HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
May 16, 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 March 31, 2005

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, 3,880,336 as of May 13, 2005

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	March 31, 2005
Assets	
Cash and amounts due from depository institutions	$ 1,635,5
Interest bearing deposits in other banks	1,453,9
Total cash and cash equivalents	3,089,5
Investment securities held to maturity (fair value - March 31, $80,810,000; September 30, $69,439,000)	80,437,9

Investment securities available-for-sale at fair value	4,819,0
Mortgage-backed securities held to maturity (fair value - March 31, $269,484,000; September 30, $262,560,000)	273,099,4
Mortgage-backed securities available-for-sale at fair value	1,412,7
Loans receivable (net of allowance for loan losses - March 31, $1,971,000; September 30, $1,977,000)	347,554,7
Accrued interest receivable	3,285,9
Federal Home Loan Bank stock - at cost	15,731,9
Office properties and equipment	5,888,1
Deferred income taxes	396,8
Prepaid expenses and other assets	12,709,2
TOTAL ASSETS	$ 748,425,4
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 411,852,0
Advances from Federal Home Loan Bank	285,214,2
Accrued interest payable	1,240,9
Advances from borrowers for taxes and insurance	3,558,1
Accounts payable and accrued expenses	569,9
Total liabilities	702,435,3
Commitments (Note 9)	
Stockholders' equity:	
Preferred Stock: $.01 par value; 12,500,000 shares authorized; none issued	
Common stock: $.01 par value; 25,000,000 shares authorized; issued Mar. 2005, 3,885,347; Sept. 2004, 2,316,490 and outstanding, Mar. 2005, 3,880,336; Sept. 2004, 2,299,127	38,8
Paid-in capital in excess of par	7,425,8
Treasury stock, at cost (Mar. 2005, 5,011 shares; Sept. 2004, 17,363 shares)	(94,8
Retained earnings - partially restricted	38,656,9
Accumulated other comprehensive (loss) income	(36,7
Total stockholders' equity	45,990,0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 748,425,4

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,		For the S M
	2005	2004	2005
INTEREST INCOME:			

Interest on mortgage loans	$ 3,752,988	$ 3,704,170	$ 7,553,50
Interest on mortgage-backed securities	2,937,716	2,548,906	5,784,00
Interest on consumer and other loans	1,111,828	909,407	2,167,55
Interest and dividends on tax-exempt investments	336,487	358,455	673,06
Interest and dividends on taxable investments	709,526	583,882	1,249,34
Total interest income	8,848,545	8,104,820	17,427,47
Interest Expense:			
Interest on deposits	2,474,723	2,254,365	4,870,47
Interest on borrowings	3,028,392	2,750,211	5,983,29
Total interest expense	5,503,115	5,004,576	10,853,76
Net Interest Income	3,345,430	3,100,244	6,573,70
Provision for loan losses	--	--	-
Net Interest Income after Provision for Loan Losses	3,345,430	3,100,244	6,573,70
Other Income:			
Gain on sales of securities	--	115,262	63,74
Gain on sale of loans	--	11,250	-
Other income	341,204	307,932	691,02
Total other income	341,204	434,444	754,76
Other Expenses:			
Salaries and employee benefits	1,054,636	1,016,720	2,071,25
Occupancy and equipment	392,896	391,238	762,40
Deposit insurance premiums	14,441	14,512	29,11
Other	551,195	465,910	1,109,33
Total other expenses	2,013,168	1,888,380	3,972,11
Income before Income Taxes	1,673,466	1,646,308	3,356,36
Income tax expense	431,500	411,000	858,90
Net Income	$ 1,241,966	$ 1,235,308	$ 2,497,46
Basic Earnings Per Share	$ 0.32	$ 0.32	$ 0.6
Diluted Earnings Per Share	$ 0.32	$ 0.32	$ 0.6
Dividends Per Share	$ 0.15	$ 0.12	$ 0.2

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

	Three 2005
Net Income	$ 1,241,966
Other Comprehensive Income	
Unrealized (loss) gain on securities net of tax (benefit) expense	(79,953)
Total Comprehensive Income	$ 1,162,013

	Six M 2005
Net Income	$ 2,497,460
Other Comprehensive Income	
Unrealized (loss) gain on securities net of tax (benefit) expense	(69,886)(
Total Comprehensive Income	$ 2,427,574

(1) Disclosure of reclassification amount, net of tax for the six months ended:	2005
Net unrealized (loss) gain arising during the six months ended	$ (27,816)
Less: Reclassification adjustment for net gains included in net income	42,070
Net unrealized gain on securities	$ (69,886)

