	\$ 11,844	\$ 47,176	\$ 49,257	\$ 52,733	\$ 52,065	\$ 45,510
Interest expense	4,321	4,714	18,280	21,306	23,739	25,642	23,805
Net interest income	6,708	7,130	28,896	27,951	28,994	26,423	21,705
Provision for loan losses	500	480	2,055	2,175	1,500	900	360
Net interest income after provision for loan losses	6,208	6,650	26,841	25,776	27,494	25,523	21,345
Non-interest income	1,524	1,335	6,325	6,708	5,728	4,803	5,496
Non-interest expense	6,662	6,638	26,045	26,128	24,113	21,181	31,185
Income (loss) before income tax expense	1,070	1,347	7,121	6,356	9,109	9,145	(4,344)

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Income tax expense		184		335		1,863		1,844		2,553		3,068		782
Net income (loss)	\$	886	\$	1,012	\$	5,258	\$	4,512	\$	6,556	\$	6,077	\$	(5,126)
Earnings (loss) per share <sup>(1)</sup>														
Basic	\$	0.08	\$	0.09	\$	0.46	\$	0.36	\$	0.47	\$	0.39	\$	(0.47)
Diluted	\$	0.08	\$	0.09	\$	0.46	\$	0.36	\$	0.47	\$	0.38	\$	(0.47)

(1) Earnings per share for 2007 are calculated for the period beginning with the Company's date of conversion of April 3, 2007 and are based on a net loss of \$(7,289).

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	As of or for the Three Months Ended December 31,		At or for the Years Ended September 30,				
	2011 <sup>(2)</sup>	2010 <sup>(2)</sup>	2011	2010	2009	2008	2007
<b>Selected Financial Ratios and Other Data:</b>							
<b>Performance Ratios:</b>							
Return on average assets	0.32%	0.38%	0.48%	0.43%	0.64%	0.63%	(0.62)%
Return on average equity	2.17%	2.35%	3.15%	2.49%	3.42%	2.92%	(3.88)%
Interest rate spread <sup>(3)</sup>	2.30%	2.44%	2.47%	2.34%	2.40%	2.09%	2.18%
Net interest margin <sup>(4)</sup>	2.57%	2.77%	2.78%	2.78%	2.93%	2.88%	2.78%
Efficiency ratio <sup>(5)</sup>	80.93%	78.42%	75.62%	75.39%	69.45%	67.83%	116.18%
Noninterest expense to average total assets	2.42%	2.46%	2.39%	2.49%	2.34%	2.21%	3.78%
Average interest-earning assets to average interest-bearing liabilities	116.93%	119.08%	117.90%	121.11%	123.00%	128.60%	120.21%
<b>Asset Quality Ratios:</b>							
Non-performing assets as a percent of total assets	1.49%	1.36%	1.26%	1.20%	0.74%	0.40%	0.06%
Non-performing loans as a percent of total loans	1.90%	1.63%	1.54%	1.47%	0.70%	0.55%	0.09%
Allowance for loan losses as a percent of non-performing loans	58.75%	62.98%	71.04%	68.48%	112.82%	124.81%	757.83%
Allowance for loan losses as a percent of total loans	1.12%	1.02%	1.09%	1.01%	0.79%	0.69%	0.67%
<b>Capital Ratios:</b>							
Total risk-based capital (to risk weighted assets)	28.97%	29.95%	28.54%	32.60%	31.00%	30.30%	32.84%
Tier 1 risk-based capital (to risk weighted assets)	27.72%	28.70%	27.30%	31.35%	29.86%	29.42%	31.88%
Tangible capital (to tangible assets)	14.34%	14.95%	14.18%	15.07%	15.17%	15.50%	16.61%
Tier 1 leverage (core) capital (to adjusted tangible assets)	14.34%	14.95%	14.18%	15.07%	15.17%	15.50%	16.61%
Average equity to average total assets	14.83%	16.03%	15.27%	17.26%	18.59%	21.77%	15.98%
<b>Other Data:</b>							
Number of full service offices	17	17	17	17	13	13	13

(2) Annualized where appropriate.

(3) The interest rate spread represents the difference between the weighted-average yield on a fully tax equivalent basis on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.

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

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



**Table of Contents****First Star Bancorp, Inc. Selected Historical Financial Data**

The following tables set forth selected historical financial data of First Star for the periods and at the dates indicated. The information at and for the six months ended December 31, 2011 and 2010 is unaudited. However, in the opinion of management of First Star, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the six months ended December 31, 2011, are not necessarily indicative of a full year's operations.

	At or for the Six Months Ended December 31,		2011	As of or for the Years Ended June 30,			2007
	2011	2010		2010	2009	2008	
	(Unaudited)						
	(In thousands)						
<b>Selected Financial Condition Data:</b>							
Total assets	\$ 423,729	\$ 486,966	\$ 437,391	\$ 517,107	\$ 590,686	\$ 634,098	\$ 555,209
Cash and cash equivalents	73,472	85,531	60,367	91,129	68,965	12,318	2,785
Investment securities:							
Available for sale	109,996	152,727	124,605	177,548	106,596	264,237	308,672
Held to maturity					181,560	152,438	
Loans, net	208,346	213,922	209,179	206,597	219,005	211,060	227,500
Federal Home Loan Bank stock	10,737	13,182	11,897	13,876	13,876	12,306	6,519
Premises and equipment	2,932	2,143	2,955	2,218	2,367	2,343	1,001
Cash surrender value of life insurance	3,677	3,497	3,577	3,432	3,263	3,124	2,981
Deposits	324,951	360,425	327,232	333,935	355,612	338,978	354,476
Advances from Federal Home Loan Bank	56,256	84,167	67,003	140,279	192,829	249,564	111,766
Equity	27,213	27,448	27,826	27,397	26,378	35,244	38,625

	At or for the Six Months Ended December 31,		2011	As of or for the Years Ended June 30,			2007
	2011	2010		2010	2009	2008	
	(Unaudited)						
	(In thousands)						
<b>Selected Financial Condition Data:</b>							
Interest income	\$ 7,376	\$ 8,365	\$ 16,173	\$ 21,342	\$ 31,033	\$ 32,734	\$ 32,764
Interest expense	3,622	5,362	9,384	15,047	21,899	23,374	23,419
Net interest income	3,754	3,003	6,789	6,295	9,134	9,360	9,345
Provision for loan losses				1,055		255	371
Net interest income after provision for loan losses	3,754	3,003	6,789	5,240	9,134	9,105	8,974
Non-interest income	(822)	(1,526)	(2,276)	(1,463)	(9,984)	(1,620)	1,696
Non-interest expense	3,647	3,779	7,648	7,774	7,386	6,300	6,011
Income (loss) before income tax expenses	(715)	(2,302)	(3,135)	(3,997)	(8,236)	1,185	4,659
Income tax expense (benefit)	(269)	(816)	(1,141)	(1,449)	(2,976)	504	1,415
Net income (loss)	\$ (446)	\$ (1,486)	\$ (1,994)	\$ (2,548)	\$ (5,260)	\$ 681	\$ 3,244
Earnings (loss) per shares							
Basic	\$ (0.46)	\$ (1.40)	\$ (1.95)	\$ (2.44)	\$ (4.74)	\$ 0.57	\$ 2.72
Diluted	\$ (0.46)	\$ (1.40)	\$ (1.95)	\$ (2.44)	\$ (4.74)	\$ 0.42	\$ 1.61



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	As of or for the Six Months Ended December 31		2010	At or for the Years Ended June 30,			2007
	2011 (1)	2010 (1)		2009	2008		
	(Unaudited)		(In thousands)				
<b>Selected Financial Ratios and Other Data</b>							
<b>Performance Ratios:</b>							
Return on average assets	(0.21%)	(0.57%)	(0.41%)	(0.44%)	(0.81%)	0.12%	0.57%
Return on average equity	(3.24%)	(10.82%)	(7.22%)	(9.48%)	(17.07%)	1.84%	9.15%
interest rate spread (2)	1.85%	1.16%	1.41%	1.07%	1.36%	1.31%	1.38%
Net interest margin (3)	1.88%	1.22%	1.46%	1.12%	1.44%	1.62%	1.67%
Efficiency ratio (4)	160.79%	78.17%	169.47%	205.82%	(868.94%)	81.40%	54.44%
Noninterest expense to average assets	1.72%	1.47%	1.57%	1.33%	1.13%	1.08%	1.06%
Average interest-earning assets to average interest-bearing liabilities	101.88%	102.63%	102.52%	102.00%	102.35%	107.64%	106.80%
<b>Asset Quality ratios:</b>							
Non-performing assets as a percent of total							
Assets	1.43%	2.05%	2.67%	1.39%	0.58%	0.63%	0.66%
Non-performing loans as a percent of total loans	2.61%	4.28%	3.07%	3.17%	0.24%	0.87%	1.61%
Allowance for loan losses as a percent of non-performing loans	41.08%	26.99%	38.38%	37.78%	528.22%	156.74%	80.03%
Allowance for loan losses as a percent of total loans	1.07%	1.16%	1.17%	1.18%	1.26%	1.35%	1.27%
<b>Capital Ratios:</b>							
Total risk-based capital (to risk weighted assets)	8.55%	13.74%	12.98%	13.54%	10.90%	16.14%	20.49%
Tier 1 risk-based capital (to risk weighted assets)	13.16%	12.41%	11.72%	12.60%	9.94%	13.75%	17.41%
Tier 1 leverage (core) capital (to average assets)	14.51%	7.18%	8.31%	7.92%	7.01%	7.05%	8.44%
<b>Other Data:</b>							
Number of full service offices	9	9	9	9	9	9	8

- (1) Annualized where appropriate.
- (2) The interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities
- (3) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.
- (4) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**RELATING TO THE FIRST STAR ACQUISITION**

The unaudited pro forma combined condensed consolidated financial information has been prepared using the acquisition method of accounting, giving effect to ESSA Bancorp's proposed merger with First Star. The unaudited pro forma combined condensed consolidated statement of financial condition combines the historical financial information of ESSA Bancorp and First Star as of December 31, 2011, and assumes that the proposed merger was completed on that date. The unaudited pro forma combined condensed consolidated statements of operations give effect to the proposed First Star merger as if it had been completed at the beginning of those periods. The unaudited pro forma combined condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations or financial condition had the merger been completed on the dates described above, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined entities.

The value of ESSA Bancorp common stock issued in connection with the First Star merger will be based on the closing price of ESSA Bancorp common stock on the date the merger is completed. For purposes of the pro forma financial information, the fair value of ESSA Bancorp common stock was calculated based on a December 31, 2011 closing date and resulted in a price of \$10.23 per share.

The pro forma financial information includes estimated adjustments to record assets and liabilities of First Star at their respective fair values and represents ESSA Bancorp's pro forma estimates based on available information. The pro forma adjustments included herein are subject to change depending on changes in interest rates and the components of assets and liabilities and as additional information becomes available and additional analyses are performed. The final allocation of the purchase price will be determined after the merger is completed and after completion of a thorough analyses to determine the fair value of First Star's tangible and identifiable intangible assets and liabilities as of the date the merger is completed. Increases or decreases in the estimated fair values of the net assets as compared with the information shown in the unaudited pro forma combined condensed consolidated financial information may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact ESSA Bancorp's statement of income due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to First Star stockholders' equity, including results of operations from December 31, 2011 through the date the merger is completed, will also change the purchase price allocation, which may include the recording of a lower or higher amount of goodwill. The final adjustments may be materially different from the unaudited pro forma adjustments presented herein.

ESSA Bancorp anticipates that the merger with First Star will provide the combined company with financial benefits that include reduced operating expenses. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings or opportunities to earn additional revenue and, accordingly, does not attempt to predict or suggest future results.

The unaudited pro forma combined condensed consolidated financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of ESSA Bancorp and First Star, which, in the case of ESSA Bancorp, are incorporated in the proxy statement/prospectus by reference. See "Incorporation of Certain Documents by Reference" on page 87.

**The unaudited pro forma stockholders' equity and net income are qualified by the statements set forth under this caption and should not be considered indicative of the market value of ESSA Bancorp common stock or the actual or future results of operations of ESSA Bancorp for any period. Actual results may be materially different than the pro forma information presented.**

**Table of Contents****ESSA Bancorp, Inc. and Subsidiary****Unaudited Pro Forma Combined Condensed Consolidated Statements of Financial Condition****December 31, 2011**

	<b>ESSA Bancorp, Inc. Historical</b>	<b>First Star Bancorp, Inc. Historical</b>	<b>Pro Forma Acquisition Adjustments (Dollars in thousands)</b>	<b>Merger and Consolidating Adjustments</b>	<b>Pro Forma Combined</b>
<b>ASSETS:</b>					
Cash and due from banks	\$ 9,087	\$ 49,936			\$ 59,023
Interest-bearing deposits with other institutions	19,977	19,556		(11,786) A	27,747
Total cash and cash equivalents	29,064	69,492			86,770
Certificates of deposit		3,981			3,981
Investment securities available for sale	254,746	109,996	(6,343)		358,399
Loans receivable, net	742,100	208,346	(5,367) B		945,079
Federal Home Loan Bank stock	16,038	10,736			26,774
Premises and Equipment	11,470	2,932			14,402
Bank-owned life insurance	23,454	3,677			27,131
Foreclosed real estate	2,103	638			2,741
Intangible assets, net	1,744		1,054 C		2,798
Goodwill	40		6,637 H		6,677
Other assets	16,312	13,932	6,047 G		36,291
<b>TOTAL ASSETS</b>	<b>\$ 1,097,071</b>	<b>\$ 423,730</b>	<b>2,028</b>	<b>(11,786)</b>	<b>\$ 1,511,043</b>
<b>LIABILITIES:</b>					
Deposits	\$ 640,344	\$ 324,951	2,373 D		\$ 967,668
Short-term borrowings	10,000				10,000
Other borrowings	273,410	56,256	4,756 E		334,422
Advances by borrowers for taxes and insurance	3,728	2,626			6,354
Convertible subordinated debentures		1,460	(1,460) A		
Junior subordinated debentures		8,248			8,248
Other liabilities	8,072	2,976			11,048
<b>TOTAL LIABILITIES</b>	<b>935,554</b>	<b>396,517</b>	<b>5,669</b>		<b>1,337,740</b>
<b>STOCKHOLDERS EQUITY</b>					
Preferred stock		4,275	(4,275) A		
Common stock	170	1,184	(1,184) A	12 A	182
Additional paid-in-capital	167,300	12,914	(12,914) A	11,774 A	179,074
Unallocated common stock held by the Employee Stock Ownership Plan ( ESOP )	(11,325)				(11,325)
Retained earnings	67,555	14,748	(14,748) A		67,555
Treasury Stock, at cost	(61,612)	(384)	384 A		(61,612)
Accumulated other comprehensive income (loss)	(571)	(5,524)	5,524 A		(571)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>161,517</b>	<b>27,213</b>	<b>(27,213)</b>	<b>11,786</b>	<b>173,303</b>
	<b>\$ 1,097,071</b>	<b>\$ 423,730</b>	<b>\$ 21,544</b>	<b>\$ 11,786</b>	<b>\$ 1,511,043</b>

TOTAL LIABILITES AND STOCKHOLDERS  
EQUITY

(See Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Information on page 20)

**Table of Contents****ESSA Bancorp, Inc. and Subsidiary****Unaudited Pro Forma Combined Condensed Consolidated Statement of Income****For the Year Ended September 30, 2011**

	ESSA Bancorp, Inc. Historical (dollars in thousands)	First Star Bancorp, Inc. Historical	Pro Forma Acquisition Adjustments		Pro Forma Combined
<b>INTEREST INCOME</b>					
Loans receivable	\$ 38,949	\$ 11,588	\$ 236	J	\$ 50,773
<b>Investment Securities:</b>					
Taxable	7,964	4,459	1,160	J	13,583
Exempt from federal income tax	258				258
Other investment income	5	126			131
<b>Total interest income</b>	<b>47,176</b>	<b>16,173</b>	<b>1,396</b>		<b>64,745</b>
<b>INTEREST EXPENSE</b>					
Deposits	7,486	4,217	(1,135)	K	10,568
Short-term borrowings	46				46
Junior subordinated debentures		870			870
Other borrowings	10,748	4,297	(1,522)	K	13,523
<b>Total interest expense</b>	<b>18,280</b>	<b>9,384</b>	<b>(2,627)</b>		<b>25,007</b>
<b>NET INTEREST INCOME</b>	<b>28,896</b>	<b>6,789</b>	<b>4,053</b>		<b>39,738</b>
Provision for loan losses	2,055				2,055
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>26,841</b>	<b>6,789</b>	<b>4,053</b>		<b>37,683</b>
<b>NONINTEREST INCOME</b>					
Service fees on deposit accounts	3,019	269			3,288
Service charges and fees on loans	639	207			846
Trust and investment fees	851				851
Impairment loss on securities		(3,383)			(3,383)
Gain on sale of investments, net	778	11			789
Gain on sale of loans, net	3	317			320
Earnings on bank-owned life insurance	638				638
Insurance commissions	361				361
Other	36	303			339
<b>Total noninterest income</b>	<b>6,325</b>	<b>(2,276)</b>			<b>4,049</b>
<b>NONINTEREST EXPENSE</b>					
Compensation and employee benefits	15,865	4,151			20,016
Occupancy and equipment	3,071	807			3,878
Professional fees	1,488	276			1,764
Data processing	1,876	298			2,174
Advertising	658	119			777
Federal Deposit Insurance Corporation premiums	763	798			1,561
Loss on foreclosed real estate	35				35

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Amortization of intangible assets	135			135
Amortization of core deposit intangible			232	I 232
Other	2,154	1,199		3,353
<b>Total noninterest expense</b>	<b>26,045</b>	<b>7,648</b>	<b>232</b>	<b>33,925</b>
Income before income taxes (benefit)	7,121	(3,135)	3,821	7,807
Income taxes (benefit)	1,863	(1,141)	1,386	2,108
<b>NET INCOME (LOSS)</b>	<b>\$ 5,258</b>	<b>\$ (1,994)</b>	<b>\$ 2,435</b>	<b>\$ 5,699</b>

(See Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Information on page 20)



**Table of Contents****ESSA Bancorp, Inc. and Subsidiary****Unaudited Pro Forma Combined Condensed Consolidated Statement of Income****For the Three Months Ended December 31, 2011**

	ESSA Bancorp, Inc. Historical	First Star Bancorp, Inc. Historical	Pro Forma Acquisition Adjustments		Pro Forma Combined
	(dollars in thousands)				
<b>INTEREST INCOME</b>					
Loans receivable	\$ 9,341	\$ 2,807	\$ 59	M	\$ 12,207
<b>Investment Securities:</b>					
Taxable	1,638	887	290	M	2,815
Exempt from federal income tax	48				48
Other investment income	2	32			34
<b>Total interest income</b>	<b>11,029</b>	<b>3,726</b>	<b>349</b>		<b>15,104</b>
<b>INTEREST EXPENSE</b>					
Deposits	1,911	863	(284)	N	2,490
Short-term borrowings	5				5
Junior subordinated debentures		218			218
Other borrowings	2,405	676	(382)	N	2,699
<b>Total interest expense</b>	<b>4,321</b>	<b>1,757</b>	<b>(666)</b>		<b>5,412</b>
<b>NET INTEREST INCOME</b>	<b>6,708</b>	<b>1,969</b>	<b>1,015</b>		<b>9,692</b>
Provision for loan losses	500				500
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>6,208</b>	<b>1,969</b>	<b>1,015</b>		<b>9,192</b>
<b>NONINTEREST INCOME</b>					
Service fees on deposit accounts	727	76			803
Service charges and fees on loans	184	61			245
Trust and investment fees	215				215
Impairment loss on securities		(1,312)			(1,312)
Earnings on bank-owned life insurance	198				198
Insurance commissions	191				191
Other	9	100			109
<b>Total noninterest income</b>	<b>1,524</b>	<b>(1,075)</b>			<b>449</b>
<b>NONINTEREST EXPENSE</b>					
Compensation and employee benefits	3,936	986			4,922
Occupancy and equipment	756	188			944
Professional fees	490	75			565
Data processing	482	82			564
Advertising	86	30			116
Federal Deposit Insurance Corporation premiums	162				162
Loss on foreclosed real estate	67				67
Amortization of intangible assets	81	(393)			(312)

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Amortization of core deposit intangible			58	L	58
Other	602	431			1,033
<b>Total noninterest expense</b>	<b>6,662</b>	<b>1,399</b>	<b>58</b>		<b>8,119</b>
Income before income taxes (benefit)	1,070	(505)	957		1,522
Income taxes (benefit)	184	(196)	423		411
<b>NET INCOME (LOSS)</b>	<b>\$ 886</b>	<b>\$ (309)</b>	<b>\$ 534</b>		<b>\$ 1,111</b>

(See Notes to the Unaudited Pro Forma Combined Condensed Consolidated Financial Information on page 20)

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**NOTES TO THE UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**Note A Basis of Presentation**

The unaudited pro forma combined condensed consolidated financial information and explanatory notes show the impact on the historical financial condition and results of operations of ESSA Bancorp resulting from the proposed merger with First Star under the acquisition method of accounting. Under the acquisition method of accounting, the assets and liabilities of First Star are recorded by ESSA Bancorp at their respective fair values as of the date the merger is completed. The unaudited pro forma combined condensed consolidated statement of financial condition combines the historical financial information of ESSA Bancorp and First Star as of December 31, 2011, and assumes that the proposed merger was completed on that date. The unaudited pro forma combined condensed consolidated statements of operations give effect to the proposed First Star merger as if the merger had been completed at the beginning of those periods.

As the merger is recorded using the acquisition method of accounting, all loans are recorded at fair value, including adjustments for credit, and no allowance for credit losses is carried over to ESSA Bancorp's balance sheet. In addition, certain anticipated nonrecurring costs associated with the First Star merger such as severance, professional fees, legal fees and conversion related expenditures are not reflected in the pro forma statements of operations.

While the recording of the acquired loans at their fair value will impact the prospective determination of the provision for credit losses and the allowance for credit losses, for purposes of the unaudited pro forma combined condensed consolidated statement of operations for the year ended September 30, 2011, we assumed no adjustments to the historical amount of First Star's provision for credit losses.

**Note B Accounting Policies and Financial Statement Classifications**

The accounting policies of First Star are in the process of being reviewed in detail by ESSA Bancorp. Upon completion of such review, conforming adjustments or financial statement reclassifications may be determined.

**Note C Merger and Acquisition Integration Costs**

In connection with the proposed First Star merger, the plan to integrate ESSA Bancorp's and First Star's operations is still being developed. The specific details of this plan will continue to be refined over the next several months, and will include assessing personnel, benefit plans, premises, equipment, and service contracts to determine where they may take advantage of redundancies. Certain decisions arising from these assessments may involve involuntary termination of employees, vacating leased premises, changing information systems, canceling contracts with certain service providers and selling or otherwise disposing of certain premises, furniture and equipment. ESSA Bancorp also expects to incur merger related costs including professional fees, legal fees, system conversion costs, and costs related to communications with customers and others. To the extent there are costs associated with these actions, the costs will be recorded based on the nature of the cost and timing of these integration actions.

**Note D Estimated Annual Cost Savings**

ESSA Bancorp expects to realize cost savings of approximately 30% of First Star's operating expenses following the merger. These cost savings are not reflected in the pro forma financial information and there can be no assurance they will be achieved in the amount or manner currently contemplated.

**Table of Contents****Note E Pro Forma Adjustments**

The following pro forma adjustments have been reflected in the unaudited pro forma combined condensed consolidated financial information. All adjustments are based on current assumptions and valuations, which are subject to change.

- A. Represents the purchase price of \$23.572 million based on the exchange ratio of 1.0665 shares of ESSA Bancorp, Inc. common stock for one share of FSB common stock resulting in the issuance of 1,152,093 shares at the closing price of \$10.23 and the disbursement of \$11.786 million in cash. It is anticipated that as part of this transaction, ESSA Bank & Trust will distribute a dividend of \$25.0 million to ESSA Bancorp, Inc.
- B. Represents a \$7.602 million fair market value adjustment to the loan portfolio net of the reversal of \$2.235 allowance for loan losses
- C. Represents the fair value of the core deposit intangible created associated with the deposit liabilities assumed, estimated at approximately 0.96% of core deposits. Such intangible is anticipated to be amortized over a period of nine years using the double declining balance method.
- D. Represents the fair value adjustment to time deposit liabilities assumed based on the difference between the cash flows using contractual interest rates compared to the cash flows using market interest rates.
- E. Represents the fair value adjustment to borrowings based on a discounted cash flow analysis that calculated the present value of the projected cash flows from the borrowings. Current borrowing rates for like kind borrowings were used as the discount rate.
- F. Represents the fair value adjustment to investment securities in excess of FSB's estimate.
- G. Represents the deferred tax asset resulting from the previously mentioned adjustments.
- H. Calculation of Goodwill:

Purchase price	\$ 23,572
FSB equity at December 31, 2011	27,213
Convertible subordinated debt	1,460
Adjustments:	
Investment securities	(6,343)
Loan portfolio	(5,367)
Time deposits	(2,373)
Borrowings	(4,756)
Core deposit intangible created	1,054
Related deferred taxes	6,047
<b>Adjusted equity</b>	<b>16,935</b>
Goodwill	\$ 6,637

- I. Amortization of core deposit intangible.
  
- J. Represents first year accretion of loan discounts of \$236,000 and of investment securities discounts of \$1,160,000.

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- K. Represents first year reduction to interest expense of \$1,135,000 from the fair market value adjustment to time deposits and of \$1,522,000 from the fair market value adjustment to borrowed funds.
  
