HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
February 15, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-29709

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	23-3028464
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

271 Main Street, Harleysville, Pennsylvania 19438
(Address of principal executive offices)
(Zip Code)

(215) 256-8828
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $.01 Par Value, 2,314,743 as of February 14, 2005

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
AND SUBSIDIARY

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Harleysville Savings Financial Corporation
Condensed Consolidated Statements of Financial Condition

	December 31, 2004 (Unaudited)	Se
Assets		
Cash and amounts due from depository institutions	$ 1,469,279	$
Interest bearing deposits in other banks	3,525,579	
Total cash and cash equivalents	4,994,858	
Investment securities held to maturity (fair value -		

December 31, $72,018,000; September 30, $69,439,000)	71,009,105	
Investment securities available-for-sale at fair value	3,686,802	
Mortgage-backed securities held to maturity (fair value - December 31, $267,083,000; September 30, $262,560,000)	266,453,322	
Mortgage-backed securities available-for-sale at fair value	2,550,961	
Loans receivable (net of allowance for loan losses - December 31, $1,974,000; September 30, $1,977,000)	341,109,930	
Accrued interest receivable	2,994,933	
Federal Home Loan Bank stock - at cost	15,339,700	
Office properties and equipment, net	5,934,367	
Deferred income taxes	355,630	
Prepaid expenses and other assets	12,527,220	
TOTAL ASSETS	$ 726,956,828	$
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 408,766,398	$
Advances from Federal Home Loan Bank	268,222,373	
Accrued interest payable	1,183,093	
Advances from borrowers for taxes and insurance	2,798,921	
Accounts payable and accrued expenses	783,528	
Total liabilities	681,754,313	
Commitments (Note 9)		
Stockholders' equity:		
Preferred Stock: $.01 par value; 7,500,000 shares authorized; none issued		
Common stock: $.01 par value; 15,000,000 shares authorized; issued, Dec. 2004 and Sept. 2004, 2,316,490 and outstanding Dec. 2004, 2,303,793; Sept. 2004, 2,299,127	23,165	
Paid-in capital in excess of par	7,445,274	
Treasury stock, at cost (Dec. 2004, 12,697 shares; Sept. 2004, 17,363)	(302,905)	
Retained earnings - partially restricted	37,993,820	
Accumulated other comprehensive income	43,161	
Total stockholders' equity	45,202,515	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 726,956,828	$

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended December 31,	
	2004	2003

Interest Income:		
Interest on mortgage loans	$3,807,587	$3,754,577
Interest on mortgage-backed securities	2,846,287	2,502,995
Interest on consumer and other loans	1,055,729	827,367
Interest and dividends on tax-exempt investments	336,580	341,500
Interest and dividends on taxable investments	539,820	637,537
Total interest income	8,586,003	8,063,976
Interest Expense:		
Interest on deposits	2,395,751	2,301,002
Interest on borrowings	2,954,901	2,870,437
Total interest expense	5,350,652	5,171,439
Net Interest Income	3,235,351	2,892,537
Provision for Loan Losses	--	--
Net Interest Income after Provision for Loan Losses	3,235,351	2,892,537
Non-Interest Income:		
Gain on sales of loans	--	6,423
Gain on sales of securities	63,743	109,988
Other income	342,744	336,880
Total other income	406,487	453,291
Non-Interest Expenses:		
Salaries and employee benefits	1,016,619	875,130
Occupancy and equipment	369,511	348,451
Deposit insurance premiums	14,670	14,582
Other	558,143	508,328
Total other expenses	1,958,943	1,746,491
Income before Income Taxes	1,682,895	1,599,337
Income tax expense	427,400	391,000
Net Income	$1,255,495	$1,208,337
Basic Earnings Per Share	$ 0.55	$ 0.53
Diluted Earnings Per Share	$ 0.54	$ 0.52
Dividends Per Share	$ 0.22	$ 0.20

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

	Three Month Decembe 2004
Net Income	$1,255,495
Other Comprehensive Income	
Unrealized gain on securities net of tax expense - 2004, ($3,653); 2003, ($19,427)	10,037 (1)
Total Comprehensive Income	$1,265,532