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 Restricte

Balance at October 1, 2004	$ 23,165	$ 7,426,853	$ (414,430)	$37,244,2
Net Income				2,497,4
Issuance of Common Stock	246	155,152		
Stock Split	15,442	(15,442)		
Dividends - $.28 per share				(1,084,7
Treasury stock purchased			(204,100)	
Treasury stock delivered under Dividend Reinvestment Plan		19,028	104,356	
Treasury stock delivered under employee stock plan		(159,703)	419,339	
Unrealized holding loss on available - for - sale securities, net of tax				
Balance at March 31, 2005	$ 38,853	$ 7,425,888	$ (94,835)	$38,656,9

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended March	
	2005	200
Operating Activities:		
Net Income	$ 2,497,460	$ 2,44
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	159,805	18
Amortization of deferred loan fees	(120,257)	(30
Gain on sale of loans	--	1
Proceeds from the sale of loans held for sale	--	1,16
Gain on sale of securities	(63,743)	(22
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in accounts payable and accrued expenses	19,060	(30
Decrease (increase) in deferred income taxes	(6,754)	4
Increase in prepaid expenses and other assets	(631,764)	(
Increase bank owned life insurance	(2,500,000)	
Increase in accrued interest receivable	(216,871)	(13
Increase (decrease) in accrued interest payable	114,851	(2
Net cash (used in) provided by operating activities	(748,213)	2,87
Investing Activities:		
Purchase of investment securities held to maturity	(21,500,000)	(3,98
Proceeds from maturities of investment securities held to maturity	11,237,653	12,43
Purchase of investment securities available for sale	(1,804,598)	(2,37

Proceeds from sale of investment securities available for sale	4,539,544	1,25
Purchase of FHLB stock	(547,800)	(63
Long-term loans originated or acquired	(49,426,495)	(66,74
Purchase of mortgage-backed securities available for sale	--	(5,01
Purchase of mortgage-backed securities held to maturity	(40,210,279)	(74,96
Principal collected on long-term loans & mortgage-backed securities	69,497,500	95,95
Purchases of premises and equipment	(298,987)	(3
Net cash used in investing activities	(28,513,462)	(44,11
Financing Activities:		
Net (decrease) increase in demand deposits, NOW accounts and savings accounts	(1,822,436)	6,64
Net increase in certificates of deposit	8,443,845	7,96
Cash dividends	(1,084,734)	(91
Net increase in FHLB advances	19,261,254	22,48
Use of treasury stock	383,020	38
Purchase of treasury stock	(204,100)	(25
Net proceeds from issuance of stock	155,398	
Net increase in advances from borrowers for taxes & insurance	2,500,144	2,21
Net cash provided by financing activities	27,632,391	38,54
DECREASE IN CASH AND CASH EQUIVALENTS	(1,629,284)	(2,69
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,718,784	6,40
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,089,500	$ 3,70
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 621,112	$ 65
Interest expense	10,968,618	10,19

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed 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 and six months ended March 31, 2005 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. The financial information should be read in conjunction with the annual report on Form 10-K.

Use of Estimates in Preparation of Financial Statements - 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 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. 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 condensed consolidated financial statements. Effective for the annual reporting period that begins after June 15, 2005, the FASB will require that the Company recognize compensation 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 is currently evaluating the effects the adoption will have on the Company's financial statements of the Company. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	For the Three Months Ended		For the Six Month	
	March 31, 2005	March 31, 2004	March 31, 2005	Mar
Net income	$1,241,966	$1,235,308	$2,497,460	$
Less: Stock based compensation expense	41,693	37,773	41,693	
Proforma net income	$1,200,273	$1,197,535	$2,455,767	$
Earnings per share:				
Basic - as reported	$ 0.32	$ 0.32	$ 0.65	$
Basic - pro forma	0.31	0.31	0.64	
Diluted - as reported	$ 0.32	$ 0.32	$ 0.64	$
Diluted - pro forma	0.31	0.31	0.63	

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:

	March 31, 2005		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government Agencies			
Due after 1 years through 5 years	$ 8,999,790		$ (144,790)
Due after 5 years through 10 years	13,991,246	$ 101,094	(134,340)
Due after 10 years through 15 years	32,441,716		(814,716)
Tax Exempt Obligations			
Due after 10 years through 15 years	8,922,332	481,668	
Due after 15 years	16,082,842	883,158	
Total Investment Securities	$80,437,926	$ 1,465,920	$(1,093,846)

A summary of investment with unrealized losses, aggregated by category, at March 31, 2005 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government agencies	$38,923,605	$ (544,055)	$10,423,140	$ (549,791)
Total	$38,923,605	$ (544,055)	$10,423,140	$ (549,791)

At March 31, 2005, investment securities in a gross unrealized loss position for twelve months or longer consisted of 18 agencies that at such date had an aggregate depreciation of 2.2% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. The Company has the ability and intent to hold these securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of March 31, 2005 represents an other-than-temporary impairment.