- L. Amortization of core deposit intangible for one quarter of year.
  
- M. Represents one quarter of accretion of loan discounts of \$59,000 and of investment securities discounts of \$290,000.
  
- N. Represents one quarter reduction to interest expense of \$284,000 from the fair market value adjustment to time deposits and of \$382,000 from the fair market value adjustment to borrowed funds.

**Table of Contents****COMPARATIVE PRO FORMA PER SHARE DATA**

The table below summarizes selected per share information about ESSA Bancorp and First Star. ESSA and First Star per share information are presented both historically, and on a pro forma basis to reflect the merger. ESSA Bancorp has also assumed that the consideration in the merger will be paid as 1,152,093 shares of ESSA Bancorp common stock and \$11.8 million in cash.

The data in the table should be read together with the financial information and the financial statements of ESSA Bancorp and First Star incorporated by reference in this proxy statement-prospectus. The pro forma per share data or combined results of operations per share data is presented as an illustration only. The data does not necessarily indicate the combined financial position per share or combined results of operations per share that would have been reported if the merger had occurred when indicated, nor is the data a forecast of the combined financial position or combined results of operations for any future period. No pro forma adjustments have been included herein which reflect potential effects of merger integration expenses, cost savings or operational synergies which may be obtained by combining the operations of ESSA Bancorp and First Star or the costs of combining the companies and their operations. First Star historical financial information is at and as of the twelve months ended June 30, 2011.

	ESSA Bancorp, Inc. Historical	First Star Bancorp, Inc. Historical	Combined Pro Forma Amounts for ESSA Bancorp, Inc./First Star Bancorp, Inc. Corporation	Pro Forma First Star Bancorp, Inc. Equivalent Shares <sup>(1)</sup>
Book value per share at December 31, 2011	\$ 13.19	\$ 13.27	\$ 12.38	\$ 13.20
Book value per share at September 30, 2011	\$ 13.20	\$ 13.70		
Shares outstanding at December 31, 2011	12,109,622	2,160,502	13,261,715	
Shares outstanding at September 30, 2011	12,109,622	2,137,400	13,261,715	
Cash dividends paid per common share for the three months ended December 31, 2011	\$ 0.05	\$ 0.00	\$ 0.05	\$ 0.05
Cash dividends paid per common share for the year ended September 30, 2011	\$ 0.20	\$ 0.00	\$ 0.20	\$ 0.21
Basic earnings (loss) per share from continuing operations:				
For the three months ended December 31, 2011	\$ 0.08	\$ (0.31)	\$ 0.09	\$ 0.10
For the year ended September 30, 2011	\$ 0.46	\$ 1.95	\$ 0.48	\$ 0.51
Diluted earnings (loss) per share from continuing operations:				
For the three months ended December 31, 2011	\$ 0.08	\$ 0.14	\$ 0.09	\$ 0.10
For the year ended September 30, 2011	\$ 0.46	\$ 0.91	\$ 0.48	\$ 0.51

<sup>(1)</sup> Calculated by multiplying amounts in the Combined Pro Forma Amounts for ESSA/First Star column by a 1.0665 exchange ratio which represents the number of shares of ESSA common stock a First Star shareholder will receive for each share of stock owned. The following table shows trading information for First Star common stock and ESSA Bancorp common stock as of market close on December 21, 2011 and [Date before proxy finalized]. December 21, 2011 was the last trading date before the parties announced the merger. [Date before proxy finalized] is a recent date before this proxy statement-prospectus was finalized.

Date	ESSA Bancorp Common	First Star Common	Equivalent Value for Common
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	Stock	Stock	Each First Star Share
December 21, 2011	\$ 10.50	\$ 6.00	\$ 6.40
[Date before proxy finalized]			



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**RISK FACTORS**

*In addition to the other information contained in or incorporated by reference into this proxy statement-prospectus, including the matters addressed under the caption **Forward-Looking Statements**, you should carefully consider the following risk factors in deciding whether to vote for adoption of the merger agreement.*

**Risks Related to the Merger**

**Regulatory Approvals May Not be Received, May Take Longer Than Expected or May Impose Conditions That are Not Presently Anticipated or Cannot be Met.**

Before the transactions contemplated in the merger agreement, including the merger, may be completed, various approvals or consents must be obtained from the Pennsylvania Department of Banking and the FDIC. As part of the regulatory approvals being requested, and as a condition to closing the merger, ESSA Bancorp and ESSA Bank are seeking approval for ESSA Bank to distribute \$25.0 million to ESSA Bancorp to provide the cash merger consideration and pay off all outstanding First Star junior subordinated debentures. These governmental entities may impose conditions on the completion of the merger or require changes to the terms of the merger agreement. Although First Star does not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the transactions contemplated in the merger agreement or imposing additional costs on or limiting ESSA Bancorp's revenues, any of which might have a material adverse effect on ESSA Bancorp following the merger. There can be no assurance as to whether the regulatory approvals, including for the ESSA Bank distribution of \$25.0 million to ESSA Bancorp, will be received, the timing of those approvals, or whether any conditions will be imposed.

**The Merger Agreement May Be Terminated in Accordance With Its Terms and The Merger May Not Be Completed.**

The merger agreement with First Star is subject to a number of conditions which must be fulfilled in order to close. Those conditions include: First Star shareholder approval of both an amendment to the First Star Articles of Incorporation and the merger agreement, regulatory approval (including the \$25.0 million distribution from ESSA Bank to ESSA Bancorp), the continued accuracy of certain representations and warranties by both parties and the performance by both parties of certain covenants and agreements. In particular, the merger agreement defines the following as a material adverse effect: (1) \$19.3 million or greater in First Star Bank delinquent loans as of any month end prior to the closing date, and/or (2) if from the period commencing October 1, 2011 and through the closing date, the First Star investment portfolio realizes cumulative net losses from either (i) securities sales, or (ii) other than temporary impairment write-downs, which in the aggregate exceed \$4.25 million as of any month end prior to the closing date. In addition, certain circumstances exist where First Star may choose to terminate the merger agreement, including the acceptance of a superior proposal or the decline in the average of ESSA Bancorp's share price for the thirty trading days preceding the first date when all regulatory approvals for the merger have been received is less than \$8.14. Under such circumstances, ESSA Bancorp may, but is not required to, increase the aggregate merger consideration to be received by the holders of First Star common stock and preferred stock to \$21.11 million, in the form of ESSA Bancorp common stock, cash or a combination thereof, at the discretion of ESSA Bancorp. ESSA Bancorp has not determined whether it would increase the merger consideration in order to avoid termination of the merger agreement by First Star. See **The Merger and the Merger Agreement-Merger Consideration** for a more complete discussion of the merger consideration to be paid in this proposed transaction and **-Termination; Amendment; Waiver** for a more complete discussion of the circumstances under which the merger agreement could be terminated. There can be no assurance that the conditions to closing the merger will be fulfilled or that the merger will be completed.

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### **First Star Bancorp, Inc.'s Asset Quality May Deteriorate Prior to Completion of the Merger.**

First Star's nonperforming assets were \$6.1 million at December 31, 2011 and \$11.7 million at June 30, 2011, compared to \$10.0 million at December 31, 2010. Nonperforming assets as a percentage of total assets were 1.44% at December 31, 2011 and 2.67% at June 30, 2011, compared to 2.05% at December 31, 2010. Net charge-offs for the fourth quarter of 2011 were \$6,400, compared to \$0 in the same period of 2010. The allowance for credit losses decreased to \$2.2 million at December 31, 2011, compared to \$2.5 million at December 31, 2010. Should these adverse trends continue, they may have an adverse effect on First Star's financial and capital positions, and may differ from ESSA Bancorp's estimates thereof. In addition, should there be a determination in value of First Star's investment portfolio, ESSA Bancorp could record future impairment losses on First Star's holdings of investment securities available for sale or may not receive full future interest payments on these securities.

### **ESSA Bancorp May Fail to Realize the Anticipated Benefits of the Merger.**

The success of the merger will depend on, among other things, ESSA Bancorp's ability to realize anticipated cost savings and to combine the businesses of ESSA Bank and First Star Bank in a manner that permits growth opportunities and does not materially disrupt the existing customer relationships of First Star Bank nor result in decreased revenues resulting from any loss of customers. If ESSA Bancorp is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

ESSA Bancorp and First Star have operated and, until the completion of the merger, will continue to operate, independently. Certain employees of First Star will not be employed by ESSA Bancorp after the merger. In addition, employees of First Star that ESSA Bancorp wishes to retain may elect to terminate their employment as a result of the merger which could delay or disrupt the integration process. It is possible that the integration process could result in the disruption of First Star Bank's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of ESSA Bancorp to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

### **First Star Bancorp, Inc. Directors and Officers Have Interests in the Merger Besides Those of a Shareholder.**

First Star's directors and officers have various interests in the merger besides being First Star shareholders. These interests include:

the potential payment of certain benefits to Joseph T. Svetik, the President and Chief Executive Officer of First Star and Paul J. Sebastian, Senior Vice President of First Star, under their existing employment agreements with First Star;

the potential payment of certain benefits to Charles Siegfried, the Chief Financial Officer and Vice President of Finance of First Star and Charles Hagen, the Chief Lending Officer and Vice President of First Star under their existing change in control agreements with First Star;

the potential payment of certain benefits to Joseph T. Svetik, Paul J. Sebastian, and Michael Styer, Treasurer of First Star under their existing deferred compensation agreements with First Star; and

the agreement by ESSA Bancorp to indemnify First Star directors and officers.

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**First Star Shareholders May Receive a Form of Consideration Different From What They Elect.**

The consideration to be received by First Star shareholders in the merger is subject to the requirement that 50% of the shares of First Star common stock be exchanged for ESSA Bancorp common stock and the remaining 50% be exchanged for cash. The merger agreement contains proration and allocation methods to achieve this desired result. If you elect all cash and the available cash is oversubscribed, then you will receive a portion of the merger consideration in cash.

**The Price of ESSA Bancorp Common Stock Might Decrease After the Merger.**

Following the merger, many holders of First Star common stock will become shareholders of ESSA Bancorp. ESSA Bancorp common stock could decline in value after the merger. For example, during the twelve-month period ending on \_\_\_\_\_, 2012 (the most recent practicable date before the printing of this proxy statement/prospectus), the price of ESSA Bancorp common stock varied from a low of \$ \_\_\_\_\_ to a high of \$ \_\_\_\_\_ and ended that period at \$ \_\_\_\_\_. The market value of ESSA Bancorp common stock fluctuates based upon general market economic conditions, ESSA Bancorp's business and prospects and other factors.

**First Star Bancorp, Inc. Shareholders Will Have a Reduced Ownership and Voting Interest After the Merger and Will Exercise Less Influence Over Management.**

First Star's shareholders currently have the right to vote in the election of the First Star board of directors and on other matters affecting First Star. When the merger occurs, each First Star shareholder that receives shares of ESSA Bancorp common stock will become a shareholder of ESSA Bancorp with a percentage ownership of the combined organization that is much smaller than the shareholder's percentage ownership of First Star. Because of this, First Star's shareholders will have less influence on the management and policies of ESSA Bancorp than they now have on the management and policies of First Star.

**Termination of the Merger Agreement Could Negatively Impact First Star Bancorp, Inc.**

ESSA Bancorp may terminate the merger agreement for the reasons set forth in the merger agreement, in particular the definition of the following as a material adverse effect: (1) if First Star Bank's delinquent loans equal or exceed \$19.3 million as of any month end prior to the closing date of the merger and/or (2) if from the period commencing October 1, 2011 and through the closing date, the First Star investment portfolio realizes cumulative net losses from either (i) securities sales, or (ii) other than temporary impairment write-downs, which in the aggregate exceed \$4.25 million as of any month end prior to the closing date. If the merger agreement is terminated, there may be various consequences including:

First Star's businesses may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger; and

the market price of First Star common stock might decline to the extent that the current market price reflects a market assumption that the merger will be completed.

If the merger agreement is terminated and First Star's board of directors seeks another merger or business combination, First Star shareholders cannot be certain that First Star will be able to find a party willing to pay an equivalent or more attractive price than the price ESSA Bancorp has agreed to pay in the merger.

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**The Opinion of First Star Bancorp, Inc.'s Financial Advisor Will Not Reflect Changes in Circumstances Between Signing the Merger Agreement and the Merger.**

First Star's financial advisor, KBW, rendered an opinion dated December 21, 2011, to the First Star board of directors, that, as of such date, and based upon and subject to the factors and assumptions set forth in its written opinion (including, without limitation, that the merger consideration was fair from a financial point of view to the holders of First Star common stock and preferred stock. The opinion of KBW was based on economic, market and other conditions as in effect on, and the information made available to it as of, the date thereof. KBW assumed no responsibility for updating, revising or reaffirming its opinion based on circumstances, developments or events occurring after the date thereof.

Changes in the operations and prospects of ESSA Bancorp or First Star, general market and economic conditions and other factors on which First Star's financial advisor's opinion was based, may significantly alter the value of ESSA Bancorp or First Star or the prices of shares of ESSA Bancorp common stock or First Star common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. The First Star board of directors' recommendation that holders of First Star common stock and preferred stock vote FOR adoption of the merger agreement, however, is as of the date of this document. For a description of the opinion that First Star received from its financial advisor, please refer to The Merger and Merger Agreement Opinion of First Star's Financial Advisor. For a description of the other factors considered by First Star's board of directors in determining to approve the merger, please refer to The Merger and the Merger Agreement First Star's Reasons for the Merger and Recommendation of the First Star Bancorp, Inc. Board of Directors and Reasons for the Merger.

**The Merger Agreement Limits First Star Bancorp, Inc.'s Ability to Pursue Alternatives to the Merger.**

The merger agreement contains no shop provisions that, subject to limited exceptions, limit First Star's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of First Star. In addition, First Star has agreed to pay ESSA Bancorp a termination fee in the amount of \$875,000 in the event that First Star terminates the merger agreement for certain reasons. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of First Star from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquirer's proposing to pay a lower per share price to acquire First Star than it might otherwise have proposed to pay. First Star can consider and participate in discussions and negotiations with respect to an alternative proposal so long as the First Star board of directors determines in good faith (after consultation with legal counsel advisor) that failure to do so would be reasonably likely to result in a violation of its fiduciary duties to First Star shareholders under applicable law.

**The Merger is Subject to the Receipt of Consents and Approvals From Government Entities that May Impose Conditions that Could Have an Adverse Effect on the Combined Company Following the Merger.**

Before the merger may be completed, various approvals (including the distribution of \$25.0 million from ESSA Bank to ESSA Bancorp) or consents must be obtained from the Pennsylvania Department of Banking and the FDIC and other governmental entities. These government entities may impose conditions on the completion of the merger or require changes to the terms of the merger.

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Although ESSA Bancorp and First Star do not currently expect that any such material conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of ESSA Bancorp following the merger, any of which might have a material adverse effect on ESSA Bancorp following the merger.

**The Merger is Subject to Closing Conditions, Including Shareholder Approval, that, if Not Satisfied or Waived, Will Result in the Merger Not Being Completed, Which May Result in Material Adverse Consequences to First Star Bancorp, Inc.'s Business and Operations.**

The merger is subject to closing conditions, including the approval of First Star shareholders that, if not satisfied, will prevent the merger from being completed. The closing condition that First Star shareholders adopt the merger agreement may not be waived under applicable law and must be satisfied for the merger to be completed. All directors of First Star have agreed to vote their shares of First Star common stock and preferred stock in favor of the proposals presented at the special meeting. If First Star's shareholders do not adopt the merger agreement and the merger is not completed, the resulting failure of the merger could have a material adverse impact on First Star's business and operations. In addition to the required approvals (including the distribution of \$25.0 million from ESSA Bank to ESSA Bancorp) and consents from governmental entities and the approval of First Star shareholders, the merger is subject to other conditions beyond ESSA Bancorp's and First Star's control that may prevent, delay or otherwise materially adversely affect its completion. ESSA Bancorp cannot predict whether and when these other conditions will be satisfied. See *The Merger and the Merger Agreement – Conditions to the Merger*.

**The Shares of ESSA Bancorp Common Stock to be Received by First Star Bancorp, Inc. Shareholders as a Result of the Merger Will Have Different Rights From the Shares of First Star Bancorp, Inc. Common Stock.**

Upon completion of the merger, First Star shareholders will become ESSA Bancorp shareholders and their rights as shareholders will be governed by the certificate of incorporation and bylaws of ESSA Bancorp. The rights associated with First Star common stock are different from the rights associated with ESSA Bancorp common stock. Please see *Comparison of Shareholders' Rights* for a discussion of the different rights associated with ESSA Bancorp common stock.

**The Merger May Fail to Qualify as a Tax-Free Reorganization Under the Internal Revenue Code.**

The merger of First Star into ESSA Bancorp has been structured to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code. The closing of the merger is conditioned upon the receipt by each of First Star and ESSA Bancorp of an opinion of its respective tax advisor, each dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of First Star and ESSA Bancorp) which are consistent with the state of facts existing as of the effective date of the merger, the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code. The tax opinions to be delivered in connection with the merger are not binding on the Internal Revenue Service or the courts, and neither ESSA Bancorp nor First Star intends to request a ruling from the Internal Revenue Service with respect to the United States federal income tax consequences of the merger. If the merger fails to qualify as a tax-free reorganization, a First Star shareholder would likely recognize gain or loss on each share of First Star common stock and preferred stock surrendered in the amount of the difference between the shareholder's basis in the First Star shares of common stock and preferred stock and the fair market value of the ESSA Bancorp common stock and cash received by the First Star shareholder in exchange. For a more detailed discussion of the federal income tax consequences of the transaction, see *The Merger and the Merger Agreement – Material United States Federal Income Tax Consequences of the Merger* on page 71.

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**The First Star Shareholders May Recognize a Gain with Respect to the Cash Portion of the Merger Consideration.**

The merger consideration to a First Star shareholder may consist of solely cash, solely ESSA Bancorp common stock (and cash in lieu of fractional shares) or a combination of cash and ESSA Bancorp common stock. First Star shareholders who exchange their shares solely for ESSA Bancorp common stock should not recognize gain or loss except with respect to the cash received instead of any fractional share of ESSA Bancorp common stock. First Star shareholders who exchange their shares solely for cash should recognize gain or loss on the exchange. First Star shareholders who exchange their shares for a combination of ESSA Bancorp common stock and cash should recognize gain, but not any loss, on the exchange in an amount equal to the lesser of (i) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the ESSA Bancorp common stock received pursuant to the merger over such shareholder's adjusted tax basis in the shares of First Star common stock and preferred stock surrendered) and (ii) the amount of cash received pursuant to the merger. In addition, cash received by a First Star shareholder instead of a fractional share of ESSA Bancorp common stock generally will be treated as received in exchange for the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of First Star common stock and preferred stock surrendered that is allocable to the fractional share.

**Risks About ESSA Bancorp, Inc.**

**Financial Reform Legislation Recently Enacted Has, Among Other Things, Changed ESSA Bancorp's Holding Company and Bank Regulators, Created a New Consumer Financial Protection Bureau, and Will Result in New Laws and Regulations that are Expected to Increase ESSA Bancorp Costs of Operations, As Well as Tightened Capital Standards.**

On July 21, 2010 the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This new law has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term effect on us. For example, the Federal Reserve Board now supervises and regulates all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including ESSA Bancorp. The FDIC, which is currently the primary federal regulator for state banks that are not members of the Federal Reserve System, has become the primary federal regulator for a state savings association such as ESSA Bank.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks with more than \$10 billion in assets. Banks with \$10 billion or less in assets such as ESSA Bank will continue

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to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

The Dodd-Frank Act requires the implementation of regulations for bank and savings and loan holding companies which establish capital standards that are no less than those applicable to depository institutions themselves, which will exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities. Savings and loan holding companies such as ESSA Bancorp have not previously been subject to regulatory capital requirements.

Capital distributions by ESSA Bank, including dividends paid to ESSA Bancorp, require notice to and nonobjection of the Federal Reserve Board as well as notice or application to the Federal Deposit Insurance Corporation in some circumstances. In addition, certain regulatory policies of the Federal Reserve Board may also limit ESSA Bancorp's ability to make capital distributions including paying dividends.

The Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on ESSA Bancorp's interest expense.

The Dodd-Frank Act broadened the base for Federal Deposit Insurance Corporation deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and certain yet-to-be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase ESSA Bancorp's operating and compliance costs and could increase its interest expense.

### **Increases to the Allowance for Credit Losses May Cause ESSA Bancorp's Earnings to Decrease.**

ESSA Bank's 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, ESSA Bancorp may experience significant credit losses, which could have a material adverse effect on its operating results. ESSA Bancorp makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of ESSA Bancorp's 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

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losses, ESSA Bancorp relies on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If ESSA Bancorp's assumptions prove to be incorrect, its allowance for credit losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease ESSA Bancorp's net income.

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

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

**Future Changes in Interest Rates Could Reduce ESSA Bancorp's Profits.**

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

1. the interest income ESSA Bancorp earns on its interest-earning assets, such as loans and securities; and

2. the interest expense ESSA Bancorp pays on its interest-bearing liabilities, such as deposits and borrowings.

From September, 2007 through December, 2008, the Federal Reserve Board of Governors decreased its target for the federal funds rate from 5.25% to 0.25%. The federal funds rate has remained at 0.25% since December 2008 and is expected to remain at or around that level for an extended period of time. While these short term market interest rates (which ESSA Bancorp uses as a guide to price its deposits) decreased, longer term market interest rates (which ESSA Bancorp uses as a guide to price its longer term loans) have also decreased but not to the same degree. ESSA Bancorp's cost of funds has declined with the decline in shorter term market interest rates. This decline in ESSA Bancorp's cost of funds was initially beneficial to its net interest spread. However, as short term market rates have remained low and longer term interest rates have also declined, ESSA Bancorp's net interest margin decreased from 2.93% for the year ended September 30, 2009 to 2.78% for the year ended September 30, 2011. If market rates remain at these historic lows, there could be further negative pressure exerted on ESSA Bancorp's net interest margin.

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 ESSA Bancorp 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 ESSA Bancorp's interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2011, the fair value of ESSA Bancorp's debt securities available for sale totaled \$245.4 million. Unrealized net gains on these available for sale securities totaled approximately \$8.6 million at September 30, 2011 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.



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ESSA Bancorp evaluates interest rate sensitivity by estimating the change in ESSA Bank's net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At June 30, 2011, in the event of an immediate 200 basis point increase in interest rates, the federal banking model projects that ESSA Bancorp would experience a \$29.4 million, or 1.7%, decrease in net portfolio value.

### **Concentration of Loans in ESSA Bancorp's Primary Market Area, Which Has Experienced an Economic Downturn, May Increase the Risk of Increased Nonperforming Assets.**

ESSA Bancorp's success depends primarily on the general economic conditions in the Pennsylvania counties of Monroe and Northampton, as nearly all of its loans are to customers in these markets. Accordingly, the local economic conditions in this market area have a significant impact on the ability of borrowers to repay loans as well as ESSA Bancorp's ability to originate new loans. As such, a continuation of the decline in real estate values in this market area would also lower the value of the collateral securing loans on properties in this market area. In addition, continued weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond ESSA Bancorp's control could negatively affect its financial results.

### **Continued and Sustained Deterioration in the Housing Sector and Related Markets and Prolonged Elevated Unemployment Levels May Adversely Affect ESSA Bancorp's Business and Financial Results.**

During 2009 and 2010 and continuing in early 2011, general economic conditions continued to worsen nationally as well as in ESSA Bancorp's market area. While ESSA Bancorp did not invest in sub-prime mortgages and related investments, its lending business is tied significantly to the housing market. Declines in home prices, and increases in foreclosures and unemployment levels, have adversely impacted the credit performance of real estate loans, resulting in the write-down of asset values. The continuing housing slump has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on construction, residential and commercial mortgage loans. The ongoing concern about the economy in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in ESSA Bancorp's non-performing assets, net charge-offs and provisions for loan losses. A worsening of these negative economic conditions could adversely affect its prospects for growth, asset and goodwill valuations and could result in a decrease in its interest income and a material increase in its provision for loan losses.

### **Recent Negative Developments in the Financial Industry and the Domestic and International Credit Markets May Adversely Affect ESSA Bancorp's Operations and Results.**

Negative developments that began in the latter half of 2007 and continued through 2011 in the global credit and securitization markets resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn would continue into 2012. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, the potential exists for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders.

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developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact ESSA Bancorp's operations by restricting its business operations, including ESSA Bancorp's ability to originate or sell loans, and adversely impact its financial performance. In addition, these risks could affect the value of its loan portfolio as well as the value of its investment portfolio, which would also negatively affect ESSA Bancorp's financial performance.

**ESSA Bancorp's Continued Emphasis On Commercial Real Estate Lending Increases Its Exposure To Increased Lending Risks.**

ESSA Bancorp's business strategy centers on continuing its emphasis on commercial real estate lending. ESSA Bancorp has grown its loan portfolio in recent years with respect to this type of loan and intends to continue to emphasize this type of lending. At September 30, 2011, \$105.2 million, or 14.1%, of its 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 it to greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. ESSA Bancorp seeks to minimize these risks through its 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 ESSA Bancorp's underwriting policies will protect it from credit-related losses.

At September 30, 2011, ESSA Bancorp's largest commercial real estate lending relationship was \$7.5 million of loans located in Monroe County, Pennsylvania and secured by real estate.

**Strong Competition Within ESSA Bancorp's Market Areas May Limit Its Growth and Profitability.**

Competition in the banking and financial services industry is intense. In ESSA Bancorp's market areas, it competes 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 its competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that ESSA Bancorp does not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than ESSA Bancorp does, which could affect its ability to grow and remain profitable on a long-term basis. ESSA Bancorp's profitability depends upon its continued ability to successfully compete in its market areas.