	2004
(1) Disclosure of reclassification amount, net of tax for the years ended:	
Net unrealized gain arising during the year	$ 52,107
Less: Reclassification adjustment for net gains included in net income Net of tax expense -2004, $21,673; 2003, $37,396	42,070
Net unrealized gain on securities	$ 10,037

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Stockholders' Equity

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retained Earnings- Partially Restricted
Balance at October 1, 2004	$ 23,165	$ 7,426,853	$ (414,430)	$ 37,244,200
Net Income				1,255,495
Dividends - $.22 per share				(505,875
Treasury stock delivered under Dividend Reinvestment Plan		19,028	104,354	
Treasury stock delivered under employee stock plan		(607)	7,171	
Unrealized holding gain on available -for-sale securities, net of tax				

Balance at December 31, 2004	$ 23,165	$ 7,445,274	$ (302,905)	$ 37,993,820

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31	
	2004	2003
Operating Activities:		
Net Income	$ 1,255,495	$ 1,208,337
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	64,224	127,976
Proceeds from the sale of loans held for sale		794,147
Origination of loans held for sale		(787,724)
Gain on sale of investments	(63,743)	(109,988)
Gain on sale of loans		(6,423)
Amortization of deferred loan fees	(54,480)	(194,102)
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in accounts payable and accrued expenses and income taxes payable	232,664	(26,528)
(Increase) decrease in prepaid expenses and other assets	(2,949,755)	122,563
Decrease (increase) in accrued interest receivable	74,105	(275,914)
Increase in accrued interest payable	56,980	56,899
Net cash (used in) provided by operating activities	(1,384,510)	909,243
Investing Activities:		
Purchase of investment securities held to maturity	(11,000,000)	(3,989,750)
Proceeds from maturities of investment securities held to maturity	8,152,467	3,296,553
Purchase of FHLB stock	(155,600)	(796,100)
Long-term loans originated or acquired	(27,479,179)	(39,491,101)
Purchase of mortgage-backed securities held to maturity	(20,131,609)	(52,610,249)
Purchase of mortgage-backed securities available for sale		(5,010,238)
Purchase of investment securities available for sale	(575,249)	
Proceeds from sales of investment securities available for sale	4,613,148	
Principal collected on long-term loans & mortgage-backed securities	41,316,098	51,928,175
Purchases of premises and equipment	(249,616)	(30,515)
Net cash used in investing activities	(5,509,540)	(46,703,225)
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	1,262,241	7,260,515
Net increase in certificates of deposit	2,273,518	3,924,692
Cash dividends	(505,875)	(453,368)

Net increase in FHLB advances	2,269,380	29,266,135
Proceeds from the reissuance of treasury stock	129,946	137,527
Net increase in advances from borrowers for taxes & insurance	1,740,914	1,633,976
Net cash provided by financing activities	7,170,124	41,769,477
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	276,074	(4,024,505)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,718,784	6,401,598
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,994,858	$ 2,377,093
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 31,000	$ 104,631
Interest expense	5,293,672	5,114,540

See notes to unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three months ended December 31, 2004 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period.

Use of Estimates in Preparation of Financial Statements - The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of income and expenses during the reporting period. The most significant of these estimates is the allowance for loan losses. Actual results could differ from those estimates.

Accounting for Stock Options - In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation --Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This Statement is effective for financial statements for fiscal years ending after December 15, 2002.

Harleysville Savings Financial Corporation (the "Company") has elected to continue application of APB Opinion No. 25 and related interpretations for stock options and, accordingly no compensation expense has been recorded in the consensed consolidated financial statements. There was no proforma effect in the three month periods ended December 31, 2004 and 2003. Effective for the first interim or annual reporting period that begins after June 15, 2005, the FASB will require that the Company recognize financial expense for the fair value of stock options that are granted or vest after that date. FASB set forth these rules in Statement No. 123(R), Share-Based Payment, which became final December 16, 2004. Management believes this will not have a material impact to the Company.