	September 30, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government Agencies			
Due after 1 years through 5 years	$ 999,347		$ (347)
Due after 5 years through 10 years	15,278,032	$ 186,208	(21,240)
Due after 10 years through 15 years	26,918,369	22,286	(402,655)
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	$ (424,242)

At March 31,2005 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. At March 31,2005 and September 30, 2004, these structured notes were comprised of step-up bonds with par values of $32.7 million and $38.7 million, respectively. 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:

	March 31, 2005		
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses
Equities	$ 1,070,024	$ 23,501	$ (63,635)
Mutual Funds	3,789,155		
Total Investment Securities	$ 4,859,179	$ 23,501	$ (63,635)

A summary of investment with unrealized losses, aggregated by category, at March

31,2005 is as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unre
Equities	$730,640	$(63,635)	$ --	$ --	$730,640	
Total	$730,640	$(63,635)	$ --	$ --	$730,640	

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

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:

	March 31, 2005		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Collateralized mortgage obligations	$16,561,899	$ 67,159	$ (261,058)
FHLMC pass-through certificates	127,534,584	224,495	(1,950,079)
FNMA pass-through certificates	120,581,656	226,047	(2,292,703)
GNMA pass-through certificates	8,421,318	370,682	
Total Mortgage-Backed Securities	$273,099,457	$ 888,383	$(4,503,840)

A summary of investment with unrealized losses, aggregated by category, at March 31,2005 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	$188,521,987	$ (2,996,695)	$ 49,048,904	$ (1,507,145)
Total	$188,521,987	$ (2,996,695)	$ 49,048,904	$ (1,507,145)

At March 31, 2005, mortgage-related securities in a gross unrealized loss position for twelve months or longer consisted of 84 securities that at such date had an aggregate depreciation of 1.9% from the Company's amortized cost basis. Management does not believe any individual unrealized loss as of March 31, 2005 represents an other-than-temporary impairment. The unrealized losses reported for mortgage-related securities relate primarily to securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and private institutions. The majority of the unrealized losses associated with mortgage-related securities are primarily attributable to changes in interest rates and not due to the deterioration of the creditworthiness of the issuer. The Company has the ability and intent to hold these securities until the securities mature.

	September 30, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	A
Collateralized mortgage obligations	$ 8,733,300	$ 42,446	$ (71,746)	$
FHLMC pass-through certificates	118,448,507	717,032	(189,539)	
FNMA pass-through certificates	123,234,413	831,713	(641,126)	
GNMA pass-through certificates	10,875,510	579,490		
Total Mortgage-Backed Securities	$261,291,730	$ 2,170,681	$ (902,411)	$

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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:

March 31, 2005

Gross Gross

	Amortized Cost	Unrealized Gains	Unrealized Losses
FNMA pass-through certificates	$ 1,428,303	$ --	$ (15,566)
Total Mortgage-Backed Securities	$ 1,428,303	$ --	$ (15,566)

A summary of investment with unrealized losses, aggregated by category, at March 31,2005 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	$1,412,737	$ (15,566)	$ --	$ --
Total	$1,412,737	$ (15,566)	$ --	$ --

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

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2005	September 30, 2004
Residential Mortgages	$ 260,925,802	$ 256,512,743
Commercial Mortgages	1,701,541	2,141,481
Construction	9,036,100	7,970,663
Savings Account	804,822	811,032
Home Equity	52,283,283	46,256,556
Automobile and other	759,170	732,062
Line of Credit	32,842,995	32,329,416

Total	358,353,713	346,753,953
Undisbursed portion of loans in process	(7,972,790)	(5,237,847)
Deferred loan fees	(854,766)	(955,052)
Allowance for loan losses	(1,971,415)	(1,976,849)
Loans receivable - net	$ 347,554,742	$ 338,584,205

The total amount of loans being serviced for the benefit of others was approximately $4.2 million and $4.5 million at March 31,2005 and September 30, 2004, respectively.