**Economic Conditions May Adversely Affect ESSA Bancorp's Liquidity and Financial Condition.**

Recent significant declines in the values of mortgage-backed securities and derivative securities issued by financial institutions, government sponsored entities, and major commercial and investment banks have led to decreased confidence in financial markets among borrowers, lenders, and depositors, as well as disruption and extreme volatility in the capital and credit markets and the failure of some entities in the financial sector. As a result, many lenders and institutional investors have reduced or ceased to provide funding to borrowers. Continued turbulence in the capital and credit markets may adversely affect ESSA Bancorp's liquidity and financial condition and the willingness of certain counterparties and customers to do business with it.

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### **ESSA Bancorp Operates in a Highly Regulated Environment and May Be Adversely Affected by Changes in Laws and Regulations.**

ESSA Bancorp is subject to extensive regulation, supervision, and examination by the Federal Reserve Board, as successor regulator to Office of Thrift Supervision, the FDIC and the Pennsylvania Department of Banking. Such regulators govern the activities in which ESSA Bancorp 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 ESSA Bancorp and its operations. ESSA Bancorp believes that it is in substantial compliance with applicable federal, state and local laws, rules and regulations. Because ESSA Bancorp's 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 ESSA Bancorp's business, financial condition or prospects.

### **The Soundness of Other Financial Services Institutions May Adversely Affect ESSA Bancorp's Credit Risk.**

ESSA Bancorp relies on other financial services institutions through trading, clearing, counterparty, and other relationships. ESSA Bancorp maintains limits and monitor concentration levels of its counterparties as specified in its internal policies. ESSA Bancorp's reliance on other financial services institutions exposes it to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect ESSA Bancorp's results of operations and financial condition.

### **Any Future FDIC Insurance Premium Increases May Adversely Affect ESSA Bancorp's Earnings.**

ESSA Bancorp is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures ESSA Bancorp may be required to pay even higher FDIC premiums than the recently increased levels. Such increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact ESSA Bancorp's earnings.

### **ESSA Bancorp's Information Systems May Experience an Interruption or Security Breach.**

ESSA Bancorp relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in ESSA Bancorp's customer relationship management, general ledger, deposit, loan and other systems. While ESSA Bancorp has policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of its information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of ESSA Bancorp's information systems could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny or expose it to civil litigation and possible financial liability.

### **A Substantial Decline in the Value of ESSA Bancorp's FHLB Common Stock May Adversely Affect Its Financial Condition.**

ESSA Bancorp owns common stock of the FHLB in order to qualify for membership in the Federal Home Loan Bank system, which enables it to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair value of its FHLB common stock was \$16.9 million as of September 30, 2011.

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Recent published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB, could be substantially diminished or reduced to zero. Consequently, given that there is no market for ESSA Bancorp's FHLB common stock, there is a risk that its investment could be deemed other than temporarily impaired at some time in the future. If this occurs, it may adversely affect ESSA Bancorp's results of operations and financial condition.

If the capitalization of the FHLB is substantially diminished and if it reduces or suspends its dividend, ESSA Bancorp's liquidity may be adversely impaired if it is not able to obtain an alternative source of funding.

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**FIRST STAR BANCORP, INC. SPECIAL MEETING OF SHAREHOLDERS**

First Star is mailing this proxy statement-prospectus to you as a First Star shareholder on or about \_\_\_\_\_, 2012. With this document, First Star is sending you a notice of the First Star special meeting of shareholders and a form of proxy that is solicited by the First Star board of directors. The special meeting will be held on \_\_\_\_\_, 2012 at \_\_\_\_\_ a.m., local time, at \_\_\_\_\_.

**Matters to be Considered**

The purpose of the special meeting of shareholders is to vote on an amendment to the First Star Articles of Incorporation and on the adoption of the Agreement and Plan of Merger by and between ESSA Bancorp and First Star and First Star Bank, dated as of December 21, 2011, by which First Star and First Star Bank will be acquired by ESSA Bancorp.

You are also being asked to vote upon a proposal to adjourn or postpone the special meeting of shareholders. First Star could use any adjournment or postponement for the purpose, among others, of allowing additional time to solicit proxies.

**Proxy Card, Revocation of Proxy**

You should vote, by using the internet at the address shown on your proxy card, by telephone using the number on your proxy card or by completing and returning the proxy card accompanying this document to ensure that your vote is counted at the special meeting of shareholders, regardless of whether you plan to attend. You can revoke your proxy at any time before the vote is taken at the special meeting by:

submitting written notice of revocation to the Corporate Secretary of First Star;

submitting a properly executed proxy bearing a later date before the special meeting of shareholders; or

voting in person at the special meeting of shareholders. However, simply attending the special meeting without voting will not revoke an earlier proxy.

If your shares are held in street name, you should follow the instructions of your broker regarding revocation of proxies.

All shares represented by valid proxies and unrevoked proxies will be voted in accordance with the instructions on the proxy card. If you sign your proxy card, but make no specification on the card as to how you want your shares voted, your proxy card will be voted FOR approval of the foregoing proposals. The board of directors of First Star is presently unaware of any other matter that may be presented for action at the special meeting of shareholders. If any other matter does properly come before the special meeting, the board of directors of First Star intends that shares represented by properly submitted proxies will be voted, or not voted, by and at the discretion of the persons named as proxies on the proxy card.

**Solicitation of Proxies**

The cost of solicitation of proxies will be borne by First Star. First Star will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitations by mail, First Star's directors, officers and regular employees may solicit proxies personally or by telephone without additional compensation.

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### **Record Date**

The close of business on \_\_\_\_\_, 2012 has been fixed as the record date for determining the First Star shareholders entitled to receive notice of and to vote at the special meeting of shareholders. At that time, \_\_\_\_\_ shares of First Star common stock and preferred stock were outstanding, and were held by approximately \_\_\_\_\_ holders of record.

### **Voting Rights, Quorum Requirements and Vote Required**

The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of First Star common stock and preferred stock entitled to vote is necessary to constitute a quorum at the special meeting of shareholders. Abstentions and broker non-votes will be counted for the purpose of determining whether a quorum is present, but will not be counted as votes cast either for or against the merger agreement.

In order to approve the amendment to the Articles of Incorporation of First Star, the affirmative vote of the holders of at least two-thirds of all of the shares of First Star common stock and preferred stock issued and outstanding on the record date is required. Accordingly, a failure to vote (whether or not you own your shares in \_\_\_\_\_ street name \_\_\_\_\_), an abstention or a broker non-vote will each have the same effect as a vote against the amendment to the Articles of Incorporation.

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of First Star common stock and preferred stock issued and outstanding on the record date and present at the special meeting of shareholders. Accordingly, a failure to vote (if your shares are owned in \_\_\_\_\_ street name \_\_\_\_\_), an abstention or a broker non-vote will each have the same effect as a vote against the merger agreement. As of the record date, the directors and executive officers of First Star beneficially owned approximately \_\_\_\_\_ shares of First Star common stock and preferred stock entitled to vote at the special meeting of shareholders. This represents approximately \_\_\_\_\_ % of the total votes entitled to be cast at the special meeting. These individuals have entered into voting agreements pursuant to which they have agreed to vote FOR adoption of the merger agreement.

### **Recommendation of the Board of Directors**

The First Star board of directors has unanimously approved both the amendment to the First Star Articles of Incorporation and the merger agreement and the transactions contemplated by the merger agreement. The board of directors of First Star believes that the merger agreement is fair to First Star shareholders and is in the best interest of First Star and its shareholders and recommends that you vote FOR both the amendment to the First Star Articles of Incorporation and the adoption of the merger agreement. See Amendment to Articles of Incorporation The Merger and the Merger Agreement Recommendation of the First Star Bancorp, Inc. Board of Directors and Reasons for the Merger.

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**AMENDMENT TO ARTICLES OF INCORPORATION (Proposal 1)**

**General**

The Articles of Incorporation of First Star contain certain specific and complex provisions which are designed to protect the corporation and its shareholders from the potential harmful effects of certain business combinations following a hostile takeover. These provisions, specifically Articles 11-13, were modeled broadly, but not exactly, after Subchapter 25.F Business Combinations of the Pennsylvania Business Corporation Law. See Appendix B for a copy of the Articles of Incorporation of First Star as presently in effect.

Articles 12 and 13 have certain possible unintended consequences in the proposed transaction with ESSA Bancorp due to the fact that certain long standing shareholders of First Star each hold more than 20% of the voting securities of First Star, and that one of the shareholders, namely Joseph T. Svetik, President and Chief Executive Officer of First Star, is being designated to serve on the Board of Directors of ESSA Bancorp after completion of the merger. As a result, under the definitions contained in the Articles of Incorporation, Mr. Svetik may be considered an Interested Shareholder, ESSA Bancorp may be considered an Associate of Mr. Svetik, and the transaction with ESSA Bancorp may be considered a Business Combination subject to the additional requirements contained in the Articles of Incorporation.

**Business Combination Requirements**

The First Star Articles of Incorporation impose certain special requirements on transactions which fall within the definition of a Business Combination. First, Article 12 requires that the transaction be approved by the affirmative vote of the holders of at least two-thirds of the shares of First Star common stock and preferred stock issued and outstanding as of the record date, unless there is an applicable exception. In this situation, the exception specified in Article 12.C applies because the transaction was approved by two-thirds of the members of the current Board of Directors of First Star who were directors prior to the time Mr. Svetik became a 20% shareholder of First Star. In fact, the merger with ESSA Bancorp was unanimously approved by the Board of Directors of First Star, all of the members of which became directors prior to the time Mr. Svetik became a 20% shareholder of First Star. Therefore, approval of the merger with ESSA Bancorp will require only the affirmative vote of a majority of the votes cast by the holders of the shares of First Star common stock and preferred stock issued and outstanding as of the record date.

The second requirement is described in Article 13 which imposes a variety of additional conditions on the amount of cash and the market value of the other securities to be received in the business combination with ESSA Bancorp, Inc. based upon any acquisitions of First Star securities made by Mr. Svetik during the last five years. In addition, it is possible that Article 13 would require the consideration to be paid entirely in cash, contrary to the merger agreement with ESSA Bancorp. The requirements of Article 13 were designed to apply when the Interested Shareholder is affiliated with the acquiring entity, not in a situation where the Interested Shareholder is not affiliated with the acquiring entity prior to the merger, but is instead a long standing shareholder of the acquired entity. In this context, the application of these provisions is unclear and confusing, and requires complex calculations and analysis. In light of the uncertainty of the effect of these provisions and the cost of attempting to complete the necessary calculations and analysis, the Board of Directors has concluded that an amendment to the Articles of Incorporation to exempt the transaction with ESSA Bancorp from the unintended consequences of Article 13 is in the best interest of shareholders and the corporation.

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### **Text of Proposed Amendment**

Shareholders are requested to vote in favor of amending the Articles of Incorporation of First Star by adopting the resolution set forth below:

RESOLVED, that the Articles of Incorporation of this corporation are hereby amended by adding a new Article 13, Section D thereto which will read in its entirety as follows:

D. Special Exemption. The provisions of this Article 13 shall have no application whatsoever to the transactions contemplated by that certain Agreement and Plan of Merger by and between the Corporation and ESSA Bancorp, Inc., dated as of December 21, 2011, as it may be amended from time-to-time, provided that the merger of the Corporation with and into ESSA Bancorp, Inc. contemplated by such agreement is completed by no later than December 31, 2012.

### **Recommendation of the Board of Directors**

As further described below, the First Star Board of Directors has unanimously approved the merger with ESSA Bancorp. See The Merger and the Merger Agreement Recommendation of the First Star Bancorp, Inc. Board of Directors and Reasons for the Merger. While the merger could have been structured so as to avoid the application of the business combination provisions in the First Star Articles of Incorporation, however that structuring would have required that none of the principal shareholders of First Star would be allowed to serve on the Board of Directors of ESSA Bancorp. After careful consideration, the Board of Directors of First Star determined that it is in the best interest of the corporation and its shareholders that one of the largest shareholders of First Star, namely Mr. Svetik, serve on the ESSA Bancorp, Inc. Board of Directors immediately after the merger and that the merger agreement require that such Board position be available immediately after the merger.

**Accordingly, First Star's Board of Directors recommends that shareholders vote FOR the amendment to Article 13 of First Star's Articles of Incorporation as described above.**

If the requisite vote of shareholders for this proposal is not obtained, the shareholders meeting may be adjourned to a later date in order to allow management to solicit proxies in favor of the proposal. Without approval of this proposal it is uncertain whether the transaction with ESSA Bancorp can be completed.



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**THE MERGER AND THE MERGER AGREEMENT (Proposal 2)**

*The description of the merger and the merger agreement contained in this proxy statement-prospectus describes the material terms of the merger agreement; however, it does not purport to be complete. It is qualified in its entirety by reference to the merger agreement. We have attached a copy of the merger agreement, as amended, as Appendix A.*

**General**

Pursuant to the merger agreement, First Star will merge into ESSA Bancorp, Inc., with ESSA Bancorp as the surviving entity. Outstanding shares of First Star common stock and preferred stock will be converted into the right to receive cash and/or shares of ESSA Bancorp common stock. Cash will be paid in lieu of any fractional share of First Star common stock. See **Merger Consideration** below. As a result of the merger, the separate corporate existence of First Star, will cease and ESSA Bancorp will succeed to all the rights and be responsible for all the obligations of First Star. Immediately after the merger of First Star into ESSA Bancorp, Inc., the separate corporate existence of First Star shall cease to exist.

**The Parties**

**ESSA Bancorp, Inc.**

**ESSA Bank & Trust**

ESSA Bancorp, Inc. ( **ESSA Bancorp** ) is the Pennsylvania-chartered stock holding company of ESSA Bank & Trust ( **ESSA Bank** ). ESSA Bancorp owns 100% of the outstanding shares of common stock of ESSA Bank. Since being formed in 2006, ESSA Bancorp has engaged primarily in the business of holding the common stock of ESSA 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 December 31, 2011, ESSA Bancorp had consolidated assets of \$1.1 billion, consolidated deposits of \$640.3 million and consolidated stockholders' equity of \$161.5 million. Its consolidated net income for the fiscal year ended September 30, 2011 was \$5.3 million.

ESSA Bank was organized in 1916. ESSA Bank is a Pennsylvania chartered full-service, community-oriented savings association. We provide financial services to individuals, families and businesses through our seventeen full-service banking offices, located in Monroe, Northampton and Lehigh Counties, Pennsylvania. ESSA Bank is subject to comprehensive regulation and examination by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation.

ESSA 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, commercial and consumer 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 PRIMEVEST Financial Services, Inc., a third party broker/dealer and investment advisor. We offer insurance benefit consulting services through our wholly owned subsidiary, ESSA Advisory Services, LLC.

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**First Star Bancorp, Inc.**

**First Star Bank**

First Star Bancorp, Inc., a bank holding company and Pennsylvania corporation owns 100% of the issued and outstanding voting stock of First Star Bank. First Star, as a bank holding company, is regulated and supervised by the FRB.

First Star Bank, originally chartered in 1893, is a Pennsylvania chartered stock savings bank headquartered in Bethlehem, Pennsylvania. First Star Bank operates nine (9) full-service community banking offices in Northampton and Lehigh Counties, Pennsylvania. It is also regulated by the Department and the FDIC. As of December 31, 2011, First Star Bank had approximately \$423.7 million in total assets, \$325.0 million in total deposits, and was classified as well-capitalized for regulatory purposes.

First Star has four direct or indirect wholly-owned subsidiaries in addition to First Star Bank. First Star Capital Trust II is a direct subsidiary of First Star. First Star Capital Trust II does not engage in business with the public but exclusively acts as the issuer of \$8 million of trust preferred securities, which occurred in March 2000. First Star Bank is proposing to pay a \$25 million dividend to First Star, \$8 million of which will be used to pay off subordinated debentures issued to First Star Capital Trust II by First Star in connection with the trust preferred securities, which the trust would then use to redeem the trust preferred securities. First Star Financial Services ( FSFS ) is a wholly-owned subsidiary of First Star Bank. FSFS engages in the activity of selling nondeposit investment products, such as annuities and insurance. Its business is minimal. Integrated Abstract, Inc. is a wholly-owned subsidiary of FSFS. Integrated Abstract, Inc. engages in the sale of title insurance and provides loan closing services. It also has minimal business. Integrated Delaware, Inc. is a wholly-owned subsidiary of the First Star Bank. Integrated Delaware, Inc. engages in the activity of holding bank-eligible investments.

**Merger Consideration**

Under the terms of the merger agreement, shareholders of First Star will receive, at their election, cash or shares of stock of ESSA Bancorp, subject to the total aggregate consideration being paid 50% in cash and 50% in stock. If ESSA Bancorp's closing price, defined as the average of the closing sales price of a share of ESSA Bancorp common stock for the thirty consecutive trading days ending on the second trading day preceding the closing date, is between \$9.77 per share and \$11.94 per share, First Star's shareholders will receive a fixed exchange ratio of 1.06665 per share, or the cash equivalent thereof. If ESSA Bancorp's closing price is between \$11.94 per share and \$13.02 per share, First Star's shareholders will receive a fixed price valued at \$12.73 per share in either ESSA common stock or cash. If ESSA's closing price is between \$8.68 per share and \$9.77 per share, First Star's shareholders will receive a fixed price valued at \$10.42 per share in either ESSA common stock or cash. If ESSA's closing price is above \$13.02 per share, First Star's shareholders will receive a fixed exchange ratio of 0.9780, or the cash equivalent thereof; or if ESSA Bancorp's closing price is below \$8.68 per share a fixed exchange ratio of 1.2004, or the cash equivalent thereof. Based on ESSA Bancorp's closing price on \_\_\_\_\_, 2012, each share of First Star common stock would have a value of \$ \_\_\_\_\_.

Additionally, First Star may terminate the merger agreement if, at any time during the three-day period commencing on the first date on which all bank regulatory approvals (and waivers, if applicable) necessary for consummation of the merger have been received (disregarding any waiting period) (the determination date), such termination to be effective tenth day following such determination date, if the average of the daily closing price of ESSA Bancorp common stock as reported on the Nasdaq Global Market for the thirty consecutive trading days immediately preceding the determination date is less than \$8.14.

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If First Star elects to exercise its termination right as described above, it must give prompt written notice thereof to ESSA Bancorp. During the five-business day period commencing with its receipt of such notice, ESSA Bancorp shall have the option to increase the consideration to be received by the holders of First Star common stock and First Star preferred stock such that the aggregate merger consideration to be received by the holders of First Star common stock and First Star preferred stock shall be \$21.11 million, in the form of ESSA common stock, cash or a combination thereof, at the discretion of ESSA Bancorp.

### **Election Procedures; Surrender of Stock Certificates**

An election form will be provided under separate cover to holders of shares of First Star common stock and preferred stock. Each election form entitles the holder of the First Star common stock and preferred stock to elect to receive cash, ESSA Bancorp common stock, or a combination of cash and stock, or make no election with respect to the merger consideration he or she wishes to receive.

**To make an effective election, First Star shareholders must submit a properly completed election form, along with their First Star stock certificates representing all shares of First Star common stock and preferred stock covered by the election form (or an appropriate guarantee of delivery), to Registrar and Transfer Company on or before 5:00 p.m., Eastern Standard Time, on the date specified on the election form.** Registrar and Transfer Company will act as exchange agent in the merger and in that role will process the exchange of First Star stock certificates for cash and/or ESSA Bancorp common stock. The exchange agent will allocate cash and stock among First Star shareholders, consistent with their elections and the allocation and proration procedures described in the merger agreement. If First Star shareholders do not submit an election form, First Star shareholders will receive instructions from the exchange agent on where to surrender their First Star stock certificates after the merger is completed. **In any event, First Star shareholders should not forward their First Star stock certificates with their proxy cards.**

First Star shareholders may change their election at any time before the election deadline by written notice accompanied by a properly completed and signed later dated election form received by the exchange agent before the election deadline or by withdrawal of their stock certificates by written notice before the election deadline. All elections will be revoked automatically if the merger agreement is terminated. If First Star shareholders have a preference for receiving either ESSA Bancorp stock and/or cash for their First Star stock, they should complete and return the election form. If First Star shareholders do not make an election, they will be allocated ESSA Bancorp common stock and/or cash depending on the elections made by other shareholders.

Neither ESSA Bancorp nor First Star makes any recommendation as to whether First Star shareholders should elect to receive cash, stock or a combination of cash and stock in the merger. First Star shareholders must make their own decision with respect to their election.

If certificates for First Star common stock and preferred stock are not immediately available or First Star shareholders are unable to send the election form and other required documents to the exchange agent before the election deadline, First Star shares may be properly exchanged, and an election will be effective, if:

such exchanges are made by or through a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, or by a commercial bank or trust company having an office, branch or agency in the United States;

the exchange agent receives, before the election deadline, a properly completed and duly executed notice of guaranteed delivery substantially in the form provided with the election form (delivered by hand, mail, telegram, telex or facsimile transmission); and

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the exchange agent receives, within three business days after the election deadline, the certificates for all exchanged First Star shares, or confirmation of the delivery of all such certificates into the exchange agent's account with The Depository Trust Company in accordance with the proper procedures for such transfer, together with a properly completed and duly executed election form and any other documents required by the election form.

First Star shareholders who do not submit a properly completed election form or revoke their election form before the election deadline and do not submit a new properly completed election form before the election deadline will have their shares of First Star common stock and preferred stock designated as non-election shares. First Star stock certificates represented by elections that have been revoked will be promptly returned without charge to the First Star shareholder revoking the election upon written request.

After the completion of the merger, the exchange agent will mail to First Star shareholders who do not submit election forms or who have revoked such forms a letter of transmittal, together with instructions for the exchange of their First Star common stock and preferred stock certificates for the merger consideration. Until First Star shareholders surrender their First Star stock certificates for exchange after completion of the merger, First Star shareholders will not be paid dividends or other distributions declared after the merger with respect to any ESSA Bancorp common stock into which their First Star shares have been converted. When First Star shareholders surrender their First Star stock certificates, ESSA Bancorp will pay any unpaid dividends or other distributions, without interest. After the completion of the merger, there will be no further transfers of First Star common stock and preferred stock. First Star stock certificates presented for transfer after the completion of the merger will be canceled and exchanged for the merger consideration.

If their First Star stock certificates have been either lost, stolen or destroyed, First Star shareholders will have to prove their ownership of these certificates and that they were lost, stolen or destroyed before they receive any consideration for their shares. The election form includes instructions on how to provide evidence of ownership.

### **Surrender of Stock Certificates**

ESSA Bancorp will deposit with the exchange agent the certificates representing ESSA Bancorp's common stock to be issued to First Star shareholders in exchange for First Star's common stock and preferred stock. Within three business days after the completion of the merger, the exchange agent will mail to First Star shareholders a letter of transmittal, together with instructions for the exchange of their First Star stock certificates for the merger consideration. Upon surrendering his or her certificate(s) representing shares of First Star's common stock and/or preferred stock, together with the signed letter of transmittal, the First Star shareholder shall be entitled to receive, as applicable (i) certificate(s) representing a number of whole shares of ESSA Bancorp common stock (if any) determined in accordance with the exchange ratio and (ii) a check representing the amount of cash in lieu of fractional shares, if any. Until you surrender your First Star stock certificates for exchange after completion of the merger, you will not be paid dividends or other distributions declared after the merger with respect to any ESSA Bancorp common stock into which your shares have been converted. No interest will be paid or accrued to First Star shareholders on the cash in lieu of fractional shares or unpaid dividends and distributions, if any. After the completion of the merger, there will be no further transfers of First Star common stock. First Star stock certificates presented for transfer will be canceled and exchanged for the merger consideration.

If your stock certificates have been lost, stolen or destroyed, you will have to prove your ownership of these certificates and that they were lost, stolen or destroyed before you submit an election form and before you receive any consideration for your shares. Upon request, First Star's transfer agent, Registrar and Transfer Company will send you instructions on how to provide evidence of ownership.

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If any certificate representing shares of ESSA Bancorp's common stock is to be issued in a name other than that in which the certificate for shares surrendered in exchange is registered, or cash is to be paid to a person other than the registered holder, it will be a condition of issuance or payment that the certificate so surrendered be properly endorsed or otherwise be in proper form for transfer and that the person requesting the exchange either:

pay to the exchange agent in advance any transfer or other taxes required by reason of the issuance of a certificate or payment to a person other than the registered holder of the certificate surrendered, or

establish to the satisfaction of the exchange agent that the tax has been paid or is not payable.

Any portion of the purchase price made available to the exchange agent that remains unclaimed by First Star shareholders for twelve months after the effective time of the merger will be returned to ESSA Bancorp's transfer agent. Any First Star shareholder who has not exchanged shares of First Star's common stock and preferred stock for the purchase price in accordance with the merger agreement before that time may look only to ESSA Bancorp for payment of the purchase price for these shares and any unpaid dividends or distributions after that time. Nonetheless, ESSA Bancorp, First Star, the exchange agent or any other person will not be liable to any First Star shareholder for any amount properly delivered to a public official under applicable abandoned property, escheat or similar laws.

**Background of the Merger**

From time to time over the past several years, the First Star Board of Directors has periodically discussed and reviewed First Star's business, performance and prospects and has considered various strategic alternatives. In the context of such reviews, the strategic alternatives considered by First Star's Board of Directors have included continuing its on-going operations as an independent institution or entering into a strategic merger with a similarly sized or larger institution. The First Star Board of Directors also periodically reviewed, often with input from Keefe, Bruyette, & Woods, Inc. ( KBW ), a nationally recognized investment banking firm, the competitive environment in First Star's market area as well as merger and acquisition activity in the financial services industry in general and in the Lehigh Valley market area in particular. KBW, which has provided First Star with investment banking services from time to time, has substantial merger advisory experience for banks similar to First Star.