Recent Accounting Pronouncements - In March 2004, the FASB Emerging Issues Task Force ("EITF") reached a consensus regarding EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of this Issue has been delayed by FASB Staff Position ("FSP") EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," posted September 30, 2004. The delay of the effective date for paragraphs 10-20 will be superseded concurrent with the final issuance of proposed FSP EITF Issue 03-1-a, "Implication Guidance For the Application of Paragraph 16 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment. The disclosures continue to be effective for the Company's consolidated financial statements for fiscal years ending after December 15, 2003, for investments accounted for under SFAS No. 115 and No. 124. For all other investments within the scope of this Issue, the disclosures continue to be effective for fiscal years ending after June 15, 2004. The additional disclosures for cost method investments continue to be effective for fiscal years ending after June 15, 2004.

2. INVESTMENT SECURITIES HELD TO MATURITY

A comparison of amortized cost and approximate fair value of investment securities with gross unrealized gains and losses, by maturities, is as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies				
Due after 1 years through 5 years	$ 5,999,580		$ (38,580)	$ 5,961,000
Due after 5 years through 10 years	12,096,165	$ 164,455	(25,620)	12,235,000
Due after 10 years through 15 years	27,928,656	6,942	(623,598)	27,312,000
Tax Exempt Obligations				
Due after 10 years through 15 years	8,161,251	515,749		8,677,000
Due after 15 years	16,823,453	1,009,547		17,833,000

Total Investment Securities	$71,009,105	$ 1,696,693	$ (687,798)	$72,018,000

A summary of investment with unrealized losses, aggregated by category, at December 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer		Tot
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair V
US Government agencies	$34,245,050	$(687,798)	$ --	$ --	$34,24
Total	$34,245,050	$(687,798)	$ --	$ --	$34,24

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

		September 30, 2004	
	Amortized Cost	Gross Unrealized Gains	Gros Unreal Loss
U.S. Government Agencies			
Due after 1 years through 5 years	$ 999,347		$ (
Due after 5 years through 10 years	15,278,032	$ 186,208	(21,
Due after 10 years through 15 years	26,918,369	22,286	(402,
Tax Exempt Obligations			
Due after 10 years through 15 years	6,932,105	453,895	
Due after 15 years	18,033,719	1,039,281	
Total Investment Securities	$ 68,161,572	$1,701,670	$ (424,

At December 31,2004 and September 30, 2004, U.S. Government Agencies include structured note securities with periodic interest rate adjustments and are callable periodically by the issuing agency. These structured notes were comprised of step-up bonds with par values of $35.7 and $38.7 million respectively, at December 31, 2004 and September 30, 2004. The Company has the positive intent and the ability to hold these securities to maturity.

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3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

A comparison of amortized cost and approximate fair value of investment securities with gross unrealized gains and losses, by maturities, is as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equities	$ 972,917	$ 72,437	$ (4,199)	$ 1,041,155
Mutual Funds	2,645,647			2,645,647
Total Investment Securities	$ 3,618,564	$ 72,437	$ (4,199)	$ 3,686,802

A summary of investment with unrealized losses, aggregated by category, at December 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer		Total	To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unreali
Equities	$ 299,700	$ (4,199)	$ --	$ --	$ 299,700	$
Total	$ 299,700	$ (4,199)	$ --	$ --	$ 299,700	$

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

	September 30, 2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equities	$ 971,110	$ 58,377	$ --	$ 1,029,487
Mutual Funds	6,685,353			6,685,353
Total Investment Securities	$ 7,656,463	$ 58,377	$ --	$ 7,714,840

Proceeds from the sale of investments available for sale during the period ended December 31, 2004 were $4,613,000 resulting in a pre-tax gain of $64,000.

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

A comparison of amortized cost and approximate fair value of mortgage-backed securities with gross unrealized gains and losses, by maturities, is as follows:

	December 31,2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	$ 17,665,769	$ 72,497	$ (70,266)	$ 17,
FHLMC pass-through certificates	122,760,750	513,076	(321,826)	122,
FNMA pass-through certificates	116,582,198	669,264	(713,462)	116,
GNMA pass-through certificates	9,444,605	480,395		9,
Total Mortgage-Backed Securities	$266,453,322	$ 1,735,232	$ (1,105,554)	$267,

A summary of investment with unrealized losses, aggregated by category, at December 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities held to maturity	$128,885,186	$(1,105,554)	$ --	$ --
Total	$128,885,186	$(1,105,554)	$ --	$ --