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

	Six Months Ended March 31, 2005	Year Ended September 30, 2004
Balance, beginning of period	$ 1,976,849	$ 1,990,672
Provision for loan losses	--	
Amounts charged-off	(8,080)	(15,394)
Loan recoveries	2,646	1,571
Balance, end of period	$ 1,971,415	$ 1,976,849

7. OFFICE PROPERTIES AND EQUIPMENT

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

	March 31, 2005	September 30, 2004
Land and buildings	$ 6,549,448	$ 6,489,050
Furniture, fixtures and equipment	3,401,822	3,102,835
Automobiles	24,896	24,896
Total	9,976,166	9,616,781
Less accumulated depreciation	(4,088,009)	(3,867,806)
Net	$ 5,888,157	$ 5,748,975

8. DEPOSITS

Deposits are summarized as follows:

	March 31, 2005	September 30, 2004
Non-interest bearing checking	$ 8,729,271	$ 8,335,991
NOW accounts	19,888,153	19,838,879
Checking accounts	3,889,526	3,431,273
Money Market Demand accounts	97,973,111	100,448,760
Passbook and Club accounts	3,799,610	4,047,204
Certificate accounts	277,572,377	269,128,532
Total deposits	$ 411,852,048	$ 405,230,639

The aggregate amount of certificate accounts in denominations of more than $100,000 at March 31, 2005 and September 30, 2004 amounted to approximately $31.7 million and $28.1 million, respectively. Amounts in excess of $100,000 may not be federally insured.

9. COMMITMENTS

At March 31,2005, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 8,819,130
Origination of adjustable-rate mortgage loans	753,000
Unused line of credit loans	38,474,794
Loans in process	7,972,790
Total	$56,019,714

10. CASH DIVIDEND AND STOCK SPLIT

On January 26, 2005, the Board of Directors declared a declared a cash dividend of $.25 ($.15 post split) per share and a five for three stock split payable on February 23, 2005 to the stockholders of record at the close of business on February 9, 2005. The number of shares and per share information has been restated to reflect the five for three stock split. The shares of Harleysville Savings Financial Corporation traded on February 24, 2005 on a post split

11. EARNINGS PER SHARE

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2005	2004	2005	2004
Basic	3,854,294	3,813,177	3,857,206	3,797,643
Diluted	3,926,205	3,897,528	3,915,365	3,888,740

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:

	March 31, 2005		September 30, 2004	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 35,533,859	3.67%	$ 40,428,147	3.40%
13 to 24 months	26,267,609	3.83%	9,545,900	3.55%

25 to 36 months	38,602,269	4.27%	28,476,845	3.59%
37 to 48 months	62,381,142	4.35%	54,582,988	5.08%
49 to 60 months	17,898,942	4.37%	34,950,243	3.77%
61 to 72 months	30,000,000	5.67%	15,000,000	6.08%
73 to 84 months	32,530,426	4.41%	25,968,870	4.89%
85 to 120 months	42,000,000	4.34%	57,000,000	4.43%
Total	$285,214,247	4.35%	$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 $22.0 million out of $30.0 was used at March 31, 2005 and $19.1 million was used as of September 30, 2004. Included in the table above at March 31, 2005 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 FHLB borrowing capacity of $541.0 million of which $285.2 million was used as of March 31, 2005.

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 March 31, 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2005, 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 Capital Adequacy Purposes	
	Amount	Ratio	Amount	Rati

As of March 31, 2005				
Tier 1 Capital (to assets)	$45,862,363	6.22%	$29,491,175	4.0
Tier 1 Capital (to risk weighted assets)	45,862,363	13.46%	13,632,175	4.0
Total Capital (to risk weighted assets)	47,833,363	14.04%	27,264,349	8.0
As of September 30, 2004				
Tier 1 Capital (to assets)	$44,124,545	6.20%	$28,480,960	4.0
Tier 1 Capital (to risk weighted assets)	44,124,545	13.69%	12,890,920	4.0
Total Capital (to risk weighted assets)	46,127,545	14.31%	25,781,840	8.0

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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 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 March 31, 2005, 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 Six Month Period Ended March 31, 2005

Total assets at March 31, 2005 were $748.4 million, an increase of $30.2 million or 4.20% for the six month period. This increase was attributable to an increase in investment securities held to maturity, mortgage-backed securities held to maturity, loans receivable, other assets and Federal Home Loan Bank stock of approximately $12.3 million, $11.8 million, $9 million, $3.1 million and $548,000, respectively. This growth is one of the ways the Company manages its capital based on its business plan. These increases were partially offset by decreases in investment securities available for sale, mortgage backed securities available for sale and cash and cash equivalents of approximately $2.9 million, $2.4 million and $1.6 million, respectively.