On June 28, 2011, the First Star Board of Directors invited KBW and The Kafafian Group ( Kafafian ) to address the board with respect to such firm's qualifications and abilities to assist the First Star Board of Directors in analyzing its strategic options, including a possible merger or combination transaction with another institution. The First Star Board of Directors decided to jointly retain KBW and Kafafian in September 2011.

The First Star Board of Directors directed KBW and Kafafian to prepare a list of institutions that might be interested in a business combination transaction with First Star. After discussing the companies set forth on the list, the First Star Board of Directors authorized KBW and Kafafian to commence a process of contacting potential business combination partners in order to assess their level of interest in discussing a possible transaction with First Star. During the weeks of October 3rd, 2011, and October 10th, 2011, 24 institutions were contacted on First Star's behalf. As a result of such inquiries, twelve institutions, including ESSA, executed confidentiality agreements and received information relating to First Star's operations and financial performance. These twelve institutions, including ESSA, were provided with access to confidential information regarding First Star in order for such parties to undertake their preliminary due diligence reviews. First Star requested that the parties submit specific, written indications of interest by October 28, 2011.

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On October 10, 2011, ESSA commenced its preliminary due diligence review of First Star in order to determine whether to deliver a non-binding indication of interest. ESSA also began working with Ambassador Financial as its financial advisor at that time.

On October 28, 2011, two of the parties that had entered into confidentiality agreements with First Star, including ESSA, submitted non-binding indications of interest to First Star. ESSA's October 28th non-binding indication of interest proposed a 50% cash / 50% stock transaction, which implied a value of \$14.04 for each share of First Star common stock, based on ESSA's October 27th closing price of \$11.36. The other party ( Company B ) which submitted a non-binding indication of interest on October 28th proposed a transaction consisting of 100% of Company B common stock with an implied value that was materially below the ESSA offer. Both of the non-binding indications of interest were preliminary and subject to, among other things, additional due diligence review.

The First Star Board of Directors met on November 2, 2011, to consider the two non-binding indications of interest that First Star had received. Upon such review, the First Star Board of Directors determined to continue discussions with ESSA. Company B was contacted by KBW following the First Star Board of Directors meeting about the potential to materially improve its offer, but declined given the material difference between the proposals and was removed from consideration. ESSA was then permitted to conduct additional due diligence, including an on-site review of First Star's loan portfolio, as requested.

On November 10th and November 11th, 2011, representatives of ESSA conducted their review of First Star's loan portfolio during an on-site due diligence session at First Star's headquarters in Bethlehem, Pennsylvania. Following on-site due diligence, ESSA submitted an updated indication of interest on November 18, 2011. Based on the ten day average of ESSA's closing price of \$10.85 per share on November 17, 2011, ESSA's revised non-binding indication of interest suggested an implied value of \$11.57 in cash or ESSA common stock for each share of First Star common stock. ESSA's rationale for a lower proposal after completing on-site due diligence included the additional information gained upon a closer review of the loan portfolio and the securities portfolio of First Star.

The First Star Board of Directors met on November 22, 2011 to consider the revised non-binding indication of interest from ESSA. Representatives of KBW, Kafafian, and Stradley Ronon Stevens & Young, LLP, First Star's legal counsel ( Stradley ), were present at this meeting. The First Star Board of Directors considered the revised non-binding indication of interest from ESSA, the results of the process conducted by KBW on First Star's behalf, and the strategic implications and potential benefits and risks of a merger with ESSA. The First Star Board of Directors decided to continue its discussions regarding a possible transaction with ESSA.

On November 28 and November 29, 2011, ESSA and its advisors again met with members of First Star's executive team for follow up inquiry and to gain additional comfort with First Star's loan portfolio. These discussions were necessary to finalize the material adverse effect clause of the non-binding indication of interest. Upon completion, ESSA submitted an updated indication of interest on December 1, 2011 that reaffirmed the pricing from the previous indication of interest.

The First Star Board of Directors also determined that it was advisable for representatives of First Star to conduct a further due diligence review of ESSA. To facilitate the due diligence review, ESSA and First Star entered into a confidentiality agreement on December 8, 2011. On December 8, 2011, representatives of First Star, together with representatives of KBW, Kafafian, and Stradley conducted an on-site due diligence session at ESSA's headquarters in Stroudsburg, Pennsylvania, in order to review, among other items, non-public information regarding ESSA's loan portfolio and other aspects of its

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operations. The due diligence session included meetings between Mr. Olson and Mr. Svetik, and Mr. Muto and other members of ESSA's management team with Messrs. Sebastian and Hangen of First Star's management team. First Star, ESSA and their respective financial and legal advisors continued to discuss various matters related to the proposed combination of First Star and ESSA.

On December 9, 2011, Luse Gorman Pomerenk & Schick, P.C. (Luse), outside counsel to ESSA for this transaction, provided an initial draft of the proposed merger agreement to Stradley.

On December 15, 2011, Stradley provided initial comments on the proposed merger agreement to Luse. Over the course of the following days, legal counsel for both ESSA and First Star, together with the parties and their representatives, worked to finalize the terms of the definitive merger agreement and related documents.

On December 20, 2011, the First Star Board of Directors met to review the merger proposal as set forth in the definitive merger agreement and related documents negotiated by First Star and ESSA and their respective financial and legal advisors. The First Star board received presentations regarding the merger from its financial advisors, KBW, and the merger agreement from its legal counsel, Stradley. Management of First Star also briefed the board on the results of the due diligence review conducted on ESSA. Representatives of KBW, Kafafian, and Stradley responded to questions from First Star's board. At the meeting, KBW provided its oral opinion that the exchange ratio was fair to the shareholders of First Star from a financial point of view (which opinion was subsequently confirmed in writing by KBW). After careful and deliberate consideration of these presentations as well as the interest of First Star's shareholders, customers, employees and communities served by First Star, the First Star board unanimously approved the merger agreement and the related documents.

Following the meetings of the boards of directors of First Star and ESSA, the merger agreement and related documents were executed. Prior to the opening of the NASDAQ Global Select Market on December 22, 2011, the parties issued a press release announcing the transaction.

### **First Star's Reasons for the Merger**

**After careful consideration, the First Star Board of Directors determined that it was advisable and in the best interests of First Star and its shareholders for First Star to enter into the merger agreement with ESSA. Accordingly, First Star's board unanimously recommends that First Star's shareholders vote FOR approval and adoption of the merger agreement.**

The Board of Directors of First Star has considered the terms and provisions of the merger agreement and concluded that they are fair to the shareholders of First Star and that the merger is in the best interests of First Star and its shareholders.

The Board of Directors of First Star believes that the merger will provide the resulting institution with additional resources necessary to compete more effectively in the Eastern Pennsylvania market. In addition, the First Star Board of Directors believes that the customers and communities served by First Star will benefit from the resulting institution's enhanced abilities to meet their financial services needs.

In reaching its decision to approve the merger agreement, the First Star Board of Directors consulted with management, as well as with First Star's financial and legal advisors, and considered a variety of factors, including the following:

The consideration being offered to First Star's shareholders in relation to the market value, book value per share, earnings per share and projected earnings per share of First Star;

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The results that could be expected to be obtained by First Star if it continued to operate independently and the potential future trading value of First Star common stock compared to the value of the merger consideration offered by ESSA and the potential future trading value of the ESSA common stock;

The process conducted by KBW and Kafafian, First Star's financial advisors, to identify potential merger partners and to assist the First Star Board of Directors in structuring the proposed merger with ESSA;

The current and prospective environment in which First Star operates, including national, regional and local economic conditions, the competitive environment for financial institutions, the increased regulatory burdens on financial institutions, and the uncertainties in the regulatory climate going forward;

The form of merger consideration offered by ESSA, including the opportunity for First Star shareholders to receive shares of ESSA common stock on a tax-free basis for their shares of First Star common stock;

The scale, scope, strength and diversity of operations, product lines and delivery systems that could be achieved by combining First Star with ESSA;

The complementary geographic locations of the First Star and ESSA branch networks in eastern Pennsylvania;

The earnings prospects of the combined companies;

The additional products offered by ESSA to its customers and the ability of the resulting institution to provide a wider array of financial services to its customers;

The potential for operating synergies and cross marketing of products in light of the fact that First Star and ESSA serve contiguous market areas with similar and complementary customer bases;

First Star's and ESSA's shared community banking philosophies; and

The presentation by KBW, First Star's financial advisor, as to the fairness of the merger consideration, from a financial point of view, to First Star's shareholders. In this regard, First Star's Board of Directors has received from KBW a written opinion dated December 22, 2011 that, as of such date, the merger consideration in the merger was fair to First Star's shareholders from a financial point of view. The opinion is attached as Appendix C to this document. For a summary of the presentation of KBW, please see "Opinion of First Star's Financial Advisor" below.

Other factors considered by First Star's Board of Directors included:

The reports of First Star's management and the financial presentation by KBW to First Star's Board of Directors concerning the operations, financial condition and prospects of ESSA and the expected financial impact of the merger on the combined company, including pro forma assets, earnings, deposits and capital ratios;

The proposed board arrangements of the combined company, including the inclusion of one of First Star's directors on ESSA's board;

The likelihood of successful integration and the successful operation of the combined company;



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The likelihood that the regulatory approvals needed to complete the transaction will be obtained;

The ability of ESSA to pay the merger consideration without needing to condition the merger on obtaining additional sources of financing;

The potential cost-saving opportunities;

The effects of the merger on First Star's employees, including the prospects for continued employment and the severance and other benefits agreed to be provided to First Star employees; and

The review by the First Star Board of Directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger, including the exchange ratio and the condition that the merger must qualify as a transaction that will permit First Star's shareholders to receive ESSA shares in exchange for their First Star shares on a tax-free basis for federal income tax purposes.

The First Star Board of Directors also considered the potential risks associated with the merger during its deliberation of the proposed transaction, including the challenges of integrating First Star's businesses, operations and employees with those of ESSA, the need to obtain approval by shareholders of both First Star and ESSA as well as regulatory approvals in order to complete the transaction, and the risks associated with the operations of the combined company, including the ability to achieve the anticipated cost savings.

The First Star Board of Directors also considered the structural protections included in the merger agreement such as the ability of First Star to terminate the merger agreement in the event of any change or development affecting ESSA which has, or is reasonably likely to have, a material adverse effect on ESSA and which is not cured within 30 days after notice or cannot be cured prior to consummation of the merger, and a walk away provision with a right to cure designed to limit any decline in aggregate deal value resulting from market volatility in ESSA's stock price.

The First Star Board of Directors also considered that average premiums paid by acquirers in merger transactions occurring in 2009 through 2011 were lower than the average premiums paid in prior periods, such as 2003 through 2007, although the board believed it was more appropriate to consider the terms of the proposed transaction with ESSA in light of more recent comparable transactions and the current market environment.

The foregoing discussion of the information and factors considered by First Star's Board of Directors is not exhaustive, but includes all material factors considered by First Star's board. In view of the wide variety of factors considered by the First Star Board of Directors in connection with its evaluation of the merger and the complexity of these matters, the First Star Board of Directors did not consider it practical to, and did not attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. First Star's Board of Directors evaluated the factors described above, including asking questions of First Star's management and First Star's legal and financial advisors. In considering the factors described above, individual members of First Star's Board of Directors may have given different weights to different factors. The First Star Board of Directors relied on the experience and expertise of its financial advisors for quantitative analysis of the financial terms of the merger. See "Opinion of First Star's Financial Advisor" below. It should also be noted that this explanation of the reasoning of First Star's Board of Directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Forward-Looking Statements" on page 88.

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**Recommendation of the First Star Bancorp, Inc. Board of Directors and Reasons for the Merger**

**After careful consideration, First Star's board of directors determined that the merger agreement and the transactions contemplated by the merger agreement were advisable and in the best interests of First Star and its shareholders and approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. Accordingly, First Star's board recommends that First Star shareholders vote FOR adoption of the merger agreement at the First Star special meeting.**

In reaching its decision, the board of directors, with advice from its financial and legal advisors, considered a number of factors, including the following:

The implied value of the merger consideration as of December 21, 2011 of \$11.20 for each share of First Star stock represented a 86.6% premium over the First Star closing price of \$6.00 on December 21, 2011, the last trading day before First Star and ESSA Bancorp announced the signing of the merger agreement and the transactions contemplated thereby.

The limited strategic alternatives available to First Star, notwithstanding the exhaustive search and evaluation of alternatives conducted by First Star management with the assistance of its legal and financial advisors.

The execution of the voting agreements, through which each of the executive officers and members of the board of directors of First Star agreed to vote in favor of the adoption and approval of the merger agreement and the merger.

First Star's and ESSA Bancorp's respective businesses, operations, financial conditions, asset quality, earnings and prospects. In reviewing these factors, First Star's board concluded that ESSA Bancorp's earnings and prospects should result in the combined company having superior future earnings and prospects compared to First Star's earnings and prospects on a stand-alone basis.

The current and prospective environment in which First Star operates, which reflects challenging and uncertain banking industry conditions and risks that were likely to persist, including the volatile valuations of certain financial assets and exposures and generally uncertain economic conditions. The board also considered the effect these factors could have on First Star's liquidity position and funding capabilities, as well as potential deposit outflows.

The current condition of financial markets and historical market prices and volatility with respect to First Star's common stock and preferred stock, including the possibility that if First Star remained a stand-alone public company, in the event of a decline in the market price of First Star's common stock and preferred stock or the stock market in general, the price that might be received by First Star's shareholders in the open market or in a future transaction might be less than the merger consideration.

The fact that the receipt of shares of ESSA Bancorp common stock by holders of First Star common stock and preferred stock should generally not be taxable.

The fact that shareholders of First Star would be able to participate in future dividends, if any, declared and paid by ESSA Bancorp.

The fact that the merger agreement is not subject to approval by ESSA Bancorp's shareholders which lessens the risk of the merger not being consummated.

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The ability of First Star to specifically enforce the terms of the merger agreement.

The reputation, business practices and experience of ESSA Bancorp and its management.

That certain First Star shareholders will receive shares of ESSA Bancorp common stock in the merger, which would allow First Star shareholders to participate in a portion of the future performance of the combined First Star and ESSA Bancorp businesses and synergies resulting from the merger, and the value to First Star's shareholders represented

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by that consideration. The board of directors also considered the adequacy of the merger consideration, not only in relation to the current market price of First Star's common stock and preferred stock, but also in relation to the historical, present and anticipated future operating results and financial position of First Star.

The likelihood that First Star and ESSA Bancorp would receive the necessary regulatory approvals to complete the transactions contemplated in the merger agreement, including the merger in a timely fashion, and the possibility that other potential partners would have difficulty obtaining necessary approvals.

That First Star has the right to terminate the merger agreement if, subject to ESSA Bancorp's ability to increase the merger consideration, the average of the daily closing sales prices of a share of ESSA Bancorp common stock for the thirty trading days preceding the date on which all required regulatory approvals required for the merger have been obtained or waived is less than \$8.14 per share and certain other per share valuation metrics described in the merger agreement are met.

The likelihood and anticipated time of completion of the merger.

The arm's-length negotiations resulting in the merger agreement.

The opinion, analyses and presentations of KBW, including the oral opinion of KBW (which subsequently was confirmed in writing), that the merger consideration was fair, from a financial point of view to First Star shareholders, as well as the implied range of values of First Star common stock presented by KBW to the board of directors, as described above.

In addition, First Star's board of directors also recognized the following in connection with its decision to adopt the merger agreement:

The fact that the merger agreement obligates First Star to pay to ESSA Bancorp a termination fee of \$875,000 if First Star terminates the merger agreement to accept a superior proposal, which may deter others from proposing an alternative transaction that may be more advantageous to First Star's shareholders.

That certain provisions of the merger agreement limit First Star's ability to solicit (as opposed to respond to) proposals for alternative transactions.

The circumstances under which ESSA Bancorp has the right to terminate the merger agreement, including if First Star's delinquent loans equal or exceed \$19.3 million as of any month end prior to the closing date of the merger, and/or if from October 1, 2011 through the closing date of the merger, the First Star investment portfolio realizes cumulative net losses from either (i) securities sales, or (ii) other than temporary impairment write-downs, which in the aggregate exceed \$4.25 million as of the any month end prior to the closing date of the merger.

That pursuant to the merger agreement, First Star must generally conduct its business in the ordinary course and First Star is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger or termination of the merger agreement.

The fact that First Star will cease to exist as an independent, publicly traded company.

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The risk that potential benefits and synergies sought in the merger may not be realized or may not be realized within the expected time period, and the risks associated with the integration of First Star and ESSA Bancorp.

The potential for diversion of management and employee attention, and for employee attrition, during the period prior to the completion of the merger and the potential effect on First Star's business and relations with customers, service providers and other stakeholders, whether or not the merger is consummated.

The risks described in the section entitled "Risk Factors" beginning on page 24.

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First Star's board concluded that the anticipated benefits of the merger would outweigh the preceding considerations.

The reasons set forth above are not intended to be exhaustive, but include material facts considered by the board of directors in approving the merger agreement. Although each member of First Star's board individually considered these and other factors, the board did not collectively assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. The board collectively made its determination with respect to the merger based on the conclusion reached by its members, in light of the factors that each of them considered appropriate, that the merger is in the best interests of First Star and its shareholders.

First Star's board of directors realized there can be no assurance about future results, including results expected or considered in the factors listed above. However, the board concluded the potential positive factors outweighed the potential risks of completing the merger.

During its consideration of the merger described above, First Star's board of directors was also aware that some of its directors and executive officers may have interests in the merger that are different from or in addition to those of its shareholders generally, as described under "Interests of First Star Bancorp, Inc.'s Directors and Officers in the Merger" below.

### **Opinion of First Star's Financial Advisor**

In September 2011, First Star engaged KBW to render financial advisory and investment banking services to First Star. KBW agreed to assist First Star in assessing the fairness, from a financial point of view, of the merger with ESSA to the shareholders of First Star. First Star selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with First Star and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial services companies and their securities in connection with mergers and acquisitions.

As part of its engagement, a representative of KBW attended the meeting of the First Star board held on December 20, 2011, at which the First Star board evaluated the proposed merger with ESSA. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an opinion that, as of such date, the exchange ratio and cash consideration offered to First Star shareholders in the merger was fair from a financial point of view. The First Star board approved the merger agreement at this meeting.

The full text of KBW's written opinion is attached as Appendix C to this document and is incorporated herein by reference. First Star shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.

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**KBW's opinion speaks only as of the date of the opinion. The opinion is directed to the First Star Board and addresses only the fairness, from a financial point of view, of the consideration offered to the First Star shareholders. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any First Star shareholder as to how the shareholder should vote at the First Star special meeting on the merger or any related matter.**

In rendering its opinion, KBW:

reviewed, among other things,

the merger agreement;

Audited Financials for the three fiscal years ended June 30, 2011 of First Star and its subsidiaries;

Annual Reports to Stockholders and Annual Reports on Form 10-K for the three years ended September 30, 2011 of ESSA;

certain interim reports to stockholders of First Star and certain interim reports to stockholders and Quarterly Reports on Form 10-Q of ESSA and certain other communications from First Star and ESSA to their respective stockholders; and

other financial information concerning the businesses and operations of First Star and ESSA furnished to KBW by First Star and ESSA for purposes of KBW's analysis.

held discussions with members of senior management of First Star and ESSA regarding

past and current business operations;

regulatory relations;

financial condition; and

future prospects of their respective companies.

compared certain financial and stock market information for First Star and ESSA with similar information for certain other companies the securities of which are publicly traded;

reviewed the financial terms of certain recent business combinations in the banking industry; and

performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at our opinion, KBW relied upon the accuracy and completeness of all of the financial and other information provided to or otherwise publicly available. KBW did not independently verify the accuracy or completeness of any such information or assume any responsibility for such verification or accuracy. KBW relied upon the management of First Star and ESSA as to the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefore) provided to KBW. KBW assumed that such forecasts and projections reflect the best currently available estimates and judgments of such managements and that such forecasts and projections will be realized in the amounts and in the time periods currently estimated by such managements. KBW assumed, without independent verification, that the aggregate allowance for loan and lease losses for First Star and ESSA are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of the property of First Star or ESSA, nor did it examine any individual credit files.

The projections furnished to KBW and used by it in certain of its analyses were prepared by First Star's and ESSA's senior management teams. First Star and ESSA do not publicly disclose internal management projections of the type provided to KBW in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:



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the merger will be completed substantially in accordance with the terms set forth in the merger agreement with no additional payments or adjustments to the merger consideration;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings and related expenses expected to result from the merger.

KBW further assumed that the merger will be accounted for using the acquisition method under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. KBW's opinion is not an expression of an opinion as to the prices at which shares of First Star common stock or shares of ESSA common stock will trade following the announcement of the merger or the actual value of the shares of common stock of the combined company when issued pursuant to the merger, or the prices at which the shares of common stock of the combined company will trade following the completion of the merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, First Star and ESSA. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the First Star board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the First Star board with respect to the fairness of the consideration.

The following is a summary of the material analyses presented by KBW to the First Star board on December 20, 2011, in connection with its fairness opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the First Star board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the

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information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

*Summary of Proposal.* Pursuant to the terms of the Agreement, each outstanding share of common stock and preferred stock, par value \$1.00 per share, of First Star will be converted into the right to receive 1.0665 shares of common stock, par value \$0.01 per share, of ESSA. Based on ESSA's closing price of \$10.50 on December 21, 2011, the day before the announcement of the transaction, the exchange ratio represented a value of \$11.20 per share to First Star's shareholders.

*Selected Companies Analysis.* Using publicly available information, KBW compared the financial performance, financial condition and market performance of First Star and ESSA to the following depository institutions that KBW considered comparable to First Star and ESSA.

KBW compared First Star to publicly traded thrifts headquartered in the Mid-Atlantic and New England Regions with total assets between \$300 million and \$700 million. Companies included in First Star's peer group were:

TF Financial Corporation	BSB Bancorp, Inc.
Oneida Financial Corp.	Fidelity Bancorp, Inc.
Chicopee Bancorp, Inc.	Colonial Financial Services, Inc.
Naugatuck Valley Financial Corporation	Hampden Bancorp, Inc.
Peoples Federal Bancshares, Inc.	Elmira Savings Bank, FSB
Central Bancorp, Inc.	Alliance Bancorp, Inc. of Pennsylvania
Newport Bancorp, Inc.	Standard Financial Corp.
OBA Financial Services, Inc.	Guaranty Bancorp, Inc.
WSB Holdings, Inc.	FedFirst Financial Corporation

KBW compared ESSA to publicly traded banks and thrifts headquartered in the Mid-Atlantic and New England Regions with total assets between \$750 million and \$1.5 billion, LTM ROAA greater than 0%, and NPAs/Assets less than 3%. Companies included in ESSA's peer group were:

VIST Financial Corp.	Alliance Financial Corporation
Center Bancorp, Inc.	Citizens & Northern Corporation
Bridge Bancorp, Inc.	Chemung Financial Corporation
Fox Chase Bancorp, Inc.	ACNB Corporation
Ocean Shore Holding Co.	AmeriServ Financial, Inc.
Tri-County Financial Corporation	Bank of Utica
Adirondack Trust Company	QNB Corp.
Berkshire Bancorp, Inc.	Old Line Bancshares, Inc.
FNB Bancorp, Inc.	