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

	September 30,2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 8,733,300	$ 42,446	$ (71,746)	$ 8,704,000
FHLMC pass-through certificates	118,448,507	717,032	(189,539)	118,976,000
FNMA pass-through certificates	123,234,413	831,713	(641,126)	123,425,000
GNMA pass-through certificates	10,875,510	579,490		11,455,000

Total Mortgage-Backed Securities	$261,291,730	$ 2,170,681	$ (902,411)	$262,560,000

The Company has the positive intent and ability to hold these securities to maturity.

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

A comparison of amortized cost and approximate fair value of mortgage-backed securities with gross unrealized gains and losses, by maturities, is as follows:

	December 31,2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 2,553,804	$ --	$ (2,843)	$ 2,550,961
Total Mortgage-Backed Securities	$ 2,553,804	$ --	$ (2,843)	$ 2,550,961

A summary of investment with unrealized losses, aggregated by category, at December 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities available for sale	$ 2,550,961	$ (2,843)	$ --	$ --
Total	$ 2,550,961	$ (2,843)	$ --	$ --

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

	September 30,2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

FNMA pass-through certificates	$ 3,803,463	$ 2,518	$ (10,706)	$ 3,795,274
Total Mortgage-Backed Securities	$ 3,803,463	$ 2,518	$ (10,706)	$ 3,795,274

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2004	September 30, 2004
Residential Mortgages	$ 257,033,912	$ 256,512,743
Commercial Mortgages	3,834,962	2,141,481
Construction	8,328,360	7,970,663
Savings Account	745,270	811,032
Home Equity	48,909,931	46,256,556
Automobile and other	711,467	732,062
Line of Credit	32,917,504	32,329,416
Total	352,481,406	346,753,953
Undisbursed portion of loans in process	(8,499,104)	(5,237,847)
Deferred loan fees	(898,372)	(955,052)
Allowance for loan losses	(1,974,000)	(1,976,849)
Loans receivable - net	$ 341,109,930	$ 338,584,205

The total amount of loans being serviced for the benefit of others was approximately $4.4 million and $4.5 million at December 31, 2004 and September 30, 2004, respectively.

The following schedule summarizes the changes in the allowance for loan losses:

	Three Months Ended December 31,	
	2004	2003
Balance, beginning of period	$ 1,976,849	$ 1,990,672
Provision for loan losses	--	--
Amounts charged-off	(4,084)	(3,088)
Loan recoveries	1,235	63
Balance, end of period	$ 1,974,000	$ 1,987,647

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7. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classification as follows:

December 31, 2004 September 30, 2004

Land and buildings	$ 6,534,779	$ 6,489,050
Furniture, fixtures and equipment	3,352,451	3,102,835
Automobiles	24,896	24,896
Total	9,912,126	9,616,781
Less accumulated depreciation	(3,977,759)	(3,867,806)
Net	$ 5,934,367	$ 5,748,975

8. DEPOSITS

Deposits are summarized as follows:

	December 31, 2004	September 30, 2004
Non-interest bearing checking	$ 9,681,526	$ 8,335,991
NOW accounts	21,296,647	19,838,879
Checking accounts	3,634,018	3,431,273
Money Market Demand accounts	99,100,575	100,448,760
Passbook and Club accounts	3,651,582	4,047,204
Certificate accounts	271,402,050	269,128,532
Total deposits	$408,766,398	$405,230,639

The aggregate amount of certificate accounts in denominations of more than $100,000 at December 31 and September 30, 2004 amounted to approximately $28.7 million and $28.1 million, respectively. Amounts in excess of $100,000 are not federally insured.

9. COMMITMENTS

At December 31, 2004, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 8,221,910
Origination of adjustable-rate mortgage loans	146,250
Unused line of credit loans	36,602,364
Loans in process	8,499,104
Total	$53,469,628

10. CASH DIVIDEND AND STOCK SPLIT

On January 26, 2005, the Board of Directors declared a five for three stock split and declared a cash dividend of $.25 per share payable on February 23, 2005 to the stockholders' of record at the close of business on February 9, 2005. The number of shares and dividends on the face of the consolidated financial statements do not reflect the five for three stock split. The shares of Harleysville Savings Financial Corporation will trade on February 24, 2005 on a post split basis.