During the six-month period ended March 31, 2005, total deposits increased by $6.6 million to $411.9 million. Advances from borrowers for taxes and insurance also increased by $2.5 million. This is a seasonal increase as the majority of taxes the Company escrows for are disbursed in the month of August. There was also an increase in advances from Federal Home Loan Bank of $19.3 million, which was used to fund the purchase of investment securities held to maturity and originate residential loans.

Comparisons of Results of Operations for the Three and Six Month Period Ended March 31, 2005 with the Three and Six Month Period Ended March 31, 2004.

Net Interest Income

The increase in the net interest income for the three and six month periods ended March 31, 2005 when compared to the same periods in 2004 can be attributed to the increase in the net interest spread from 1.66% and 1.62% to 1.71% and 1.70%, respectively. This is attributed to the fact that the yield on interest earning assets rose more than the cost of the interest bearing liabilities.

Total interest income was $8.8 million for the three-month period ended March 31, 2005 compared to $8.1 million for the comparable period in 2004. For the six month period ended March 31, 2005, total interest income was $17.4 million compared to $16.2 million for the comparable period in 2004. The increase is the result of the increased average yield for the interest-earning assets to 4.95% and 4.92% for the three and six-month period ended March 31, 2005, respectively, from 4.79% and 4.82% for the comparable periods in 2004.

Total interest expense increased to $5.5 million for the three-month period ended March 31, 2005 from $5.0 million for the comparable period in 2004. For the six-month period ended March 31, 2005, total interest expense increased to $10.9 million from $10.2 million for the comparable period in 2004. These increases occurred as a result of a increase in the average balance and a increase in the average rate paid on interest-bearing liabilities to 3.24% and 3.22% for the three and six month periods ended March 31, 2005, respectively, from 3.13% and 3.20% for the comparable period ended March 31, 2004.

Other Income

Other income decreased to $341,000 for the three-month period ended March 31, 2005 from $434,000 for the comparable period in 2004. For the six-month period ended March 31, 2005, other income decreased to $755,000 from $888,000 for the comparable period in 2004. The three and six-month decrease is due to an decrease in the sale of loans and investments available for sale.

Other Expenses

During the quarter ended March 31, 2005, other expenses increased by $125,000 or 6.6% to $2.0 million when compared to the same period in 2004. For the six month period ended March 31, 2005, other expenses increased by $337,000 or 9.3% compared to the comparable period in 2004. Management believes these are normal increases in the cost of operations after considering the effects of inflation and the impact of the 5.2% growth in the assets of

the Company when compared to the same periods in 2004. The annualized ratio of expenses to average assets for the three and six month periods ended March 31, 2005 was 1.09%.

Income Taxes

The Company made provisions for income taxes of $432,000 and $859,000 for the three and six-month periods ended March 31, 2005, respectively, compared to $411,000 and $802,000 for the comparable periods in 2004. These provisions are based on the levels of taxable income.

Liquidity and Capital Recourses

As of March 31, 2005, the Company had $56.0 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, FHLB borrowings and new deposits. The amount of certificate accounts, which are scheduled to mature during the 12 months ending March 31, 2006, is $78.4 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 $541.0 million at March 31, 2005 of which $285.2 million was outstanding at March 31, 2005.

The Bank's net income for the six months ended March 31, 2005 of $2,497,000 increased the Bank's stockholders' equity to $46.0 million or 6.1% 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 Financial 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 March 31, 2005, 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	Over Yea
Interest-earning assets				
Mortgage loans	$ 42,208	$ 62,416	$ 44,761	$ 111
Mortgage-backed securities	68,059	74,326	47,566	84
Consumer and other loans	54,191	20,486	8,291	14
Investment securities and other investments	27,367	4,272	13,340	67
Total interest-earning assets	191,825	161,500	113,958	277
Interest-bearing liabilities				
Passbook and Club accounts	--	--	--	3
NOW and checking accounts	--	--	--	32
Money Market Deposit accounts	31,055	--	--	50
Choice Savings	4,192			12
Certificate accounts	78,407	127,085	72,080	
Borrowed money	57,523	84,285	44,460	98
Total interest-bearing liabilities	171,177	211,370	116,540	197

Repricing GAP during the period	$ 20,648	$ (49,870)	$ (2,582)	$ 79
Cumulative GAP	$ 20,648	$ (29,222)	$ (31,804)	$ 48
Ratio of GAP during the period to total assets	3.00%	-7.26%	-0.38%	1
Ratio of cumulative GAP to total assets	3.00%	-4.25%	-4.63%	

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 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.

Part II OTHER INFORMATION

Item 1,2,3,4 and 5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

None