To perform this analysis, KBW used financial information as of the three months period ended September 30, 2011 or June 30, 2011, if the September 30, 2011 data was unavailable. Market price information was as of December 21, 2011. Certain financial data prepared by KBW, and as referenced in the tables presented below may not correspond to the data presented in First Star's and ESSA's historical financial statements, or to the data prepared by Ambassador Financial presented under the section "Opinion of ESSA's Financial Advisor," as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

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KBW's analysis showed the following concerning First Star's and ESSA's financial condition:

	First Star	First Star Peer Group Minimum	First Star Peer Group Maximum
Core Return on Average Assets <sup>(1)</sup>	(0.24%)	0.00%	0.97%
Core Return on Average Equity <sup>(1)</sup>	(3.14%)	0.06%	8.38%
Net Interest Margin	1.90%	2.39%	3.78%
Efficiency Ratio	80.97%	60.58%	93.79%

	ESSA	ESSA Peer Group Minimum	ESSA Peer Group Maximum
Core Return on Average Assets <sup>(1)</sup>	0.44%	0.37%	1.75%
Core Return on Average Equity <sup>(1)</sup>	2.90%	2.36%	16.28%
Net Interest Margin	2.78%	2.78%	4.47%
Efficiency Ratio	75.12%	25.39%	86.48%

(1) Core income excludes extraordinary items, non-recurring items and gains/losses on sale of securities

	First Star	First Star Peer Group Minimum	First Star Peer Group Maximum
Tangible Common Equity / Tangible Assets	6.82%	5.55%	20.88%
Total Capital Ratio	13.31%	12.67%	31.72%
Loan Loss Reserve / Loans	1.04%	0.82%	3.40%
Nonperforming Assets / Loans + OREO	3.17%	0.55%	14.80%
Last Twelve Months Net Charge-Offs / Average Loans	0.18%	0.06%	1.39%

	ESSA	ESSA Peer Group Minimum	ESSA Peer Group Maximum
Tangible Common Equity / Tangible Assets	14.59%	4.98%	19.14%
Total Capital Ratio	28.54%	11.35%	36.40%
Loan Loss Reserve / Loans	1.09%	0.55%	5.36%
Nonperforming Assets / Loans + OREO	3.14%	0.71%	5.18%
Last Twelve Months Net Charge-Offs / Average Loans	0.18%	0.00%	2.98%

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KBW's analysis showed the following concerning First Star's and ESSA's market performance:

	First Star	First Star Peer Group Minimum	First Star Peer Group Maximum
Stock Price / Book Value per Share	0.45x	0.36x	1.20x
Stock Price / Tangible Book Value per Share	0.45x	0.36x	1.27x
Stock Price / Last Twelve Months EPS	NM	11.03x	29.26x
Dividend Yield	3.33%	0.00%	5.37%
Last Twelve Months Dividend Payout Ratio	NM	0.00%	97.59%

	ESSA	ESSA Peer Group Minimum	ESSA Peer Group Maximum
Stock Price / Book Value per Share	0.77x	0.37x	1.69x
Stock Price / Tangible Book Value per Share	0.78x	0.51x	1.73x
Stock Price / Last Twelve Months EPS	24.80x	5.16x	15.57x
Dividend Yield	1.90%	0.00%	5.63%
Last Twelve Months Dividend Payout Ratio	47.23%	0.00%	58.47%

*Comparable Transaction Analysis.* KBW reviewed publicly available information related to select comparably sized acquisitions of banks and bank holding companies as well as thrifts and thrift holding companies in the United States announced after December 31, 2010, with aggregate transaction values between \$5 million and \$50 million and target ROAA less than 0% for the last twelve months. The transactions included in the groups were:

**Acquiror**

Prosperity Bancshares, Inc.  
River Valley Bancorp  
Trustmark Corporation  
1<sup>st</sup> United Bancorp, Inc.  
S&T Bancorp, Inc.  
Prosperity Bancshares, Inc.  
BNC Bancorp  
SKBHC Holdings LLC  
Investors Bancorp, Inc. (MHC)  
Wintrust Financial Corporation  
First Foundation Inc.  
SKBHC Holdings LLC  
First PacTrust Bancorp, Inc.  
SKBHC Holdings LLC  
Adam Bank Group, Inc.  
Bay Commercial Bank  
Banco do Brasil, S.A.  
First Bank Lubbock Bancshares, Inc.  
Park Sterling Corporation  
Embarcadero Bank  
HCBF Holding Company, Inc.  
Opus Bank  
Piedmont Community Bank Holdings, Inc.  
IBERIABANK Corporation  
CBM Florida Holding Company

**Acquiree**

East Texas Financial Services, Inc.  
Dupont State Bank  
Bay Bank & Trust Co.  
Anderen Financial, Inc.  
Mainline Bancorp, Inc.  
Texas Bankers, Inc.  
Regent Bank  
Viking Financial Services Corporation  
BFS Bancorp, MHC  
Elgin State Bancorp, Inc.  
Desert Commercial Bank  
Sunrise Bank  
Gateway Bancorp  
Bank of the Northwest  
Brazos Valley Bank, NA  
Global Bancorp  
EuroBank  
Jefferson Bank  
Community Capital Corporation  
Coronado First Bank  
Grand Bankshares, Inc.  
Cascade Financial Corporation  
Crescent Financial Corporation  
Omni Bancshares, Inc.  
First Community Bank of America



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Transaction multiples for the merger were derived from an offer price of \$11.20 per share for First Star. For each precedent transaction, KBW derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

book value per share of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition.

tangible book value per share of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition.

premium to core deposits (total deposits less time deposits greater than \$100,000) based on the latest publicly available financial statements of the company prior to the announcement of the acquisition.

The results of the analysis are set forth in the following table:

	ESSA / First Star Merger	Comparable Transactions Minimum	Comparable Transactions Maximum
<b>Transaction Price to:</b>			
Book Value	0.84x <sup>(1)</sup>	0.25x	1.32x
Tangible Book Value	0.84x <sup>(1)</sup>	0.25x	1.32x
Core Deposit Premium	(1.78)%	(11.88)%	5.69%

(1) First Star book value per share and tangible book value per share assume conversion of preferred stock and subordinated debt at stated terms

No company or transaction used as a comparison in the above analysis is identical to First Star, ESSA or the merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

*Contribution Analysis.* KBW analyzed the relative contribution of ESSA and First Star to the pro forma balance sheet of the combined entity, including assets, gross loans held for investment, deposits, and tangible common equity. KBW compared the relative contribution of balance sheet for the period ending September 30, 2011, which did not include any estimated purchase accounting adjustments, and the estimated pro forma ownership for ESSA based on 50% of First Star shares exchanged for 1.0665 ESSA shares and 50% of First Star shares exchanged for \$11.20 in cash. KBW did not analyze the relative contribution to the pro forma income statement due to a loss in earnings for First Star in 2011 and a negative earnings projection for 2012. The results of KBW's analysis are set forth in the following table:

	ESSA	FSSB
Assets	72.2%	27.8%
Gross Loans	77.5%	22.5%
Deposits	66.6%	33.4%
Tangible Common Equity	84.7%	15.3%
Ownership at 50% Cash / 50% Stock	91.3%	8.7%

*Financial Impact Analysis.* KBW performed pro forma merger analyses that combined projected income statement and balance sheet information of First Star and ESSA. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the merger would have on certain projected financial results of ESSA. In the course of this analysis, KBW used earnings estimates for ESSA for 2012 and 2013 from a nationally recognized earnings estimate consolidator and used earnings estimates for First Star for 2012 and 2013 from First Star management. This analysis indicated that the merger is expected to be accretive to ESSA's estimated earnings per share in 2012 and 2013. The analysis also indicated that the merger is expected to be dilutive to book value per share and

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to tangible book value per share for ESSA and that ESSA would maintain well capitalized capital ratios. For all of the above analyses, the actual results achieved by ESSA following the merger will vary from the projected results, and the variations may be material.

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*Discounted Cash Flow Analysis.* KBW performed a discounted cash flow analysis to estimate a range of the present values of after-tax cash flows that First Star could provide to equity holders through 2017 on a stand-alone basis. In performing this analysis, KBW used management's earnings estimates for First Star for 2012 through 2014 and applied a long-term tangible asset growth rate of 2.0% thereafter, and assumed discount rates ranging from 10.0% to 14.0%. The range of values was determined by adding (1) the present value of projected cash flows to First Star shareholders from 2012 to 2017 and (2) the present value of the terminal value of First Star's common stock. In determining cash flows available to shareholders, KBW assumed that First Star would maintain a tangible common equity / tangible asset ratio of 7.00% and would retain sufficient earnings to maintain that level. Any earnings in excess of what would need to be retained represented dividendable cash flows for First Star. In calculating the terminal value of First Star, KBW applied multiples ranging from 9.0 times to 15.0 times 2017 forecasted earnings. This resulted in a range of values of First Star from \$3.28 to \$6.24 per share. KBW stated that the discounted cash flow present value analysis is a widely used valuation methodology but noted that it relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of First Star.

*Other Analyses.* KBW reviewed the relative financial and market performance of First Star and ESSA to a variety of relevant industry peer groups and indices. KBW also reviewed earnings estimates, balance sheet composition, historical stock performance and other financial data for ESSA.

The First Star board has retained KBW as an independent contractor to act as financial adviser to First Star regarding the merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, First Star and ESSA. As a market maker in securities KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of First Star and ESSA for KBW's own account and for the accounts of its customers.

First Star and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the merger. First Star has paid KBW a cash fee of \$75,000 concurrently with the rendering of the Fairness Opinion relating to the Transaction. Additionally, First Star has agreed to pay to KBW at the time of closing of the Transaction a cash fee ( Contingent Fee ) equal to 1.00% of the aggregate consideration offered in exchange for the outstanding shares of common stock of First Star in the merger. Pursuant to the KBW engagement agreement, First Star also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws. During the two years preceding the date of its opinion to First Star, KBW has not received compensation for investment banking services from neither First Star nor ESSA.



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**Employee Matters**

The merger agreement provides that ESSA Bancorp will review all First Star compensation and employee benefit plans that do not otherwise terminate (whether pursuant to the terms of any such plan or the merger agreement) to determine whether to maintain, terminate or continue such plans. All First Star employees who become ESSA Bancorp employees will be given credit for service at First Star or its subsidiaries for eligibility to participate in and the satisfaction of vesting requirements (but not for benefit accrual purposes) in the ESSA Bancorp compensation and benefit plans, except for the ESSA employee stock ownership plan and defined benefit plan. Notwithstanding the preceding sentence, all First Star employees who become ESSA Bancorp employees shall be eligible to join the ESSA ESOP on January 1, 2013 and will be given credit for service at First Star or its subsidiaries for eligibility to participate in and the satisfaction of vesting requirements (but not for benefit accrual purposes). All employees of First Star or its subsidiaries who become employees of ESSA Bancorp shall be eligible to join the ESSA defined benefit plan upon their satisfaction of the eligibility requirements for that plan, taking into account only service performed for ESSA Bancorp and not taking into account service while an employee of First Star or its subsidiaries. In addition, ESSA Bancorp shall request its health plan vendor to credit all employees of First Star or any subsidiary who cease participation on a First Star health plan and become participants in a comparable ESSA Bancorp health plan with any co-payments and deductibles paid under First Star's health plan for purposes of satisfying any applicable deductible or out-of-pocket requirements under the ESSA Bancorp health plan.

Any employee of First Star or any subsidiary who is not a party to an employment agreement, change in control agreement or other arrangement that provides for severance benefits and whose employment is terminated at or before the effective time of the merger or within twelve months following the effective time of the merger, will receive severance benefits in the amount of two weeks of salary for every full year served, up to a maximum of 26 weeks. Any employee of First Star or any subsidiary who continues employment with ESSA Bancorp for more than twelve months after the closing date shall, upon any subsequent termination of employment, be covered by and eligible for severance benefits under the then-current ESSA severance plan.

ESSA Bancorp has agreed to honor all obligations under all employment and change in control agreements applicable to employees of First Star and its subsidiaries, but is not obligated under the merger agreement to maintain the employment of any particular individual after the merger is consummated. See *Interests of First Star's Directors and Executive Officers In the Merger* below for a discussion of the employment agreements and other compensation arrangements applicable to directors and executive officers of First Star that will be honored by ESSA Bancorp.

**Dissenters' Rights**

**General.** The Pennsylvania Business Corporation Law of 1988 ( *PBCL* ) grants shareholders of First Star the right to dissent from the merger and to obtain payment of the fair value of their shares in the event we complete the merger.

If you are a shareholder of First Star and you contemplate exercising your right to dissent, we urge you to read carefully the provisions of Subchapter D of Chapter 15 of the *PBCL*, which is attached to this proxy statement-prospectus as Appendix D. A discussion of the provisions of the statute follows here. This discussion is qualified in its entirety by reference to the applicable dissenters' rights provisions of Pennsylvania law. The discussion describes the steps that you must take if you want to exercise your right to dissent. You should read this summary and the full text of the law. You are advised to consult legal counsel if you are considering the exercise of your dissenters' rights. Failure to strictly comply with these procedures may result in the loss of these dissenters' rights.

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Before the day of the shareholders meeting, send any written notice or demand required concerning your exercise of dissenters' rights to:

First Star Bancorp, Inc.

418 West Broad Street

Bethlehem, Pennsylvania 18018

Attention: Corporation Secretary

**Fair Value.** The term "fair value" means the value of a share of First Star common stock immediately before the day of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

**Notice of Intention to Dissent.** If you wish to dissent, you must:

File a written notice with First Star of your intention to demand payment of the fair value of your shares if the merger is consummated, prior to the vote of shareholders on the merger at the meeting;

Make no change in your beneficial ownership of stock from the date you give notice through the day of completion of the merger; and

Refrain from voting your shares to approve the merger (a failure to vote against the merger, however, will not constitute a waiver of dissenters' rights).

Shareholders considering exercising dissenters' rights should recognize that the fair value could be more than, the same as or less than the merger consideration offered by ESSA Bancorp that they are to receive under the terms of the merger if they do not exercise dissenters' rights with respect to their shares.

Opinions of investment banking firms as to the fairness from a financial point of view of consideration received in a merger are not necessarily determinative of fair value under the PBCL.

Except as otherwise provided in this paragraph, only a record holder of shares of First Star common stock is entitled to assert dissenters' rights with respect to the shares registered in such holder's name. A beneficial owner who is not a record holder and who wishes to exercise dissenters' rights may do so only if he or she submits a written consent of the record holder with his or her demand for payment (the demand for payment is described below). Accordingly, beneficial owners are advised to consult promptly with the appropriate record holder as to the timely exercise of dissenters' rights.

A record holder, such as a broker or depository nominee, who holds shares as a nominee for others may exercise dissenters' rights with respect to all of the shares held for one or more beneficial owners, while not exercising such rights for other beneficial owners. The demand for payment (which is described below) must show the name and address of the person or persons on whose behalf the dissenters' rights are being exercised. A beneficial owner may not assert dissenters' rights with respect to some but less than all shares owned by him or her, whether or not all of the shares so owned by him or her are registered in his or her name.

Neither a proxy nor a vote against approval of the merger satisfies the necessary written notice of intention to dissent.

**Notice to Demand Payment.** If the merger is approved by the required vote of shareholders, First Star will mail a notice to all dissenters who gave due notice of intention to demand payment and who did not vote for approval of the merger agreement. The notice will state where and when you must deliver a written demand for payment and where you must deposit certificates for stock in order to obtain payment. The notice will include a form for demanding payment and a copy of the law. The time set for receipt of the demand for payment and deposit of stock certificates will be not less than 30 days from the date of mailing of the notice.



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***Failure to Comply with Notice to Demand Payment, etc.*** You must take each step in the order above and in strict compliance with the statute to maintain your dissenters' rights. If you fail to follow the steps, you will lose your right to dissent and you will receive 1.0665 shares of ESSA Bancorp or a combination of shares and cash for the shares of First Star common stock that you hold.

***Payment of Fair Value of Shares.*** Promptly after the merger, or upon timely receipt of demand for payment if the merger already has taken place, First Star will send dissenters, who have deposited their stock certificates, the amount that First Star estimates to be the fair value of the shares or give written notice that no remittance will be made. The remittance or notice will be accompanied by:

A closing balance sheet and statement of income of First Star for a fiscal year ending not more than 16 months before the date of remittance or notice together with the latest available interim financial statements;

A statement of First Star's estimate of the fair value of the First Star common stock; and

A notice of the right of the dissenter to demand supplemental payment, accompanied by a copy of the law.

If First Star does not remit the amount of its estimate of the fair value of the shares as provided above, it will return all stock certificates that have been deposited. First Star may make a notation on any such certificate that a demand for payment has been made. If shares with respect to which notation has been so made are transferred, a transferee of such shares will not acquire by such transfer any rights in First Star other than those that the original dissenter had after making demand for payment.

***Estimate by Dissenter of Fair Value of Shares.*** If a dissenter believes that the amount stated or remitted by First Star is less than the fair value of the shares, the dissenter may send his or her estimate of the fair value of the shares to First Star, which will be deemed a demand for payment of the amount of the deficiency. If First Star remits payment or sends notice to the dissenter of the estimated value of a dissenters' shares and the dissenter does not file his or her own estimate within 30 days after the mailing by First Star of its remittance or notice, the dissenter will be entitled to no more than the amount stated in the notice or remitted by First Star.

***Valuation Proceeding.*** If any demands for payment remain unsettled within 60 days after the latest to occur of:

The effective date of the merger;

Timely receipt by First Star of any demands for payment; or

Timely receipt by First Star of any estimates by dissenters of the fair value, then, First Star may file an application in court requesting that the court determine the fair value of the stock. If this happens, all dissenters, no matter where they reside, whose demands have not been settled, shall be made parties to the proceeding. In addition, a copy of the application will be delivered to each dissenter.

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If a shareholder is a nonresident, the copy will be served in the manner provided or prescribed by or under applicable provisions of Pennsylvania law relating to bases of jurisdiction and interstate and international procedure. The jurisdiction of the court will be plenary and exclusive. Such court may appoint an appraiser to receive evidence and recommend a decision on the issue of fair value. The appraiser will have such power and authority as may be specified in the order of appointment or in any amendment thereof. Each dissenter who is made a party will be entitled to recover the amount by which the fair value of his or her shares is found to exceed the amount, if any, previously remitted, plus interest.

Interest from the effective time of the merger until the date of payment will be at such rate as is fair and equitable under all of the circumstances, taking into account all relevant factors.

If First Star fails to file the application, then any dissenter may file an application in the name of First Star at any time within a period of 30 days following the expiration of the 60-day period and request that the court determine the fair value of the shares. The fair value determined by the court may, but need not, equal the dissenters' estimates of fair value and may be higher or lower than the consideration payable to First Star shareholders. If no dissenter files an application, then each dissenter entitled to do so shall be paid First Star's estimates of the fair value of the shares and no more, and may bring an action to recover any amount not previously remitted.

First Star intends to negotiate in good faith with any dissenting shareholders. If, after negotiation, a claim cannot be settled, then First Star intends to file an application requesting that the fair value of the common stock be determined by the court.

**Costs and Expenses.** The costs and expenses of any valuation proceeding, including the reasonable compensation and expenses of any appraiser appointed by the court, will be determined by the court and assessed against First Star, except that any part of the costs and expenses may be apportioned and assessed as the court deems appropriate against all or some of the dissenting shareholders who are parties and whose action in demanding the payment or supplemental payment in accordance with their estimate of the fair value of their shares, as described above, the court finds to be dilatory, obdurate, arbitrary, vexatious or in bad faith.

Fees and expenses of counsel and of experts for the respective parties may be assessed as the court deems appropriate against First Star and in favor of any or all dissenting shareholders if First Star failed to comply substantially with the requirements of Subchapter D of Chapter 15 of the PBCL, and may be assessed against either First Star or a dissenting shareholder, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted in bad faith or in a dilatory, obdurate, arbitrary or vexatious manner in respect to the rights provided by Subchapter D.

If the court finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated and should not be assessed against First Star, it may award to those counsel reasonable fees to be paid out of the amounts awarded to the dissenting shareholders who were benefited.

From and after the effective time of the merger, dissenting shareholders are not entitled to vote their shares for any purpose and are not entitled to receive payment of dividends or other distributions on their shares.

The parties amended the merger agreement on February 28, 2012 to clarify that the holders of First Star Common Stock are entitled to dissenters rights.

**Table of Contents****Interests of First Star Bancorp, Inc. s Directors and Officers In the Merger**

The following table sets forth the estimated potential severance benefits to First Star s most highly compensated executive officers on termination of employment following a change in control:

Executive	Estimated Potential Severance on Termination Following a Change in Control <sup>(1)</sup>		Health Benefits Payment Period
Joseph T. Svetik	\$	1,268,108 <sup>(2)</sup>	Through 11/1/2014
Paul J. Sebastian	\$	1,065,831 <sup>(3)</sup>	Through 11/1/2014
Charles Siegfried	\$	125,000	None
Charles Hangen	\$	104,040	None
Michael Styer	\$	0	None

<sup>(1)</sup> These estimates assume a termination date as of the closing date of the merger.

<sup>(2)</sup> Includes \$783,108 in severance to be paid by First Star and \$530,000 for a new two-year non-compete agreement to be paid by ESSA

<sup>(3)</sup> Includes \$745,831 in severance to be paid by First Star and \$320,000 for a new two-year non-compete agreement to be paid by ESSA.

**Employment Agreements, Settlement Agreements and Non-Compete Agreements with Joseph T. Svetik and Paul J. Sebastian.** Concurrent with the execution of the Merger Agreement, ESSA Bancorp, First Star and Joseph T. Svetik and Paul J. Sebastian entered into settlement agreements whereby the existing employment agreements between First Star and Messrs. Svetik and Sebastian would be terminated on the Closing Date, the executives employment will be terminated on the Closing Date, and severance payments would be made to the executives under the settlement agreement instead of under their employment agreements. The consummation of the merger constitutes a change in control for purposes of the employment agreements. The employment agreements provide that upon involuntary termination of employment without cause or voluntary termination of employment for good reason (as defined in the agreement) within 24 months following a change in control of First Star, the executives will be entitled to severance benefits. Under the employment agreements, the amount of severance equals three times the executive s base salary and highest annual cash bonus received at any time with the Bank, plus a cash amount equal to the employee stock ownership plan, 401(k) plan and deferred compensation agreement benefits that the executive would have received through November 1, 2014. Under the employment agreements, the severance owed to Mr. Svetik is \$1,315,533 and the severance owed to Mr. Sebastian is \$1,071,351. However, pursuant to the settlement agreements, on the Closing Date, (i) First Star shall pay Mr. Svetik a lump sum cash severance payment of \$783,108 and ESSA shall pay Mr. Svetik a lump sum cash payment of \$530,000 for a new two-year non-compete agreement and (ii) First Star shall pay Mr. Sebastian a lump sum cash severance payment of \$745,831 and ESSA shall pay Mr. Sebastian a lump sum cash payment of \$320,000 for a new two-year non-compete agreement. In addition, for 36 months after the Closing Date, ESSA shall provide continued coverage under ESSA s medical, health, vision and dental plans to the executives at no cost to the executives. The settlement agreements included a standard release of all employment claims. Severance payments have not been accrued.

**Change in Control Agreements with Charles Siegfried and Charles Hangen.** Pursuant to the Merger Agreement, ESSA Bancorp has agreed to honor the terms of the change in control agreements between First Star and Charles Siegfried, First Star s Chief Financial Officer and between First Star and Charles Hangen, First Star s Chief Lending Officer. The agreements expire on May 1, 2012 but may be renewed by the employer for an additional year on or before each anniversary date. Severance benefits under the agreements are payable upon an involuntary termination of employment without cause during the twelve months following a change in control (which will occur on the Closing Date) or upon a voluntary termination of employment for good reason within six months after a change in control (which will occur on the Closing Date). Under the agreements, good reason includes a change in First Star s organizational structure or a change in the executive s reporting duties, both of which will occur on the Closing Date, such that the executives will have the right to terminate employment and receive severance benefits within six months after the Closing Date. Messrs. Siegfried and Hangen are entitled to a lump sum cash severance payment equal to \$125,000 and \$104,040, respectively, to be paid no later than two and one-half months after termination of employment.

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***Deferred Compensation Agreements with Joseph T. Svetik, Paul J. Sebastian and Michael Styer.*** Pursuant to the Merger Agreement, ESSA Bancorp has agreed to honor the terms of the deferred compensation agreements between First Star and Joseph T. Svetik, Paul J. Sebastian and Michael Styer, First Star's Treasurer. Under these agreements, ESSA Bancorp will pay Mr. Svetik and Mr. Sebastian \$47,400 and \$41,400 per year, respectively, adjusted each year for the annual Consumer Price Index (CPI). Such amounts shall be paid in monthly installments over 20 years, starting on the last day of the month after the Closing Date. In addition, ESSA Bancorp will pay Mr. Styer \$28,000 per year, paid in monthly installments for 15 years begin at separation from service at or after age 65.

***Arrangements of Certain First Star Bancorp, Inc. Officers with ESSA Bancorp.*** The Merger Agreement provides that ESSA Bancorp shall establish and utilize, with the cooperation of First Star, a retention bonus pool in an amount not to exceed \$50,000.00 for the payment of retention bonuses to First Star employees through the Closing Date and, in some instances, through a date following the Closing Date.

***Indemnification.*** Pursuant to the merger agreement, ESSA Bancorp has agreed that from and after the effective date of the merger through the sixth anniversary thereof, it will indemnify, defend and hold harmless each present and former officer, director or employee of First Star and its subsidiary (as defined in the merger agreement) against all losses, claims, damages, costs, expenses (including attorney's fees), liabilities, judgments and amounts that are paid in settlement (with the approval of ESSA Bancorp, which approval shall not be unreasonably withheld) of or in connection with any claim, action, suit, proceeding or investigation, based in whole or in part on, or arising in whole or in part out of, the fact that such person is or was a director, officer or employee of First Star or its subsidiary if such claim pertains to any matter of fact arising, existing or occurring at or before the closing date to the fullest extent to which directors and officers of First Star are entitled under applicable law, ESSA Bancorp's Certificate of Incorporation and Bylaws, First Star Certificate of Incorporation and bylaws, or other applicable law in effect on the date of the merger agreement (and ESSA Bancorp will pay expenses in advance of the final disposition of any such action or proceeding to the fullest extent permitted to under applicable law, provided that the person to whom such expenses are advanced agrees to repay such expenses if it is ultimately determined that such person is not entitled to indemnification).

***Directors and Officers Insurance.*** ESSA Bancorp has further agreed, for a period of six years after the effective date, to cause the persons serving as officers and directors of First Star immediately prior to the effective date to continue to be covered by First Star's current directors and officers liability insurance policy (provided that ESSA Bancorp may substitute therefore policies of at least the same coverage and amounts containing terms and conditions which are substantially no less advantageous than such policy) with respect to acts or omissions occurring prior to the effective date which were committed by such officers and directors in their capacity as such. ESSA Bancorp is not required to spend more than 175% of the annual cost currently incurred by First Star for its insurance coverage.

**Management and Operations of First Star Bancorp, Inc. and First Star Bank After the Merger**

Upon consummation of the merger between First Star and ESSA Bancorp, First Star will be merged into ESSA Bancorp and the separate existence of First Star will cease, and First Bank will be merged into ESSA Bank and the separate existence of First Star Bank will cease. The officers of ESSA Bancorp and ESSA Bank immediately prior to the merger will continue to be its directors and officers. Effective immediately upon closing, the Boards of Directors of ESSA Bancorp and ESSA Bank will be increased by one member and Joseph Svetik shall be appointed to each board. If Mr. Svetik is unwilling or unable to become a director of ESSA Bancorp or ESSA Bank one director of First Star (as of the date of the merger agreement and as of the effective time), as mutually agreed to by ESSA Bancorp, ESSA Bank, First Star and First Star Bank, shall be appointed and elected to the ESSA Bancorp and ESSA Bank Boards of Directors, effective immediately after the closing date.