	Three Months Ended December 31,	
	2004	2003

	Basic	Diluted	Basic	Diluted
Pre-split number of shares outstanding	2,299,407	2,343,815	2,269,265	2,327,97
Additional shares due to stock split	1,532,938	1,562,543	1,512,843	1,551,98
Post-split number of shares	3,832,345	3,906,358	3,782,108	3,879,95

	Basic	Diluted	Basic	Diluted
Pre-split earnings per share	$ 0.55	$ 0.54	$ 0.53	$ 0.5
Post-split earnings per share	0.33	0.32	0.32	0.3
Pre-split dividend per share	$ 0.22		$ 0.20	
Post-split dividend per share	0.13		0.12	

11. EARNINGS PER SHARE

The following average shares were used for the computation of earnings per share:

	For the Three Months Ended December 31, 2004	2003
Basic	2,299,407	2,269,265
Diluted	2,343,815	2,327,971

The difference between the number of shares used for computation of basic earnings per share and diluted earnings per share represents the dilutive effect of stock options.

12. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank consists of the following:

	December 31, 2004		September 30, 2004	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 30,043,158	3.64%	$ 40,428,147	3.40%
13 to 24 months	22,547,072	3.75%	9,545,900	3.55%
25 to 36 months	22,088,497	3.36%	28,476,845	3.59%
37 to 48 months	67,960,282	4.84%	54,582,988	5.08%
49 to 60 months	20,801,721	3.70%	34,950,243	3.77%
61 to 72 months	15,000,000	6.08%	15,000,000	6.08%
73 to 84 months	37,781,643	4.67%	25,968,870	4.89%
85 to 120 months	52,000,000	4.41%	57,000,000	4.43%
Total	$268,222,373	4.36%	$265,952,993	4.34%

The advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which $10.6 million out of $30.0 was used at December 31, 2004 and $19.1 million was used as of September 30, 2004. Included in the table above at December 31, 2004 and September 30, 2004 are convertible advances whereby the FHLB has the option at a predetermined strike rate to convert the fixed interest rate to an adjustable rate tied to London Interbank Offered Rate ("LIBOR"). The Company then has the option to repay these advances if the FHLB converts the interest rate. These advances are included in the periods in which they mature. The Company has a total borrowing capacity of $527.0 million of which $268.2 million was used as of December 31, 2004.

13. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (the "Bank") is subject to various regulatory capital requirements administered by the federal Banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Cap Adequacy P
	Amount	Ratio	Amount
As of December 31, 2004			
Tier 1 Capital (to assets)	$45,105,227	6.25%	$28,862,329
Tier 1 Capital (to risk weighted assets)	45,105,227	13.59%	13,272,209
Total Capital (to risk weighted assets)	47,110,227	14.20%	26,544,418
As of September 30, 2004			
Tier 1 Capital (to assets)	$44,124,545	6.20%	$28,480,960
Tier 1 Capital (to risk weighted assets)	44,124,545	13.69%	12,890,920
Total Capital (to risk weighted assets)	46,127,545	14.31%	25,781,840

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

This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "intend," "should" and similar expressions, or the negative thereof, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future-looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

The Company's primary business consists of attracting deposits from the general public through a variety of deposit programs and investing such deposits principally in first mortgage loans secured by residential properties in the Company's primary market area. The Company also originates a variety of consumer loans, predominately home equity loans and lines of credit also secured by residential properties in the Company's primary lending area. The Company serves its customers through its full-service branch network as well as through remote ATM locations, the internet and telephone banking.

Critical Accounting Policies and Judgments

The Company's consolidated financial statements are prepared based on the application of certain accounting policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations.

Analysis And Determination of the Allowance for Loan Losses - The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. The Company evaluates the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of three key elements: (1) specific allowances for certain impaired or collateral-dependent loans; (2) a general valuation allowance on certain identified problem loans; and (3) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Specific Allowance Required for Certain Impaired or Collateral-Dependent Loans: We establish a allowance for certain impaired loans for the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. At December 31, 2004, no loans were considered impaired.