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### **Effective Date of Merger**

The parties expect that the merger will be effective during the second quarter of 2012 or as soon as possible after the receipt of all regulatory and shareholder approvals and after the expiration of all regulatory waiting periods. The merger will be completed legally by the filing of the articles of merger with the Secretary of State of the Commonwealth of Pennsylvania and with the Pennsylvania Department of State. If the merger is not consummated by September 30, 2012, the merger agreement may be terminated by either First Star or ESSA Bancorp, unless the failure to consummate the merger by this date is due to the breach by the party seeking to terminate the merger agreement of any of its obligations under the merger agreement. See Conditions to the Merger below.

### **Conduct of Business Pending the Merger**

The merger agreement contains various restrictions on the operations of First Star before the effective time of the merger. In general, the merger agreement obligates First Star to conduct its business in the usual, regular and ordinary course of business and use reasonable efforts to preserve its business organization and assets and maintain its rights and franchises. In addition, First Star has agreed that, except as expressly contemplated by the merger agreement or specified in a schedule to the merger agreement, without the prior written consent of ESSA Bancorp, it will not, among other things:

change or waive any provision of its Articles of Incorporation or Bylaws, or appoint a new director to the board of directors;

change the number of authorized or issued shares of its capital stock, issue any shares of First Star common stock or preferred stock, make any grant or award any options, warrants or similar instruments, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of capital stock;

enter into, amend in any material respect or terminate any contract or agreement (including without limitation any settlement agreement with respect to litigation) except in the ordinary course of business;

make application for the opening or closing of any, or open or close any, branch or automated banking facility;

grant or agree to pay any bonus, severance or termination to, or enter into, renew or amend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers or employees, except for certain pre-existing commitments or in the ordinary course of business consistent with past practice to non-officer employees;

enter into or, except as may be required by law, materially modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees; or make any contributions to any defined contribution plan not in the ordinary course of business consistent with past practice;

materially change any method, practice or principle of accounting, except as may be required from time to time by Generally Accepted Accounting Principles (without regard to any optional early adoption date) or any bank regulator responsible for regulating First Star or First Star Bank;



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purchase any equity securities, or purchase any securities other than (i) Federal Farm Credit obligations or other securities having the full faith and credit of the United States, and (ii) having a face amount of not more than \$2.0 million with maturity date of three years or less;

make any new loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) in an amount in excess of \$500,000 for a commercial real estate loan or \$250,000 for a commercial business loan, or in excess of \$417,000 for

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a residential loan. In addition, the prior approval of ESSA Bancorp is required with respect to the foregoing: (i) any new loan or credit facility commitment in an amount of \$350,000 or greater to any borrower or group of affiliated borrowers whose credit exposure with First Star Bank, First Star or any First Star subsidiary, in the aggregate, exceeds \$1.0 million prior thereto or as a result thereof; (ii) any new loan or credit facility commitment in excess of \$417,000 to any person residing, or any property located, outside of the Commonwealth of Pennsylvania; and (iii) any new loan or loan commitment to any First Star director or executive officer;

make any capital expenditures in excess of \$25,000 individually or \$50,000 in the aggregate, other than pursuant to binding commitments existing on the date of the merger agreement and expenditures necessary to maintain existing assets in good repair;

purchase or otherwise acquire, or sell or otherwise dispose of, any assets or incur any liabilities other than in the ordinary course of business consistent with past practices and policies;

enter into any lease, contract or other commitment for its account, other than in the normal course of providing credit to customers as part of its banking business, involving a payment by First Star or First Star Bank of more than \$25,000 annually, or containing any financial commitment extending beyond 24 months from the date of the merger agreement; or

pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement or compromise in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of \$25,000 individually or \$50,000 in the aggregate.

In addition to these covenants, the merger agreement contains various other customary covenants, including, among other things, access to information, each party's efforts to cause its representations and warranties to be true and correct on the closing date; and each party's agreement to use its reasonable best efforts to cause the merger to qualify as a tax-free reorganization.

**Representations and Warranties**

The merger agreement contains a number of customary representations and warranties by ESSA Bancorp and First Star regarding aspects of their respective businesses, financial condition, structure and other facts pertinent to the merger that are customary for a transaction of this kind. They include, among other things:

the organization, existence, and corporate power and authority, and capitalization of each of the companies;

the absence of conflicts with and violations of law and various documents, contracts and agreements;

the absence of any development materially adverse to the companies;

the absence of adverse material litigation;

accuracy of reports and financial statements filed with the Securities and Exchange Commission or bank regulators, as relevant;

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the accuracy and completeness of the statements of fact made in filings with governmental entities in connection with the merger agreement;

no violations of law by either company;

the filing of tax returns, payment of taxes and other tax matters by either party;

labor and employee benefit matters; and

compliance with applicable environmental laws by both parties.

All representations, warranties and covenants of the parties, other than those covenants and agreements which by their terms apply in whole or part after the consummation of the merger, terminate upon the consummation of the merger.

**Conditions to the Merger**

The respective obligations of ESSA Bancorp and First Star to complete the merger are subject to various conditions prior to the merger. The conditions include the following:

the receipt of all regulatory approvals (including the \$25.0 million distribution from ESSA Bank to ESSA Bancorp) and other necessary approvals of governmental entities (other than those the failure of which to obtain would not cause a material adverse effect (as defined in the merger agreement)), and the expiration of all applicable statutory waiting periods;

approval of the merger agreement by the affirmative vote of a majority of the issued and outstanding shares of First Star;

none of the parties can be subject to any order, injunction or decree that prohibits or enjoins the consummation of the merger;

there must be no statute, rule or regulation by which the merger is prohibited or enjoined;

ESSA Bancorp's registration statement of which this document is a part shall have become effective and no stop order suspending its effectiveness shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the Securities and Exchange Commission;

the shares of ESSA Bancorp common stock to be issued to First Star shareholders in the merger must have been approved for listing on the Nasdaq Global Market and such shares must be delivered to the exchange agent before the closing date of the transaction;

revisions to the loan relationship between First Star Bank certain borrowers to the satisfaction of ESSA, in its sole discretion, such that the outstanding balances and unfunded commitments of such loans are either (i) reduced to an aggregate value of less than \$4.2 million, other than through First Star delinquent loan status or (ii) additional collateral in the form of a \$500,000 certificate of deposit is in place, as of the closing of the merger;



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with respect to each of First Star and ESSA Bancorp, the representations and warranties of the other party to the merger agreement that are qualified as to materiality must be true and correct as of the date of the merger agreement and as of the date of the closing of the merger, and each of these representations and warranties not so qualified must be true and correct in all material respects, as of the date of the merger agreement and as of the date of the closing (except to the extent such representations and warranties speak as of an earlier date); and

both ESSA Bancorp and First Star must have received a legal opinion from their respective counsels that the merger will qualify as a tax-free reorganization for United States federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The parties may waive conditions to their obligations unless they are legally prohibited from doing so. Shareholder approval and regulatory approvals may not be legally waived.

### **Regulatory Approvals Required for the Merger**

**General.** First Star and ESSA Bancorp have agreed to use all reasonable efforts to obtain all permits, consents, approvals and authorizations of all third parties and governmental entities that are necessary or advisable to consummate the merger. This includes the approvals of the Pennsylvania Department of Banking, which must approve the merger of First Star into ESSA Bancorp as well as First Star Bank into ESSA Bank, and the FDIC, which must approve the merger of First Star Bank into ESSA Bank. As part of the regulatory approvals being requested, and as a condition to closing the merger, ESSA Bancorp and ESSA Bank are seeking approval for ESSA Bank to distribute \$25.0 million to ESSA Bancorp to provide the cash merger consideration and pay off all outstanding First Star junior subordinated debentures. ESSA Bancorp has filed the applications necessary to obtain these regulatory approvals. The merger cannot be completed without such approval. ESSA Bancorp cannot assure that it will obtain the required regulatory approvals, when they will be received, or whether there will be conditions in the approvals or any litigation challenging the approvals. ESSA Bancorp also cannot assure that the United States Department of Justice or any state attorney general will not attempt to challenge the merger on antitrust grounds, or what the outcome will be if such a challenge is made.

ESSA Bancorp is not aware of any material governmental approvals or actions that are required prior to the merger other than those described below. ESSA Bancorp presently contemplates that it will seek any additional governmental approvals or actions that may be required in addition to those requests for approval currently pending; however, ESSA Bancorp cannot assure that it will obtain any such additional approvals or actions.

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### **No Solicitation**

Until the merger is completed or the merger agreement is terminated, First Star has agreed that it, and its subsidiaries, officers, employees, directors and representatives will not:

initiate, solicit, induce or knowingly encourage any inquiries, offers or proposals to acquire First Star;

participate in any discussions or negotiations regarding any proposal to acquire First Star, or furnish, or otherwise afford access, to any person any information or data with respect to First Star or otherwise relating to an acquisition proposal;

release any person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which First Star is a party; or

enter into any agreement, agreement in principle, or letter of intent with respect to any proposal to acquire First Star, or approve or resolve to approve an acquisition proposal.

First Star may, however, furnish information regarding First Star to, or enter into and engage in discussion with, any person or entity in response to a bona fide unsolicited written proposal by the person or entity relating to an acquisition proposal if:

First Star's board of directors determines in good faith, after consultation with and having considered the advice of its outside legal counsel and its independent financial advisor, that such proposal constitutes or is reasonably likely to lead to a proposal that is superior to the ESSA Bancorp merger from a financial point-of-view for First Star's shareholders;

First Star notifies ESSA Bancorp within at least one (1) business day prior to such determination; and

First Star receives a confidentiality agreement from a third party with terms no less favorable to First Star than the existing confidentiality agreement between First Star and ESSA Bancorp.

### **Termination; Amendment; Waiver**

The merger agreement may be terminated prior to the closing, before or after adoption by First Star's shareholders, as follows:

by mutual written agreement of ESSA Bancorp and First Star;

by either ESSA Bancorp or First Star if the merger has not occurred on or before September 30, 2012, and such failure to close is not due to the terminating party's material breach of any representation, warranty, covenant or other agreement contained in the merger agreement;

by ESSA Bancorp or First Star if First Star shareholders do not adopt the merger agreement and merger;

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by the board of directors of a non-breaching party if the other party (1) breaches any covenants or agreements contained in the merger agreement or (2) breaches any representations or warranties contained in the merger agreement, in each case if such breach by its nature cannot be cured by September 30, 2012 or has not been cured within thirty days after notice from the terminating party and which breach would cause the failure of conditions to the terminating party's obligation to close (provided that the terminating party is not then in material breach of the merger agreement);

by ESSA Bancorp if First Star delinquent loans equal or exceed \$19.3 million as of any month end prior to the closing date of the merger, and or if from the period commencing October 1, 2011 and through the closing date, the First Star investment portfolio realizes cumulative net losses from either (i) securities sales, or (ii) other than temporary impairment write-downs, which in the aggregate exceed \$4.25 million as of any month end prior to the closing date;

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by either party if any required regulatory approvals for consummation of the merger are not obtained;

by either party if the shareholders of First Star do not approve the merger;

by ESSA Bancorp if First Star shall have received a superior proposal and the First Star board of directors enters into an acquisition agreement with respect to a superior proposal and terminated the merger agreement or failed to recommend that the shareholders of First Star adopt the merger agreement or has withdrawn, modified or changed such recommendation in a manner which is adverse to ESSA Bancorp; or

by First Star in order to accept a superior proposal, which has been received and considered by First Star in compliance with the applicable terms of the merger agreement.

Under the latter two scenarios described above, if the merger agreement is terminated, First Star shall pay to ESSA Bancorp a fee of \$875,000. This fee would also be payable to ESSA Bancorp if First Star enters into a merger agreement with a third party within twelve months of the termination of the merger agreement by ESSA Bancorp, if the termination was due to a willful breach of a representation, warranty, covenant or agreement by First Star or the failure of the shareholders of First Star to approve the merger agreement after the public disclosure or public awareness that First Star received a third party acquisition proposal.

Additionally, First Star may terminate the merger agreement if, at any time during the three-day period commencing on the first date on which all bank regulatory approvals (and waivers, if applicable) necessary for consummation of the merger have been received (disregarding any waiting period), such termination to be effective tenth day following such determination date if the average of the daily closing price of ESSA Bancorp common stock as reported on the Nasdaq for the thirty trading days immediately preceding the first date when all regulatory approvals for the merger have been received is less than \$8.14.

If First Star elects to exercise its termination right as described above, it must give prompt written notice thereof to ESSA Bancorp. During the five-business day period commencing with its receipt of such notice, ESSA Bancorp shall have the option to increase the consideration to be received by the holders of First Star common stock and preferred stock such that the aggregate merger consideration to be received by holders of First Star common stock and preferred stock shall be \$21.11 million, in the form of ESSA common stock, cash or a combination thereof, at the discretion of ESSA.

The merger agreement may be amended by the parties at any time before or after adoption of the merger agreement by the First Star shareholders. However, after such adoption, no amendment may be made without their approval if it reduces the amount, value or changes the form of consideration to be delivered to First Star's shareholders.

The parties may waive any of their conditions to closing, unless they may not be waived under law.



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### **Fees and Expenses**

ESSA Bancorp and First Star will each pay its own costs and expenses in connection with the merger agreement and the transactions contemplated thereby except as described above.

### **Material United States Federal Income Tax Consequences of the Merger**

**General.** The following summary discusses the material anticipated U.S. federal income tax consequences of the merger applicable to a holder of shares of First Star common stock and preferred stock who surrenders all of the shareholder's common and preferred stock for shares of ESSA Bancorp common stock and/or cash in the merger. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), Treasury Regulations, judicial authorities, published positions of the Internal Revenue Service (IRS), and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect). This discussion is limited to U.S. residents and citizens who hold their shares as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This discussion does not address all aspects of United States federal income taxation that may be relevant to First Star shareholders in light of their particular circumstances. This discussion also does not address aspects of United States federal income taxation that may be applicable to First Star shareholders subject to special treatment under the Internal Revenue Code (including, among others, tax-exempt organizations, dealers in securities or foreign currencies, traders in securities that elect to use a mark-to-market method of accounting, banks, insurance companies, financial institutions or persons who hold their shares of First Star common stock and preferred stock as part of a hedge, straddle, constructive sale or conversion transaction, persons whose functional currency is not the U.S. dollar, persons that are, or hold their shares of First Star common stock and preferred stock through, partnerships or other pass-through entities, persons who acquired their shares of First Star common stock and preferred stock through the exercise of an employee stock option or otherwise as compensation, First Star directors, officers, employees and other persons that hold options to acquire First Star common stock or preferred stock, and First Star shareholders who are not United States persons as defined in section 7701(a)(30) of the Internal Revenue Code). This discussion also does not apply to any First Star shareholder with respect to First Star preferred shares that constitute section 306 stock within the meaning of section 306 of the Internal Revenue Code.

First Star shareholders are urged to consult their tax advisors as to the U.S. federal income tax consequences of the merger, as well as the effects of state, local, non-U.S. tax laws and U.S. tax laws other than income tax laws.

**Opinion Conditions.** It is a condition to the obligations of ESSA Bancorp and First Star that ESSA Bancorp receive an opinion from Luse Gorman Pomerenk & Schick and that First Star receive an opinion from Stradley Ronon Stevens & Young, LLP, each dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of ESSA Bancorp and First Star) which are consistent with the state of facts existing as of the effective date of the merger, the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code. ESSA Bancorp and First Star both expect to be able to obtain the tax opinions if, as expected:

ESSA Bancorp and First Star are able to deliver certain representations to ESSA Bancorp's and First Star's respective tax counsel; and

there is no adverse change in U.S. federal income tax law.

Although the merger agreement allows both ESSA Bancorp and First Star to waive the condition that tax opinions be delivered by Luse Gorman Pomerenk & Schick and Stradley Ronon Stevens & Young, LLP, neither party currently anticipates doing so. However, if this condition were waived, First Star would re-solicit the approval of its shareholders before completing the merger.

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In addition, in connection with the filing of the registration statement of which this proxy statement/prospectus forms a part, Luse Gorman Pomerenk & Schick has delivered its opinion to ESSA Bancorp, dated as of the date of this proxy statement/prospectus, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. A form of the Luse Gorman Pomerenk & Schick opinion has been filed as Exhibit 8.1 to the registration statement. Such opinion has been rendered on the basis of facts, representations and assumptions set forth or referred to in such opinion and factual representations contained in certificates of officers of ESSA Bancorp and First Star, all of which must continue to be true and accurate in all material respects as of the effective time of the merger.

The tax opinions to be delivered in connection with the merger are not binding on the IRS or the courts, and neither ESSA Bancorp nor First Star intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. If any of the representations or assumptions upon which the opinion is based are inconsistent with the actual facts, the tax consequences of the merger could be adversely affected. The determination by tax counsel as to whether the proposed merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code will depend upon the facts and law existing at the effective time of the proposed merger. The following discussion assumes that the merger will constitute a reorganization for U.S. federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code.

**Exchange Solely for ESSA Bancorp Common Stock.** No gain or loss will be recognized by a First Star shareholder who receives solely shares of ESSA Bancorp common stock (except for cash received in lieu of fractional shares as discussed below) in exchange for all of his or her shares of First Star common stock and preferred stock. The tax basis of the shares of ESSA Bancorp common stock received by a First Star shareholder in such exchange will be equal (except for the basis attributable to any fractional shares of ESSA Bancorp common stock, as discussed below) to the basis of the First Star common stock and preferred stock surrendered in exchange for the ESSA Bancorp common stock. The holding period of the ESSA Bancorp common stock will include the holding period of the shares of First Star common stock and preferred stock surrendered. If a First Star shareholder has more than one basis or holding period in respect of his or her shares of First Star common stock or preferred stock, such shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of ESSA Bancorp common stock received in the exchange.

**Exchange Solely for Cash.** A First Star shareholder who receives solely cash in exchange for all of his or her shares of First Star common stock and preferred stock (and is not treated as constructively owning ESSA Bancorp common stock after the merger under the circumstances referred to below under Possible Dividend Treatment ) or who exercises dissenters' rights with respect to their shares of First Star common stock or preferred stock in connection with the merger, will recognize gain or loss for federal income tax purposes equal to the difference between the amount of cash received and such shareholder's tax basis in the First Star common stock and preferred stock surrendered in exchange for the cash. Such gain or loss will be a capital gain or loss provided that such shares were held as capital assets of the First Star shareholder at the effective time of the merger. Such gain or loss will be long-term capital gain or loss if the First Star shareholder's holding period is more than one year. The Internal Revenue Code contains limitations on the extent to which a taxpayer may deduct capital losses from ordinary income.

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**Exchange for ESSA Bancorp Common Stock and Cash.** A First Star shareholder who receives a combination of ESSA Bancorp common stock and cash in exchange for his or her First Star common stock and preferred stock will recognize gain, if any (but not loss), equal to the lesser of (1) the amount of cash received or (2) the amount of gain realized in the transaction. The amount of gain a First Star shareholder realizes will equal the amount by which (a) the cash plus the fair market value at the effective time of the merger of ESSA Bancorp common stock received exceeds (b) the shareholder's basis in the First Star common stock and preferred stock to be surrendered in the exchange. Any recognized gain generally will be long-term capital gain if the First Star shareholder's holding period with respect to the First Star common stock and preferred stock surrendered is more than one year. If, however, the cash received has the effect of the distribution of a dividend (see discussion below), the cash received will be treated as a dividend; however, the amount of the cash payment that may be treated as a dividend is limited to the shareholder's ratable share of the accumulated earnings and profits of First Star at the effective time of the merger. The tax basis of the shares of ESSA Bancorp common stock received by such First Star shareholder will be the same as the basis of the shares of First Star common stock and preferred stock surrendered in exchange for the shares of ESSA Bancorp common stock, plus any gain recognized by such shareholder in the merger, and minus any cash received by the shareholder in the merger. If a First Star shareholder has more than one basis or holding period in respect of his or her shares of First Star common stock or preferred stock, such shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of ESSA Bancorp common stock received in the exchange. The holding period for shares of ESSA Bancorp common stock received by such First Star shareholder will include such shareholder's holding period for the First Star common stock and preferred stock surrendered in exchange for the ESSA Bancorp common stock, provided that such shares were held as capital assets of the shareholder at the effective time of the merger.

A First Star shareholder's federal income tax consequences will also depend on whether his or her shares of First Star common stock and preferred stock were purchased at different times at different prices. If they were, the First Star shareholder could realize gain with respect to some of the shares of First Star common stock and preferred stock and loss with respect to other shares. Any loss realized on one block of shares may not be used to offset gain realized on another block of shares. Any disallowed loss would be included in the adjusted basis of the ESSA Bancorp common stock. Such a First Star shareholder is urged to consult his or her own tax advisor respecting the tax consequences of the merger to that shareholder.

**Possible Dividend Treatment.** In certain circumstances, a First Star shareholder who receives solely cash or a combination of cash and ESSA Bancorp common stock in the merger may receive ordinary income, rather than capital gain, treatment on all or a portion of the gain recognized by that shareholder if the receipt of cash has the effect of the distribution of a dividend. The determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the First Star shareholder's deemed percentage stock ownership of ESSA Bancorp. For purposes of this determination, First Star shareholders will be treated as if they first exchanged all of their shares of First Star common stock and preferred stock solely for ESSA Bancorp common stock and then ESSA Bancorp immediately redeemed (the deemed redemption) a portion of the ESSA Bancorp common stock in exchange for the cash actually received. The gain recognized in the exchange followed by a deemed redemption will be treated as capital gain if (i) the deemed redemption is substantially disproportionate with respect to the First Star shareholder (and the shareholder actually or constructively owns after the deemed redemption less than 50% of voting power of the outstanding ESSA Bancorp common stock) or (ii) the deemed redemption is not essentially equivalent to a dividend. The deemed redemption generally will be substantially disproportionate with respect to a First Star shareholder if the percentage described in (b) below is less than 80% of the percentage described in (a) below. In general, the determination requires a comparison of (a) the percentage of the outstanding stock of ESSA Bancorp that the shareholder is

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deemed actually and constructively to have owned immediately before the deemed redemption and (b) the percentage of the outstanding stock of ESSA Bancorp that is actually and constructively owned by the shareholder immediately after the deemed redemption. In applying the above tests, a First Star shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by the shareholder. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a First Star shareholder will depend upon the shareholder's particular circumstances. In order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must generally result in a meaningful reduction in the shareholder's deemed percentage stock ownership of ESSA Bancorp. The IRS has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction if the shareholder has a relatively minor reduction in such shareholder's percentage stock ownership under the above analysis.

The amount of the cash payment that may be treated as a dividend is limited to the shareholder's ratable share of the accumulated earnings and profits of First Star at the effective time of the merger. Any gain that is not treated as a dividend will be taxed as a capital gain, provided that the shareholder's shares were held as capital assets at the effective time of the merger. Because the determination of whether a cash payment will be treated as having the effect of a dividend depends primarily upon the facts and circumstances of each First Star shareholder, shareholders are urged to consult their own tax advisors regarding the tax treatment of any cash received in the merger. The maximum federal income tax rate applicable to dividends is 15% for 2012.

**Cash in Lieu of Fractional Shares.** Administrative precedent regarding cash paid in lieu of fractional shares in a reorganization where the cash paid represents merely a mechanical rounding of fractions in the exchange and not separately bargained for consideration, permits shareholders who receive both stock and cash to treat the exchange as if they received all stock in the tax free reorganization and then redeemed the fractional shares in a separate redemption transaction. Accordingly, subject to the special provisions and limitations of Section 302 of the Code, cash received by a First Star shareholder instead of a fractional interest in ESSA Bancorp common stock generally will be treated as received in exchange for the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the shareholder's aggregate adjusted tax basis in First Star common stock and preferred stock surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for First Star common stock and preferred stock is more than one year.

**Backup Withholding.** The receipt of cash by a First Star shareholder in exchange for surrendering shares of First Star common stock and preferred stock could result in the shareholder being subject to backup withholding at a rate of 28% if the shareholder is a non-corporate United States person and (i) fails to provide an accurate taxpayer identification number; (ii) is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or (iii) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder's United States federal income tax liability provided that the shareholder furnishes the required information to the IRS.

**Tax Treatment of the Entities.** No gain or loss is expected to be recognized by ESSA Bancorp or First Star as a result of the merger.

**Limitations on Net Operating Loss Carryforwards.**

Subject to special rules that may apply to banks and to certain losses incurred in a tax year ending between December 31, 2007 and January 1, 2010, net operating losses can generally be carried back two

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(2) years and carried forward to each of the twenty (20) years succeeding the loss year to offset taxable income. However, the amount of taxable income that may be offset may be subject to a Section 382 limitation ( Section 382 limitation ) if, as of any testing date, there is an ownership change of more than 50 percent during a 3-year lookback period. The merger will result in an ownership change in the case of First Star. The Section 382 limitation generally would equal the aggregate fair market value of First Star's stock on the testing date multiplied by the long term tax-exempt rate for ownership changes during the month in which the change of ownership occurs, with certain adjustments. In addition, the Section 382 limitation could also apply to ESSA Bancorp if the merger, along with other ownership changes of ESSA Bancorp, result in a more than 50% ownership change during the 3-year look-back period. Whether any such Section 382 limitation would be material depends on the existence of any net operating losses and other facts on the date of the merger.

## **Accounting Treatment**

In accordance with current accounting guidance, the merger will be accounted for using the purchase method. The result of this is that the recorded assets and liabilities of ESSA Bancorp will be carried forward at their recorded amounts, the historical operating results will be unchanged for the prior periods being reported on and that the assets and liabilities of First Star will be adjusted to fair value at the date of the merger. In addition, all identified intangibles will be recorded at fair value and included as part of the net assets acquired. To the extent that the purchase price, consisting of cash plus the number of shares of ESSA Bancorp common stock to be issued to former First Star shareholders at fair value, exceeds the fair value of the net assets including identifiable intangibles of First Star at the merger date, that amount will be reported as goodwill. In accordance with current accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually. Identified intangibles will be amortized over their estimated lives. Further, the purchase accounting method results in the operating results of First Star being included in the consolidated income of ESSA Bancorp beginning from the date of consummation of the merger.

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**Stock Trading and Dividend Information**

First Star common stock is currently trade on the Over-the-Counter Market under the symbol FSSB. The following table sets forth the high and low trading prices for shares of First Star common stock. As of \_\_\_\_\_, 2012, there were \_\_\_\_\_ shares of First Star common stock issued and outstanding. First Star has not paid a cash dividend.

<b>Year Ending December 31, 2012</b>	<b>High</b>	<b>Low</b>
First quarter (through March 6, 2012)	\$ 11.50	\$ 10.00

<b>Year Ended December 31, 2011</b>	<b>High</b>	<b>Low</b>
Fourth quarter	\$ 10.55	\$ 4.65
Third quarter	5.25	4.15
Second quarter	5.20	4.86
First quarter	5.20	4.75

<b>Year Ended December 31, 2010</b>	<b>High</b>	<b>Low</b>
Fourth quarter	\$ 6.50	\$ 4.50
Third quarter	6.75	6.05
Second quarter	9.00	6.00
First quarter	9.00	8.16

On December 21, 2011, the business day immediately preceding the public announcement of the merger, and on \_\_\_\_\_, 2012, the closing prices of First Star common stock as reported on the Over-the-Counter Market were \$6.00 per share and \$ \_\_\_\_\_ per share, respectively.

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**COMPARISON OF SHAREHOLDERS RIGHTS**

**General**

Both ESSA Bancorp and First Star Bancorp are incorporated under the laws of the Commonwealth of Pennsylvania. As a result of the merger, First Star shareholders will become shareholders of ESSA Bancorp. Thus, following the merger, the rights of First Star shareholders who become ESSA Bancorp shareholders in the merger will continue to be governed by the laws of the Commonwealth of Pennsylvania. However, the rights of First Star shareholders who become ESSA Bancorp shareholders will now be governed by the ESSA Bancorp articles of incorporation and the ESSA Bancorp bylaws. The ESSA Bancorp articles of incorporation and bylaws will be unaltered by the merger.

**Comparison of Shareholders Rights**

Set forth on the following page is a summary comparison of material differences between the rights of a ESSA Bancorp shareholder under the ESSA Bancorp articles of incorporation and ESSA Bancorp bylaws (right column) and the rights of a shareholder under the First Star articles of incorporation and First Star bylaws (left column). The summary set forth below is not intended to provide a comprehensive summary of each company's governing documents. This summary is qualified in its entirety by reference to the full text of the ESSA Bancorp articles of incorporation and ESSA Bancorp bylaws, and the First Star articles of incorporation and First Star bylaws. Copies of the governing corporate instruments delivered, are available, without charge, to any person, including any beneficial owner to whom this document is delivered, by following the instructions listed under "Where You Can Find More Information" on page (ii).

**FIRST STAR BANCORP, INC.**

**ESSA BANCORP, INC.**

**CAPITAL STOCK**

**Authorized Capital**

10 million shares of common stock, par value \$1.00 per share, 2,500,000 million shares of preferred stock, no par value per share. As of December 31, 2011, there were 1,183,438 shares of First Star common stock issued and outstanding and 576,398 shares of preferred stock issued and outstanding.

*Preferred Stock.* First Star's articles of incorporation authorize the board of directors, without further shareholder action, to issue up to 2,500,000 million shares of preferred stock, in one or more series, and determine by resolution any designations, preferences, qualifications, privileges, limitations, restrictions or special or relative rights of additional series. The rights of preferred shareholders may supersede the rights of common shareholders.

40 million shares of common stock, par value \$0.01 per share, 10 million shares of preferred stock, par value \$0.01 per share. As of December 31, 2011, there were 16,980,900 shares of ESSA Bancorp common stock issued and 12,109,622 outstanding and no shares of preferred stock issued and outstanding.

*Preferred Stock.* ESSA Bancorp's articles of incorporation authorizes the board of directors, without further shareholder action, to issue up to 10 million shares of preferred stock, in one or more series, and determine by resolution any designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights or special or relative rights of additional series. The rights of preferred shareholders may supersede the rights of common shareholders.

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**Limitation on Voting Rights**

First Star's articles of incorporation and bylaws do not have a special provision relating to a limitation on voting by holders of First Star's common stock.

ESSA Bancorp's articles of incorporation provide that in no event shall any record owner of any outstanding common stock which is beneficially owned, by a person who beneficially owns in excess of 10% of the then outstanding shares of common stock, be entitled or permitted to any vote in respect of the shares held in excess of the 10%.

**Amendment of Articles of Incorporation and Bylaws**

*Articles of Incorporation.* First Star's articles of incorporation provide that no amendment of the articles of incorporation shall be made unless approved by the majority of the directors then in office, and thereafter approved by either a majority or sixty-six and two-thirds percent (66 2/3%) of the shares of First Star entitled to vote depending on the article being amended.

*Articles of Incorporation.* ESSA Bancorp's articles of incorporation provide that no amendment of the articles of incorporation shall be made unless approved by the majority of the directors then in office, and thereafter approved by either the holders of a majority or eighty percent (80%) of the shares entitled to vote depending on the article being amended.

*Bylaws.* First Star's bylaws provide that no amendment of the bylaws shall be made unless approved by the majority of the board of directors then in office or by either a majority vote or sixty-six and two-thirds percent (66 2/3%) of the shares entitled to vote depending on the article section/article being amended.

*Bylaws.* ESSA Bancorp's bylaws provide that no amendment of the bylaws shall be made unless approved by the majority of the directors then in office or approved by eighty percent (80%) of the shares entitled to vote.

**BOARD OF DIRECTORS**

**Number of Directors**

Such number as is fixed by the board of directors from time to time. ESSA Bancorp currently has 10 directors and First Star has 5 directors.

**Qualification of Directors**

First Star's articles of incorporation and bylaws do not have special provisions relating to the specific qualifications of directors, except that persons need not be stockholders of First Star or residents of the Commonwealth of Pennsylvania in order to be appointed or elected to First Star's Board of Directors.

ESSA Bancorp's bylaws provide that no person shall be appointed or elected unless that person owns at least 1,000 shares of ESSA Bancorp's common stock and works or resides, at the time of appointment/election, in a county in which ESSA Bank maintains an office or in a county contiguous to a county in which ESSA Bank maintains an office.



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**Removal of Directors**

First Star's articles of incorporation provides that directors may be removed from office only for cause by an affirmative vote of not less than a majority of the total votes eligible to be cast by stockholders. At least 30 days prior to the meeting of stockholders, written notice must be sent to the director whose removal will be considered at the meeting.

ESSA Bancorp's articles of incorporation provides that directors may be removed from office only for cause by an affirmative vote of not less than sixty percent (60%) of the total votes eligible to be cast by shareholders at a shareholder meeting.

**Nomination of Directors**

Nominations of candidates for election as directors at any annual meeting of stockholders may be made by a majority of the board of directors or any stockholder entitled to vote at such meeting. Nominations, other than those made by the board of directors, shall be made pursuant to timely notice in writing to the Secretary of First Star, not less than 60 days prior to the anniversary date of the immediately preceding annual meeting of stockholders.

Nominations of candidates for election as directors at any annual meeting of stockholders may be made by a majority of the board of directors or any stockholder entitled to vote at such meeting. Nominations, other than those made by the board of directors, shall be made pursuant to timely notice in writing to the Secretary of ESSA Bancorp, not less than 120 days prior to the anniversary date of the proxy statement or a notice of the meeting by ESSA Bancorp in connection with the immediately preceding annual meeting of shareholders of ESSA Bancorp.

**Special Meetings of Shareholders**

Special meetings of shareholders may be called by the board of directors pursuant to a resolution approved by a majority of the directors in office, the chairman of the board, or the president.

Special meetings of shareholders may be called only by the board of directors pursuant to a resolution approved by a majority of the directors then in office.

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**DESCRIPTION OF CAPITAL STOCK OF ESSA BANCORP, INC.**

**General**

ESSA Bancorp is authorized to issue 40,000,000 shares of common stock, par value of \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. At December 31, 2011, there were 16,980,900 shares of ESSA Bancorp common stock issued and 12,109,622 outstanding. ESSA Bancorp has no outstanding shares of preferred stock. Each share of ESSA Bancorp common stock has the same relative rights as, and is identical in all respects to, each other share of common stock.

The shares of common stock of ESSA Bancorp represent nonwithdrawable capital, are not an account of an insurable type, and are not insured by the FDIC or any other government agency.

**Common Stock**

**Dividends.** ESSA Bancorp may pay dividends out of statutory surplus or from net earnings if, as and when declared by its Board of Directors. The payment of dividends by ESSA Bancorp is subject to limitations that are imposed by law and applicable regulation. The holders of common stock of ESSA Bancorp will be entitled to receive and share equally in dividends as may be declared by the Board of Directors of ESSA Bancorp out of funds legally available therefor. If ESSA Bancorp issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

**Voting Rights.** The holders of common stock of ESSA Bancorp have exclusive voting rights in ESSA Bancorp. They elect ESSA Bancorp's Board of Directors and act on other matters as are required to be presented to them under Pennsylvania law or as are otherwise presented to them by the Board of Directors. Generally, each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. Any person who beneficially owns more than 10% of the then-outstanding shares of ESSA Bancorp's common stock, however, is not entitled or permitted to vote any shares of common stock held in excess of the 10% limit. If ESSA Bancorp issues shares of preferred stock, holders of the preferred stock may also possess voting rights.

As a Pennsylvania stock savings association, corporate powers and control of ESSA Bank are vested in its Board of Directors, who elect the officers of ESSA Bank and who fill any vacancies on the Board of Directors. Voting rights of ESSA Bank are vested exclusively in the owners of the shares of capital stock of ESSA Bank, which is ESSA Bancorp, and voted at the direction of ESSA Bancorp's Board of Directors. Consequently, the holders of the common stock of ESSA Bancorp do not have direct control of ESSA Bank.

**Liquidation.** In the event of any liquidation, dissolution or winding up of ESSA Bank, ESSA Bancorp, as the holder of 100% of ESSA Bank's capital stock, would be entitled to receive all assets of ESSA Bank available for distribution, after payment or provision for payment of all debts and liabilities of ESSA Bank, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account to eligible account holders and supplemental eligible account holders. In the event of liquidation, dissolution or winding up of ESSA Bancorp, the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of ESSA Bancorp available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

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**Preemptive Rights.** Holders of the common stock of ESSA Bancorp will not be entitled to preemptive rights with respect to any shares that may be issued. The common stock is not subject to redemption.

### **Preferred Stock**

None of the shares of ESSA Bancorp's authorized preferred stock are outstanding. Preferred stock may be issued with preferences and designations as our Board of Directors may from time to time determine. Our Board of Directors may, without stockholder approval, issue shares of preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

## **CERTAIN PROVISIONS OF THE ESSA BANCORP, INC. ARTICLES OF INCORPORATION AND BYLAWS**

The following discussion is a general summary of the material provisions of ESSA Bancorp's articles of incorporation and bylaws, ESSA Bank's charter and bylaws and certain other statutory and regulatory provisions that may be deemed to have an anti-takeover effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in ESSA Bancorp's articles of incorporation and bylaws and ESSA Bank's charter and bylaws, reference should be made in each case to the document in question. See [Where You Can Find More Information](#) as to how to review a copy of these documents.

### **ESSA Bancorp's Articles of Incorporation and Bylaws**

ESSA Bancorp's articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of stockholders that might discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the Board of Directors or management of ESSA Bancorp more difficult.

The following description is a summary of the provisions of the articles of incorporation and bylaws. See [Where You Can Find More Information](#) as to how to review a copy of these documents.

**Directors.** The Board of Directors is divided into three classes. Only one class of directors is elected annually. Thus, it would take at least two annual elections to replace a majority of ESSA Bancorp's Board of Directors. Further, the articles of incorporation authorize the Board of Directors to fill any vacancies so created, including any vacancy created by an increase in the number of directors, by a majority vote of directors then in office. The bylaws impose notice, informational and other requirements and conditions in connection with the nomination by stockholders of candidates for election to the Board of Directors or the proposal by stockholders of business to be acted upon at an annual meeting of stockholders.

Any person appointed or elected to ESSA Bancorp's Board of Directors shall own, or within a reasonable time following such appointment or election shall acquire, at least 1,000 shares of the ESSA Bancorp's common stock. In addition, at the time of initial appointment/election, such person must reside, or work, in a county in which ESSA Bank maintains an office or in a county contiguous to a county in which ESSA Bank maintains an office.

**Restrictions on Call of Special Meetings.** The articles of incorporation provide that special meetings of stockholders can only be called by the board of directors pursuant to a resolution approved by a majority of the directors then in office. The articles of incorporation and the bylaws do not provide for stockholder ability to call a special meeting.

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***Prohibition of Cumulative Voting.*** The articles of incorporation prohibit cumulative voting for the election of Directors.

***Limitation of Voting Rights.*** The articles of incorporation provide that in no event will any person who beneficially owns, directly or indirectly, more than 10% of the then-outstanding shares of common stock, be entitled or permitted to vote any of the shares of common stock held in excess of the 10% limit.

***Restrictions on Removing Directors from Office.*** The articles of incorporation provide that directors can be removed from office for cause if the removal is approved by the vote of stockholders owning not less than 60% of the total votes eligible to be cast by stockholders at a duly constituted meeting (after giving effect to the limitation on voting rights discussed above in [Limitation of Voting Rights](#) ).

***Authorized but Unissued Shares.*** ESSA Bancorp has authorized but unissued shares of common and preferred stock. See [Description of Capital Stock of ESSA Bancorp, Inc.](#) The articles of incorporation authorize 40,000,000 shares of common stock and 10,000,000 shares of serial preferred stock. The Board of Directors of ESSA Bancorp may amend the articles of incorporation, without action by the stockholders, to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that ESSA Bancorp has authority to issue. In addition, the Board of Directors of ESSA Bancorp is authorized, without further approval of the stockholders, to issue additional shares of common or preferred stock and to classify or reclassify any unissued shares of stock (including common stock and preferred stock) from time to time into one or more classes or series subject to applicable provisions of law, and the Board of Directors is authorized to fix by setting or changing the designations, and the relative preferences, conversion or other rights including offering rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series, voting rights, if any, including without limitation, offering rights of such shares (which could be multiple or as a separate class). In the event of a proposed merger, tender offer or other attempt to gain control of ESSA Bancorp that the Board of Directors does not approve, it might be possible for the Board of Directors to authorize the issuance of common stock or a series of preferred stock with rights and preferences that would impede the completion of the transaction. An effect of the possible issuance of common or preferred stock therefore may be to deter a future attempt to gain control of ESSA Bancorp. The Board of Directors has no present plan or understanding to issue any preferred stock.

***Amendments to Articles of Incorporation and Bylaws.*** Pennsylvania law provides that, subject to limited exceptions, the amendment or repeal of any provision of our articles of incorporation requires the approval of a majority of votes cast by all stockholders entitled to vote on the matter (after giving effect to the limitation on voting rights discussed above in [Limitation of Voting Rights](#) ). Our articles of incorporation, however, provide that amendments to certain provisions of our articles of incorporation require the approval of 80% of shares entitled to vote (after giving effect to the limitation on voting rights discussed above in [Limitation of Voting Rights](#) ). The provisions of our articles of incorporation that require approval of 80% shares entitled to vote relate to the limitation on voting rights, the authority of the Board of Directors to fix terms of preferred stock, the number, classification, terms, prohibition of cumulative voting, board vacancies, removal of directors, meetings of shareholders, liability of directors and officers and the amendment of the articles of incorporation and bylaws. Our articles of incorporation also provide that, in any event, the proposed amendment or repeal of any provision of our articles of incorporation must be approved by a majority of our Board of Directors then in office before it can be submitted for consideration at an annual or special meeting.

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The bylaws may be amended exclusively by the affirmative vote of a majority of the directors then in office or by the affirmative vote of at least 80% of the shares entitled to vote.

***Approval of Consolidations, Mergers, and Other Similar Transactions.*** Pennsylvania law provides that, subject to limited exceptions, consolidations, mergers and other similar transactions require the approval of a majority of the votes cast by shareholders eligible to vote.

**Pennsylvania General Corporate Law**

The Pennsylvania Business Corporation Law of 1988, as amended, also contains certain provisions applicable to ESSA Bancorp that may have the effect of deterring or discouraging an attempt to take control of ESSA Bancorp. These provisions, among other things:

Require that, following any acquisition by any person or group of 20% of a public corporation's voting power, the remaining shareholders have the right to receive payment for their shares, in cash, from such person or group in an amount equal to the fair value of the shares, including an increment representing a proportion of any value payable for control of the corporation (Subchapter 25E of the Business Corporation Law);

Prohibit for five years, subject to certain exceptions, a business combination (which includes a merger or consolidation of the corporation or a sale, lease or exchange of assets) with a person or group beneficially owning 20% or more of a public corporation's voting power (Subchapter 25F of the Business Corporation Law);

Prevent a person or group acquiring different levels of voting power (20%, 33% and 50%) from voting any shares over the applicable threshold, unless disinterested shareholders approve such voting rights (Subchapter 25G of the Business Corporation Law);

Require any person or group that publicly announces that it may acquire control of a corporation, or that acquires or publicly discloses an intent to acquire 20% or more of the voting power of a corporation, to disgorge to the corporation any profits that it receives from sales of the corporation's equity securities purchased over the prior 18 months (Subchapter 25H of the Business Corporation Law);

Expand the factors and groups (including shareholders) which a corporation's Board of Directors can consider in determining whether an action is in the best interests of the corporation;

Provide that a corporation's Board of Directors need not consider the interests of any particular group as dominant or controlling;

Provide that a corporation's directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof with respect to actions relating to an acquisition or potential acquisition of control;

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Provide that actions relating to acquisitions of control that are approved by a majority of disinterested directors are presumed to satisfy the directors' fiduciary duty, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and

Provide that the fiduciary duty of a corporation's directors is solely to the corporation and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

The Pennsylvania Business Corporation Law also explicitly provides that the fiduciary duty of directors does not require them to:

Redeem any rights under, or to modify or render inapplicable, any shareholder rights plan;

Render inapplicable, or make determinations under, provisions of the Pennsylvania Business Corporation Law relating to control transactions, business combinations, control-share acquisitions or disgorgement by certain controlling shareholders following attempts to acquire control; or

Act as the Board of Directors, a committee of the board or an individual director, solely because of the effect the action might have on an acquisition or potential acquisition of control of the corporation or the consideration that might be offered or paid to shareholders in such an acquisition.

One effect of these provisions may be to make it more difficult for a shareholder to successfully challenge the actions of ESSA Bancorp's Board of Directors in a potential change in control context. Pennsylvania case law appears to provide that the fiduciary duty standard under the Pennsylvania Business Corporation Law grants directors the statutory authority to reject or refuse to consider any potential or proposed acquisition of the corporation.

**EXPERTS**

The Consolidated Balance Sheet of ESSA Bancorp and subsidiary as of September 30, 2011 and 2010, and the related consolidated statements of income, comprehensive income and changes in stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2011, and the effectiveness of internal control over financial reporting as of September 30, 2011, included in our 2011 Annual Report on Form 10-K, as amended, for the year ended September 30, 2011, and incorporated by reference herein, have been incorporated by reference herein in reliance upon the reports of S.R. Snodgrass, A.C., independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

The audited consolidated financial statements of First Star and Subsidiaries including the balance sheet as of June 30, 2011 and 2010, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2011 have been included in this Prospectus and this registration statement in reliance upon the report of ParenteBeard LLC, independent auditors, and upon the authority of said firm as experts in accounting and auditing.

**LEGAL OPINIONS**

The validity of the common stock to be issued in the merger will be passed upon by Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., counsel to ESSA Bancorp. Luse Gorman Pomerenk & Schick, P.C. and Stradley Ronon Stevens & Young, LLP will deliver their opinions to ESSA Bancorp and First Star, respectively, as to certain United States federal income tax consequences of the merger. See The Merger and the Merger Agreement Material United States Federal Income Tax Consequences of the Merger.

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**ADJOURNMENT OF THE SPECIAL MEETING (Proposal 3)**

In the event that there are not sufficient votes to constitute a quorum or approve the adoption of the merger agreement at the time of the special meeting, the merger agreement may not be adopted unless the special meeting is adjourned to a later date or dates in order to permit further solicitation of proxies. In order to allow proxies that have been received by First Star at the time of the special meeting to be voted for an adjournment, if necessary, First Star has submitted the question of adjournment to its shareholders as a separate matter for their consideration. The board of directors of First Star unanimously recommends that shareholders vote FOR the adjournment proposal. If it is necessary to adjourn the special meeting, no notice of the adjourned special meeting is required to be given to shareholders (unless the adjournment is for more than 30 days or if a new record date is fixed), other than an announcement at the special meeting of the hour, date and place to which the special meeting is adjourned.

**CERTAIN BENEFICIAL OWNERS OF  
FIRST STAR BANCORP, INC. COMMON STOCK AND PREFERRED STOCK**

The following table sets forth, to the best knowledge and belief of First Star, certain information regarding the beneficial ownership of the First Star common stock and preferred stock as of March 30, 2012 by (i) each person known to First Star to be the beneficial owner of more than 5% of the outstanding First Star common stock and preferred stock, (ii) each director and certain named executive officers of First Star and (iii) all of First Star's directors and executive officers as a group.

**Security Ownership of Management**

Direct and indirect ownership of common stock and preferred stock by each of the directors, each of the Named Executive Officers and by all executive officers as a group is set forth in the following table as of March 30, 2012, together with the percentage of total shares outstanding represented by such ownership. For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Exchange Act, under which, in general, a person is deemed to be the beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of the security or the power to dispose or to direct the disposition of the security, or if he or she has the right to acquire the beneficial ownership of the security within 60 days.

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Name of Beneficial Owner	Common Stock	Preferred Stock A	Preferred Stock B	Total Shares Beneficially Owned	Percent of Stock Outstanding
<b>Directors:</b>					
Mark Parseghian, Jr.	6,134		5,930	12,064	1.01%
Tighe Scott	27,666	67,242	85,993	180,901	13.53%
Paul J. Sebastian	77,263	110,947	83,027	271,237	19.69%
Harold J. Suess		5,839		5,839	*
Joseph T. Svetik	98,734	137,223	74,131	310,088	22.23%
Stephen M. Szy	8,498	2,920		11,418	*
<b>Other Executive Officers:</b>					
Charles Siegfried					*
Charles D. Hangen					*
Ruth A. Doncsecz	7,750		5,930	13,680	1.15%
<b>All Directors and Executive Officers as a group (9 persons)</b>	<b>226,045</b>	<b>324,717</b>	<b>255,011</b>	<b>805,227</b>	<b>45.68%</b>

\* Less than 1% of the total shares of common stock outstanding

**Security Ownership of Certain Beneficial Owners**

The following sets forth certain information concerning each person known to First Star who may be considered a beneficial owner of more than 5% of the outstanding shares of First Star common stock and preferred stock as of March 30, 2012.

Name and Address of Beneficial Owner	Common Stock Ownership	Preferred A Stock Ownership	Preferred B Stock Ownership	Total Shares	Percent of Shares Outstanding*
Paul J. Sebastian	77,263	110,947	83,027	271,237	19.69
4502 South Mountain Drive Emmaus, PA 18049					
Joseph T. Svetik	98,734	137,223	74,131	310,088	22.23
3 Walden Way Chalfont, PA 18914					
Tighe J. Scott	27,666	67,242	85,993	180,901	13.53
1052 East Mountain Avenue Pen Argyl, PA 18072					
Neil A. Scott	47,242	43,794	85,993	177,029	13.48
203 Davey Avenue Pen Argyl, PA 18072					
First Star Bancorp, Inc.	301,796		62,270	364,066	29.23



Employee Stock

Ownership Plan

418 West Broad Street

Bethlehem, PA 18018

\* Based on [ ] shares of common and preferred stock outstanding at March 30, 2012.

**OTHER MATTERS**

As of the date of this document, the First Star board of directors knows of no matters that will be presented for consideration at its special meeting other than as described in this document. However, if any other matter shall properly come before this special meeting or any adjournment or postponement thereof and shall be voted upon, the proposed proxy will be deemed to confer authority to the individuals named as authorized therein to vote the shares represented by the proxy as to any matters that fall within the purposes set forth in the notice of special meeting. However, no proxy that is voted against the merger agreement will be voted in favor of any adjournment or postponement.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The Securities and Exchange Commission allows ESSA Bancorp to incorporate certain information into this document by reference to other information that has been filed with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this document, except for any information that is superseded by information in this document. The documents that are incorporated by reference contain important information about the companies and you should read this document together with any other documents incorporated by reference in this document.