General Valuation Allowance on Certain Identified Problem Loans - We also establish a general allowance for classified loans that do not have an individual allowance. We segregate these loans by loan category and assign allowance percentages to each category based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio.

General Valuation Allowance on the Remainder of the Loan Portfolio - We establish another general allowance for loans that are not classified to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is

determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectibility of the loan portfolio. The allowance may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

Changes in Financial Position for the Three Month Period Ended December 31, 2004

Total assets at December 31, 2004 were $727.0 million, an increase of $8.8 million or 1.2% for the three month period then ended. This increase was primarily the result of an increase in other assets due to the purchase of bank owned life insurance, mortgage-backed securities held to maturity, loan receivables, investment securities held to maturity of $2.9 million, $5.2 million, $2.5 million and $2.8 million, respectively. This growth is one of the ways the Company manages it's capital based on its business plan. The increase was partially offset by a decrease in investment securities available for sale and mortgage-backed securities available for sale of $4.0 million and $1.2 million, respectively.

During the three-month period ended December 31, 2004, total deposits increased by $3.6 million to $408.8 million. Advances from borrowers for taxes and insurance also increased by $1.7 million. There was also an increase in advances from Federal Home Loan Bank of $2.3 million, which was used for the origination of loans and the purchase of mortgage-backed securities. This growth is a result of the growth in our local market and the execution of our business plan which calls for asset growth.

Comparisons of Results of Operations for the Three Month Period Ended December 31, 2004 with the Three Month Period Ended December 31, 2003

Net Interest Income

The increase in the net interest income for the three month period ended December 31, 2004 when compared to the same period in 2003 can be attributed to the increase in interest rate spread from 1.57% in 2003 to 1.68% in 2004. Total interest income was $8.6 million for the three month period ended December 31, 2004 compared to $8.1 million for the comparable period in 2003. The increase was a result of an increase in the average balance of interest-earning assets of $34.6 million and an increase in the average yield for the interest-earning assets to 4.89% for the three month period ended December 31, 2004 from 4.84% for the comparable period in 2003.

Total interest expense increased to $5.4 million for the three month period ended December 31, 2004 from $5.2 million for the comparable period in 2003. This increase was the result of an increase in the average interest bearing liabilities average balance to $666.8 million from $632.4 million for the three month period ended December 31, 2004 and 2003. The increase was partially offset by a decrease in the average cost on interest-bearing liabilities to 3.21% for the three month period ended December 31, 2004 from 3.27% for the comparable period ended December 31, 2003.

Non-Interest Income

Non-interest income decreased to $406,000 for the three month period ended December 31, 2004 from $453,000 for the comparable period in 2003. The decrease is due to a decrease in gain on the sale of loans and investment securities available for sale.

Non-Interest Expenses

For the three month period ended December 31, 2004, non-interest expenses increased by $212,000 or 12.2% to $2.0 million compared to $1.8 million for the same period in 2003. Management believes these are reasonable increases in the cost of operations after considering the impact of the 4.4% growth in the assets of the Company since December 31, 2003. The annualized ratio of non-interest expenses to average assets for the three month

period ended December 31, 2004 and 2003 was 1.08% and 1.02%, respectively. The Company anticipates additional expenses in relation to the adoption of Sarbanes-Oxley Section 404 in the current fiscal year in the form of professional fees.

Income Taxes

The Company made provisions for income taxes of $427,000 for the three-month period ended December 31, 2004 compared to $391,000 for the comparable period in 2003. The primary reason for the increase in the percentage of tax expense in 2004 was the increase in amount of taxable income which was partially offset by an increase in nontaxable income.

Liquidity and Capital Recourses

As of December 31, 2004, the Company had $53.5 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and new deposits. The amount of certificate accounts, which are scheduled to mature during the 12 months ending December 31, 2005, is $84.9 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company. The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh up to the Company's maximum borrowing capacity, which was $527.0 million at December 31, 2004 of which $268.2 million was outstanding at December 31, 2004.