This document incorporates by reference the following documents that have previously been filed with the Securities and Exchange Commission by ESSA Bancorp, Inc. (File No. 001-33384):

Annual Report on Form 10-K for the year ended September 30, 2011;

Quarterly Reports on Form 10-Q for the quarter ended December 31, 2011;

Current Reports on Form 8-K filed December 22, 2011, January 30, 2012, March 1, 2012, March 2, 2012, March 5, 2012 and March 6, 2012 (other than the portions of those documents not deemed to be filed) and;

The description of ESSA Bancorp common stock set forth in the registration statement on Form 8-A filed pursuant to Section 12 of the Securities Exchange Act, including any amendment or report filed with the Securities and Exchange Commission for the purpose of updating this description.

In addition, ESSA Bancorp is incorporating by reference any documents they may file under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended after the date of this document and prior to the date of the special meeting of First Star shareholders.

**Neither ESSA Bancorp nor First Star, Inc. has authorized anyone to give any information or make any representation about the merger or its companies that is different from, or in addition to, that contained in this document or in any of the materials that have been incorporated into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.**

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**FORWARD-LOOKING STATEMENTS**

This document, including information included or incorporated by reference in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, (i) the financial condition, results of operations and business of ESSA Bancorp and First Star; (ii) statements about the benefits of the merger, including future financial and operating results, cost savings, enhancements to revenue and accretion to reported earnings that may be realized from the merger; (iii) statements about our respective plans, objectives, expectations and intentions and other statements that are not historical facts; and (iv) other statements identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning. These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

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

general economic conditions in the areas in which ESSA Bancorp operates;

ESSA Bancorp's businesses may not be combined successfully, or such combination may take longer to accomplish than expected;

the growth opportunities and cost savings from the merger may not be fully realized or may take longer to realize than expected;

the risk that the merger agreement may be terminated in certain circumstances which would require First Star to pay ESSA Bancorp a termination fee of \$875,000;

operating costs, customer losses and business disruption following the merger, including adverse effects of relationships with employees, may be greater than expected;

governmental approvals of the merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger;

adverse governmental or regulatory policies may be enacted;

the interest rate environment may change, causing margins to compress and adversely affecting net interest income;

the risks associated with continued diversification of assets and adverse changes to credit quality;

competition from other financial services companies in our markets; and

the risk that the continuing economic slowdown could adversely affect credit quality and loan originations.



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Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in our respective reports filed with the Securities and Exchange Commission.

All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters attributable to either of us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements above. Neither of us undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

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**First Star Bancorp, Inc. and Subsidiaries**

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June 30, 2011 and 2010

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**Independent Auditors Report**

Board of Directors

First Star Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of First Star Bancorp, Inc. and Subsidiaries (the Company) as of June 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Star Bancorp, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Allentown, Pennsylvania

September 27, 2011

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**Table of Contents****First Star Bancorp, Inc. and Subsidiaries**

Consolidated Balance Sheet

(In Thousands, Except Share Data)

June 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Cash and due from banks	\$ 32,582	\$ 42,326
Interest-bearing deposits with banks	27,785	48,803
Cash and cash equivalents	60,367	91,129
Time deposits in other banks	6,321	6,667
Securities available-for-sale, at fair value	124,605	177,548
Loans receivable, net of allowance for loan losses 2011 \$2,466; 2010 \$2,471	209,179	206,597
Bank premises and equipment, net	2,955	2,218
Accrued interest receivable	1,161	1,367
Federal Home Loan Bank stock, at cost	11,897	13,876
Net deferred tax assets	8,702	9,510
Cash surrender value of life insurance	3,577	3,432
Foreclosed real estate	5,282	631
Prepaid FDIC premiums	2,594	3,352
Prepaid expenses and other assets	751	780
Total assets	\$ 437,391	\$ 517,107
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 327,232	\$ 333,935
Advances from borrowers for taxes and insurance	3,782	3,707
Accrued interest payable	447	676
Accrued expenses and other liabilities	1,393	1,405
Advances from Federal Home Loan Bank	67,003	140,279
Convertible subordinated debentures	1,460	1,460
Junior subordinated debentures	8,248	8,248
Total liabilities	409,565	489,710
<b>Stockholders Equity</b>		
Convertible preferred stock, no par value; authorized 2,500,000 shares; issued and outstanding 2011 and 2010 576,397 shares	4,275	4,275
Common stock, par value \$1 per share; authorized 10,000,000 shares; issued 2011 and 2010 1,183,438 shares	1,184	1,184
Surplus	12,914	12,914
Retained earnings	15,283	17,492
Accumulated other comprehensive loss	(5,023)	(7,661)
Unallocated common stock held by Employee Stock Ownership Plan (2011 and 2010 23,102 shares)	(423)	(423)
Treasury stock, at cost, 2011 and 2010 25,600 shares	(384)	(384)
Total stockholders equity	27,826	27,397



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Total liabilities and stockholders' equity

\$ 437,391      \$ 517,107

*See notes to consolidated financial statements*

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**Table of Contents****First Star Bancorp, Inc. and Subsidiaries**

Consolidated Statement of Operations

(In Thousands, Except per Share Data)

Years Ended June 30, 2011 and 2010

	2011	2010
<b>Interest Income</b>		
Loans receivable, including fees	\$ 11,588	\$ 11,670
Securities	4,459	9,406
Other	126	266
<b>Total interest income</b>	<b>16,173</b>	<b>21,342</b>
<b>Interest Expense</b>		
Deposits	4,217	6,202
Securities sold under agreement to repurchase		778
Advances from Federal Home Loan Bank	4,161	7,064
Junior subordinated debentures	870	870
Other	136	133
<b>Total interest expense</b>	<b>9,384</b>	<b>15,047</b>
<b>Net interest income</b>	<b>6,789</b>	<b>6,295</b>
<b>Provision for Loan Losses</b>		1,055
<b>Net interest income after provision for loan losses</b>	<b>6,789</b>	<b>5,240</b>
<b>Noninterest Income</b>		
Service fees:		
Loans	207	140
Deposits	269	286
Recognized gains (losses):		
Sales of loans held for sale	313	234
Sales of securities available-for-sale	11	4,172
Sales of foreclosed real estate	4	(219)
<b>Total other-than-temporary impairment losses</b>	<b>(6,555)</b>	<b>(9,858)</b>
Less portion of loss recognized in other comprehensive loss (before taxes)	3,172	3,500
<b>Net other-than-temporary impairment losses</b>	<b>(3,383)</b>	<b>(6,358)</b>
Other	303	282
<b>Total noninterest income</b>	<b>(2,276)</b>	<b>(1,463)</b>
<b>Noninterest Expenses</b>		
Salaries and employee benefits	4,151	4,032
Occupancy and equipment	807	779

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Data processing costs	298	321
Professional fees	276	299
Advertising	119	112
FDIC premiums	798	1,173
Other	1,199	1,058
<b>Total noninterest expenses</b>	<b>7,648</b>	<b>7,774</b>
Loss before income tax benefit	(3,135)	(3,997)
<b>Income Tax Benefit</b>	<b>(1,141)</b>	<b>(1,449)</b>
Net loss	(1,994)	(2,548)
<b>Dividends on Preferred Stock</b>	<b>(215)</b>	<b>(216)</b>
Net loss applicable to common stockholders	\$ (2,209)	\$ (2,764)

*See notes to consolidated financial statements*

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**Table of Contents****First Star Bancorp, Inc. and Subsidiaries**

Consolidated Statement of Stockholders Equity

(In Thousands, Except Share Data)

Years Ended June 30, 2011 and 2010

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unallocated Common Stock Held by ESOP	Treasury Stock	Total
<b>Balance, July 1, 2009</b>	\$ 4,275	\$ 1,184	\$ 12,914	\$ 20,256	\$ (11,444)	\$ (423)	\$ (384)	\$ 26,378
Comprehensive income:								
Net loss				(2,548)				(2,548)
Other comprehensive income					3,783			3,783
Total comprehensive income								1,235
Cash dividends on preferred stock				(216)				(216)
<b>Balance, June 30, 2010</b>	4,275	1,184	12,914	17,492	(7,661)	(423)	(384)	27,397
Comprehensive income:								
Net loss				(1,994)				(1,994)
Other comprehensive income					2,638			2,638
Total comprehensive income								644
Cash dividends on preferred stock				(215)				(215)
<b>Balance, June 30, 2011</b>	\$ 4,275	\$ 1,184	\$ 12,914	\$ 15,283	\$ (5,023)	\$ (423)	\$ (384)	\$ 27,826

*See notes to consolidated financial statements*

**Table of Contents****First Star Bancorp, Inc. and Subsidiaries**

## Consolidated Statement of Cash Flows

(In Thousands)

Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (1,994)	\$ (2,548)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan losses		1,055
Depreciation and amortization	181	184
(Gain) loss on sale of foreclosed real estate	(4)	79
Impairment charge on foreclosed real estate		140
Net recognized gains on sale of securities	(11)	(4,172)
Other-than-temporary impairment on securities	3,383	6,358
Gain on sale of loans	(313)	(234)
Proceeds from the sale of loans	11,128	14,428
Loans originated for sale	(10,815)	(14,194)
Net accretion of securities premiums and discounts	(1,311)	(1,842)
Deferred income taxes	(551)	(485)
Income on cash surrender value of life insurance	(145)	(169)
(Increase) decrease in assets:		
Accrued interest receivable	206	786
Prepaid FDIC premiums	758	(3,352)
Prepaid expenses and other assets	29	(66)
Increase (decrease) in liabilities:		
Accrued interest payable	(229)	(431)
Accrued expenses and other liabilities	(12)	(1,402)
Net cash provided by (used in) operating activities	300	(5,865)
<b>Cash Flows from Investing Activities</b>		
Purchases of securities available-for-sale	(531,283)	(363,145)
Proceeds from sales of securities available-for-sale	2,160	152,179
Proceeds from maturities and principal repayments of securities available-for-sale	584,002	326,932
Net decrease (increase) in time deposits with other banks	346	(2,082)
Net decrease in Federal Home Loan Bank stock	1,979	
Proceeds from the sale of foreclosed real estate	115	2,233
Net (increase) decrease in loans	(7,344)	11,306
Purchases of bank premises and equipment	(918)	(35)
Net cash provided by investing activities	49,057	127,388
<b>Cash Flows from Financing Activities</b>		
Net decrease in deposits	(6,703)	(21,677)
Net decrease in securities sold under agreements to repurchase		(25,000)
Repayment of Federal Home Loan Bank advances	(73,276)	(52,550)
Increase in advances from borrowers for taxes and insurance	75	102
Dividends paid	(215)	(234)

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Net cash used in financing activities	(80,119)	(99,359)
Net (decrease) increase in cash and cash equivalents	(30,762)	22,164
<b>Cash and Cash Equivalents, Beginning of Year</b>	91,129	68,965
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 60,367</b>	<b>\$ 91,129</b>

*See notes to consolidated financial statements*

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**First Star Bancorp, Inc. and Subsidiaries**

Consolidated Statement of Cash Flows

(In Thousands)

Years Ended June 30, 2011 and 2010

	2011	2010
<b>Supplementary Cash Flows Information</b>		
Interest expense paid	\$ 9,613	\$ 15,478
Income taxes paid	\$	\$ 250
<b>Supplementary Schedule of Noncash Investing and Financing Activities</b>		
Transfer of loans to foreclosed real estate	\$ 4,762	\$ 47
Transfer of held-to-maturity securities to available for sale	\$	\$ 181,530

*See notes to consolidated financial statements*

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### **First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### **1. Nature of Operations**

First Star Bancorp, Inc. (the Company) is the parent holding company and sole stockholder of First Star Bank (the Bank). The Bank is a Pennsylvania chartered stock savings bank which provides lending and depository services to the Lehigh Valley through its nine branch locations. The Bank is supervised and regulated by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC. The Company is supervised and regulated by the Federal Reserve Bank.

#### **2. Significant Accounting Policies**

##### **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of the Bank, Integrated Financial Corporation, and Integrated Delaware, Inc., wholly-owned subsidiaries of the Bank, and Integrated Abstract Incorporated, a wholly-owned subsidiary of Integrated Financial Corporation. Integrated Financial Corporation, a Pennsylvania Corporation, provides investment advisory services to the general public. Integrated Delaware, Inc. is a Delaware Investment Corporation. Integrated Abstract Incorporated, a Pennsylvania Corporation, provides title insurance services. All intercompany transactions and balances have been eliminated in consolidation.

##### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the determination of impairment of restricted Federal Home Loan Bank stock, the determination of other-than-temporary impairment on securities, and the valuation of deferred tax assets.

##### **Significant Group Concentrations of Credit Risk**

The Company grants loans to customers primarily located in the eastern part of the State of Pennsylvania. The concentration of credit by type of loan is set forth in Note 4. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank also has a concentration in private issue mortgage-backed securities and both rated and unrated trust preferred securities of financial institutions in their investment portfolio in Note 3. To the extent general economic conditions affect such securities, they may impact the credit quality of these investments. The Company does not have any significant concentrations in any one industry or customer.

##### **Presentation of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and interest bearing deposits with banks.



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**First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

**Securities**

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 or losses are reported in other comprehensive income, net of the related deferred tax effect. 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 terms of the securities.

Securities classified as held to maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. During the year ended June 30, 2010, the Company decided to change its intent to hold certain securities in the held to maturity portfolio until maturity. In accordance with existing accounting guidance, the remaining securities in the held to maturity portfolio were transferred to available-for-sale. The unrealized losses of \$3,415,000 in the held to maturity portfolio were recorded as a decrease in other comprehensive income, net of the related tax effect at June 30, 2010.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary impairments (OTTI) are reflected in earnings as realized losses. In estimating OTTI under the rules for accounting for certain debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

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### **First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### **Investment in Restricted Stock, at Cost**

As a member of the Federal Home Loan Bank of Pittsburgh ( FHLB ), the Company is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity, and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008. During 2011, the FHLB of Pittsburgh conducted a limited excess capital stock repurchase based upon positive net income results.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB s long-term performance, which includes factors such as the following:

Its operating performance;

The severity and duration of declines in the fair value of its net assets related to its capital stock amount;

Its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

The impact of legislative and regulatory changes on the FHLB and, accordingly, on the members of FHLB; and

Its liquidity and funding position.

After evaluating all of these considerations, the Company concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the years ended June 30, 2011 and 2010. The Company s evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

#### **Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. There were no loans held for sale at June 30, 2011 and 2010, respectively.



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### **First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

### **Loans Receivable**

The Company, through the Bank, grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and commercial mortgage loans secured by properties located throughout the Lehigh Valley, Pennsylvania and surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon, among other factors, the real estate and general economic conditions in this area.

Loans receivable that management has the intent and ability to hold 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 and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the interest method. The Company is amortizing these amounts over the contractual lives of the loans.

The loans receivable portfolio is segmented into commercial, mortgage and consumer loans. Commercial loans consist of the following classes: construction loans and commercial real estate loans. Mortgage loans consist of the following class: first mortgage residential loans. Consumer loans consist of the following classes: home equity loans and other loans.

For all classes of loans receivable, the accrual of interest is 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. 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 in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, 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 (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

### **Allowance for Credit Losses**

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the consolidated balance sheet and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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**First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. 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, the composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance 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 pools of loans by loan class including commercial real estate loans and construction loans that are not considered impaired, as well as smaller balance homogeneous loans, such as first mortgage residential loans and home equity loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, as adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. The nature and volume of the loan portfolio and terms of loans.
4. The experience, ability, and depth of lending management and staff.
5. The volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
6. The quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. The existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. The effect of external factors, such as competition and legal and regulatory requirements.

The qualitative factors are applied to the historical loss rates for the each class of loan. In addition, while not reported as a separate factor, changes in the value of underlying collateral (for regional property values) for collateral dependent loans is considered and addressed within the economic trends factor. A quarterly calculation is made adjusting the reserve allocation for each factor within a risk weighted range as it relates to each particular loan type, collateral type and risk rating within each segment. Data is gathered and evaluated through internal, regulatory, and government sources quarterly for each factor.



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**First Star Bancorp, Inc. and Subsidiaries**

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An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

In addition, the allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include categories of pass, special mention, substandard and doubtful. Assets which do not currently expose the insured institution to sufficient risk to warrant classification as substandard or doubtful but possess certain identified weaknesses are required to be designated special mention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. 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 insured 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.

*First Mortgage Residential Loans.* Residential mortgages are secured by the borrower's residential real estate in a first lien position. These loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have terms up to thirty years with amortizations varying from 15 to 30 years. We also offer adjustable rate mortgage ( ARM ) loans where the interest rate either adjusts on an annual basis or is fixed for the initial one, three or five years and then adjusts annually. We also require that title insurance, hazard insurance and, if appropriate, flood insurance be maintained on all properties securing residential loans. We require that a licensed appraiser from our list of approved appraisers perform and submit to us an appraisal on all properties secured by a first mortgage. In underwriting first mortgage residential loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. The Company has not engaged in sub-prime residential mortgage loan originations.

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June 30, 2011 and 2010

*Construction Loans.* Construction loans are generally made to builders, developers and consumers who wish to build their own homes or commercial structures. These loans are secured by the real estate being developed and are generally personally guaranteed by the principals of the borrowers. The duration of our construction loans generally is limited to 12 to 18 months, although payments may be structured on a longer amortization basis. Construction loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and, on some occasions, the sale of the property. Construction loans generally are considered to involve a higher level of risk than first mortgage residential lending, due to the concentration of principal in a limited number of loans and borrowers and the effect of economic conditions on developers, builders and projects. Additional risk is also associated with construction lending because of the inherent difficulty in estimating both a property's value at completion and the estimated cost (including interest) to complete a project. The nature of these loans is such that they are more difficult to evaluate and monitor. In addition, speculative construction loans to a builder are not pre-sold and thus pose a greater potential risk than construction loans to individuals on their personal residences. In order to mitigate some of the risks inherent to construction lending, we inspect properties under construction, review construction progress prior to advancing funds, work with builders with whom we have established relationships, require annual updating of tax returns and other financial data of developers and obtain personal guarantees from the principals.

*Home Equity Loans.* The Company offers home equity lines of credit and home equity loans. Risks associated with loans secured by residential properties are generally lower than commercial real estate and construction loans and include general economic risks, such as the strength of the job market, employment stability and the strength of the housing market. Since most loans are secured by a primary or secondary residence, the borrower's continued employment is the greatest risk to repayment. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.



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**First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

*Commercial Real Estate Loans.* The commercial loan portfolio consists primarily of commercial loans to small and medium sized businesses and individuals for general business and real estate uses. The commercial loans are generally secured by real estate and/or the guarantees of the principal borrowers. Commercial loans that exceed the Company's legal limits are participated with other commercial banks. Commercial loans are made on a line of credit and fixed basis to finance inventory, equipment or short-term working capital. The loans are generally made on a secured basis with the personal guarantees of the principal owners with occasional policy exceptions. Fixed loans are generally made on a one to five year duration. Commercial real estate loans are made for the acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in the business or real property of the principals. Commercial real estate loans also include commercial real estate investment properties leased to third parties. The Company offers commercial loans on a fixed and variable rate basis generally on three to five year repricings and a term of 10 to 25 years. Commercial real estate loans generally present a higher level of risk than loans secured by first mortgage residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Once all factor adjustments are applied, general reserve allocations for each segment are calculated, summarized and reported on the ALLL summary. ALLL final schedules, calculations and the resulting evaluation process are reviewed quarterly by the Bank's Board of Directors.

In addition, Federal bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

A loan is 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. 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.

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**First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

**Troubled Debt Restructurings**

Loans on accrual status whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary elimination of principal payments, a reduction in interest rate or an extension of a loan's stated maturity date. We do not accrue interest on loans that were non-accrual prior to the troubled debt restructuring until they have performed in accordance with their restructured terms for a period of at least six months. We accrue interest on troubled debt restructurings which were performing prior to the restructure and continue to perform in accordance with their restructured terms.

**Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the previously established carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses from other real estate owned.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets' estimated useful lives, or in the case of leasehold improvements, the lease period, if shorter. The following estimated useful lives are used:

	Years
Buildings	4 - 33
Furniture, fixtures, equipment and software	3 - 10
Leasehold improvements	10 - 12

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### **First Star Bancorp, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

#### **Cash Surrender Value of Life Insurance**

The Company is the beneficiary of insurance policies on the lives of certain officers of the Company. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender of the policies is included in other noninterest income on the consolidated statement of operations.

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

Transfers of financial assets, including loan and loan participation sales, 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.

#### **Advertising Costs**

The Company follows the policy of charging the costs of advertising to expense as incurred.

#### **Income Taxes**

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

On July 1, 2009, the Company adopted the Financial Accounting Standards Board guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for the uncertainty in income taxes recognized by prescribing the threshold a tax position is required to meet before being recognized in the financial statements. Tax benefits recognized in the statement of operations are measured based on the largest benefit that cumulatively has a greater than fifty percent likelihood of being sustained in a tax examination, with a tax examination being presumed to occur. As a result of adoption, the Company was required to recognize no effect on retained earnings.

#### **Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

**Subsequent Events**

The Company has evaluated subsequent events and transactions occurring subsequent to the balance sheet date of June 30, 2011 for items that should be recognized or disclosed in those consolidated financial statements. The evaluation was conducted through September 27, 2011, the date these financial statements were available to be issued.

**3. Securities**

The amortized cost and estimated fair value of securities available-for-sale are summarized as follows at June 30:

	Amortized Cost	2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In Thousands)		
Securities available-for-sale:				
U.S. Government agency securities	\$ 47,424	\$ 68	\$ (5)	\$ 47,487
U.S. Government sponsored agency mortgage-backed securities and collateralized mortgage obligations	34,708	1,340		36,048
Private label collateralized mortgage obligations, residential	20,501	153	(5,232)	15,422
Trust preferred securities	21,379	28	(3,833)	17,574
Other debt securities	4,214		(12)	4,202
Mutual funds and equity securities	3,989	188	(305)	3,872
	\$ 132,215	\$ 1,777	\$ (9,387)	\$ 124,605

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

	Amortized Cost	2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Securities available-for-sale:				
U.S. Government agency securities	\$ 79,991	\$ 65	\$	\$ 80,056
U.S. Government sponsored agency mortgage-backed securities and collateralized mortgage obligations	48,764	1,193	(5)	49,952
Private label collateralized mortgage obligations, residential	29,443	162	(7,211)	22,394
Trust preferred securities	22,507	45	(5,486)	17,066
Other debt securities	4,748	1	(49)	4,700
Mutual funds and equity securities	3,702	62	(384)	3,380
	\$ 189,155	\$ 1,528	\$ (13,135)	\$ 177,548

The following table shows the Company's securities' gross unrealized losses and fair value of securities, aggregated by security and length of time that individual securities have been in continuous unrealized loss position at June 30:

	Less than 12 Months		2011 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In Thousands)						
U.S. Government agency securities	\$ 12,445	\$ (5)	\$	\$	\$ 12,445	\$ (5)
Private label collateralized mortgage obligations, residential	121	(12)	14,396	(5,220)	14,517	(5,232)
Trust preferred securities			16,731	(3,833)	16,731	(3,833)
Other debt securities			4,202	(12)	4,202	(12)
Total debt securities	12,566	(17)	35,329	(9,065)	47,895	(9,082)
Mutual funds and equity securities	174	(6)	1,128	(299)	1,302	(305)
	\$ 12,740	\$ (23)	\$ 36,457	\$ (9,364)	\$ 49,197	\$ (9,387)

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

	Less than 12 Months		2010 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Government sponsored agency mortgage-backed securities and collateralized mortgage obligations	\$	\$	\$ 512	\$ (5)	\$ 512	\$ (5)
Private label collateralized mortgage obligations, residential			20,277	(7,211)	20,277	(7,211)
Trust preferred securities			16,207	(5,486)	16,207	(5,486)
Other debt securities			4,599	(49)	4,599	(49)
<b>Total debt securities</b>			<b>41,595</b>	<b>(12,751)</b>	<b>41,595</b>	<b>(12,751)</b>
Mutual funds and other equity securities			1,760	(384)	1,760	(384)
	\$	\$	\$ 43,355	\$ (13,135)	\$ 43,355	\$ (13,135)

At June 30, 2011, the Company had 2 U.S. Government agency securities, 73 private label collateralized mortgage obligations residential, 26 trust preferred securities, 4 other debt securities, and 19 equity securities in an unrealized loss position.

The following table presents a summary of other than temporary impairment charges recorded by the Company, by investment security type in the years ended June 30:

	2011	2010
	(In Thousands)	
Private label collateralized mortgage obligations, residential	\$ 3,250	\$ 5,673
Trust preferred securities	133	685
<b>Total other than temporary impairment charges</b>	<b>\$ 3,383</b>	<b>\$ 6,358</b>

The roll forward of cumulative credit losses recognized in earnings as of June 30, 2011 is as follows (in thousands):

Cumulative credit losses through June 30, 2010	\$ 24,188
Credit losses for year ended June 30, 2011	3,383
<b>Cumulative credit losses through June 30, 2011</b>	<b>\$ 27,571</b>

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June 30, 2011 and 2010

Securities with a remaining carrying value as of June 30, 2011 that have incurred OTTI charges are summarized as follows:

	Unadjusted Amortized Cost	OTTI Charges to Earnings	OTTI Charges to OCI (In Thousands)	June 30, 2011 Amortized Cost	June 30, 2011 Fair Value
Private label collateralized mortgage obligations, residential	\$ 17,043	\$ 3,165	\$ 1,471	\$ 12,407	\$ 8,987
Trust preferred securities	1,809	133	287	1,389	721
	\$ 18,852	\$ 3,298	\$ 1,758	\$ 13,796	\$ 9,708

The following table presents the balance of other comprehensive income charges related to OTTI:

Private Label Collateralized Mortgage Obligations, Residential	Trust Preferred Securities	Total
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