The Bank's net income for the quarter ended December 31, 2004 of $1,341,000 increased the Bank's stockholders' equity to $45.2 million or 6.3% of total assets. This amount is well in excess of the Bank's minimum regulatory capital requirement.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases in interest rates. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing or maturity of the Company's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. If the maturities of such assets and liabilities were perfectly matched, and if the interest rates borne by its assets and liabilities were equally flexible and moved concurrently, neither of which is the case, the impact on net interest income of rapid increases or decreases in interest rates would be minimized. The Company's asset and liability management policies seek to increase the interest rate sensitivity by shortening the repricing intervals and the maturities of the Company's interest-earning assets. Although management of the Company believes that the steps taken have reduced the Company's overall vulnerability to increases in interest rates, the Company remains vulnerable to material and prolonged increases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets.

The authority and responsibility for interest rate management is vested in the Company's Board of Directors. The Chief Executive Officer implements the Board of Directors' policies during the day-to-day operations of the Company. Each month, the Chief Executive Officer presents the Board of Directors with a report, which outlines the Company's asset and liability "gap" position in various time periods. The "gap" is the difference between interest-earning assets and interest-bearing liabilities which mature or reprice over a given time period. He also meets weekly with the Company's other senior officers to review and establish policies and strategies designed to regulate the Company's flow of funds and coordinate the sources, uses and pricing of such funds. The first priority in structuring and pricing the Company's assets and liabilities is to maintain an acceptable interest rate spread while reducing the effects of changes in interest rates and maintaining the quality of the Company's assets.

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2004, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

The passbook accounts, negotiable order of withdrawal ("NOW") accounts, interest bearing accounts, and money market deposit accounts, are included in the "Over 5 Years" categories based on management's beliefs that these funds are core deposits having significantly longer effective maturities based on the Company's retention of such deposits in changing interest rate environments.

Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income. Conversely, during a period of falling interest rates, a positive gap would result in a decrease in net interest income while a negative gap would positively affect net interest income. However, the following table does not necessarily indicate the impact of general interest rate movements on the Company's' net interest income because the repricing of certain categories of assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different rate levels.

	1 Year or less	1 to 3 Years	3 to 5 Years
Interest-earning assets			
Mortgage loans	$ 42,734	$ 61,866	$ 43,595
Mortgage-backed securities	55,481	59,256	42,811
Consumer and other loans	55,064	19,579	6,762
Investment securities and other investments	27,693	4,010	9,847
Total interest-earning assets	180,972	144,711	103,015
Interest-bearing liabilities			
Passbook and Club accounts	--	--	--
NOW and checking accounts	--	--	--
Money Market Deposit accounts	30,926	--	--
Choice Savings	4,532		
Certificate accounts	84,869	114,118	72,415
Borrowed money	52,253	61,062	55,656
Total interest-bearing liabilities	172,580	175,180	128,071
Repricing GAP during the period	$ 8,392	$ (30,469)	$ (25,056)
Cumulative GAP	$ 8,392	$ (22,077)	$ (47,133)
Ratio of GAP during the period to total assets	1.22%	-4.43%	-3.65%
Ratio of cumulative GAP to total assets	1.22%	-3.21%	-6.86%

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Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are

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designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of Stockholders was held on January 26, 2005

(c) There were 2,303,542 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 2,029,456 shares were represented at the meeting by the holders thereof, which constituted a quorum. The items voted upon at the Annual Meeting and the vote for each proposal were as follows:

1 Election of directors for a three-year term:

	FOR	WITHHELD
Philip A. Clemens	2,015,911	13,545
Edward J. Molnar	2,015,501	13,955
Charlotte A. Hunsberger	2,014,569	14,887

Election of director for a one-year term:

	FOR	WITHHELD
James L. Rittenhouse	2,014,411	15,045

Name of each director whose term of office continued:

David J. Friesen
George W. Meschter
Sanford L. Alderfer
Mark R. Cummins
Ronald B. Geib

2 Proposal to ratify the appointment by the board of Deloitte & Touche LLP as the Company's independent auditors for the year ending September 30, 2005

FOR	AGAINST	ABSTAIN
2,023,615	938	4,903

Each of the proposals were adopted by the stockholders of the Company.

Item 1,2,3 and 5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

None