HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-K
December 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: September 30, 2008

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 Number)
271 Main Street, Harleysville, Pennsylvania	19438
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The Nasdaq Stock Market, LLC

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

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

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 and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES [ ] NO [X]

The aggregate market value of the 3,065,419 shares of the Registrant's Common Stock held by non-affiliates (3,579,044 shares outstanding, less 513,625 shares held by affiliates), based upon the closing price of $13.50 for the Common Stock on March 31, 2008, as reported by the Nasdaq Stock Market, was approximately $41.4 million. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock outstanding as of December 17, 2008: 3,579,044

DOCUMENTS INCORPORATED BY REFERENCE

Set forth below are the documents incorporated by reference and the part of the Form 10-K into which the document is incorporated:

Portions of the definitive Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
2008 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward looking statements (as defined in the Securities Exchange Act of 1934 and the regulations hereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Harleysville Savings Financial Corporation and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: "believe", "expect", "anticipate", "intend", "plan", "estimate", or words of similar meaning, or future or conditional terms such as "will", "would", "should", "could", "may", "likely", "probably", or "possibly." Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumption, many of which are difficult to predict and generally are beyond the control of Harleysville Savings Financial Corporation and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Harleysville Savings Financial Corporation is or will be doing business, being less favorable than expected;(6) political and social unrest, including acts of war or terrorism; or (7) legislation or changes in regulatory requirements adversely affecting the business in which Harleysville Savings Financial Corporation will be engaged. Harleysville Savings Financial Corporation undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

As used in this report, unless the context otherwise requires, the terms "we," "us," or the "Company" refer to Harleysville Savings Financial Corporation, a Pennsylvania corporation, and the term the "Bank" refers to Harleysville Savings Bank, a Pennsylvania chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

PART I

Item 1. Business.

General

Harleysville Savings Financial Corporation is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Savings Bank in connection with the holding company reorganization of the Bank in February 2000 (the "Reorganization"). In August 1987, the Bank's predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County, Pennsylvania. The Bank's primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2008, the Company had $825.7 million of total assets, $425.5

million of deposits and $47.2 million of stockholders' equity. The Company's stockholders' equity constituted 5.72% of total assets as of September 30, 2008.

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

Deposits with the Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking ("Department"). It is also a member of the Federal Home Loan Bank of Pittsburgh ("FHLB of Pittsburgh" or "FHLB"), which is one of the 12 regional banks comprising the Federal Home Loan Bank System ("FHLB System"). The Bank is also subject to regulations of the Board of Governors of the Federal Reserve System ("Federal Reserve Board") governing reserves required to be maintained against deposits and certain other matters.

The Company's principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438 and its telephone number is (800) 243-8700.

Competition

The Company faces significant competition in attracting deposits. Its most direct competition for deposits has historically come from commercial banks and other savings institutions located in its market area. The Company faces additional significant competition for investors' funds from other financial intermediaries. The Company competes for deposits principally by offering depositors a variety of deposit programs, convenient branch locations, hours and other services. The Company does not rely upon any individual group or entity for a material portion of its deposits.

The Company's competition for real estate loans comes principally from mortgage banking companies, other savings institutions, commercial banks and credit unions. The Bank competes for loan originations primarily through the interest rates and loan fees it charges, the efficiency and quality of services it provides borrowers, referrals from real estate brokers and builders, and the variety of its products. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") eliminated many of the distinctions between commercial banks and savings institutions and holding companies and allowed bank holding companies to acquire savings institutions. FIRREA has generally resulted in an increase in the competition encountered by savings institutions and has resulted in a decrease in both the number of savings institutions and the aggregate size of the savings industry.

Lending Activities

Loan Portfolio Composition. The Company's loan portfolio is predominantly comprised of loans secured by first mortgages on single-family residential properties. As of September 30, 2008, first mortgage loans on residential properties, including loans on single-family and multi-family residential properties and construction loans on such properties, amounted to $344.5 million or 71.1% of the Company's total loan portfolio. Loans on the Company's residential properties are primarily long-term and are conventional (i.e., not insured or guaranteed by a federal agency).

As of September 30, 2008, loans secured by commercial real estate comprised $44.4 million or 9.2% of the total loan portfolio. Consumer loans, including installment home equity loans, home equity lines of credit, automobile loans, loans on savings accounts and education loans, constituted $94.3 million or 19.6% of the total loan portfolio as of September 30, 2008.

The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	As of September 30,						
	2008		2007		2006		
	Amount	Percent	Amount	Percent	Amount	Percent	A
	(Dollars in Thousands)						
Residential:							
Single-family	333,757	68.8%	$302,271	71.3%	$283,595	72.2%	$2
Multi-family	2,392	0.5	2,589	0.6	2,933	0.7	
Construction	8,346	1.7	6,093	1.4	6,987	1.8	
Lot loans	1,167	0.2	483	0.1	626	0.2	
Commercial	44,407	9.2	15,314	3.6	920	0.2	
Total real estate loans	390,069	80.4%	326,750	77.0%	295,061	75.1%	2
Consumer loans:							
Installment equity loans	66,280	13.7%	74,218	17.5%	70,515	17.9%	
Line of credit loans	26,103	5.5	21,385	5.1	25,500	6.6	
Savings account loans	955	0.2	977	0.2	1,003	0.3	
Automobile and other loans	1,000	0.2	903	0.2	812	0.2	
Total consumer loans	94,338	19.6%	97,483	23.0%	97,830	24.9%	
Total loans receivable	484,407	100.0%	424,233	100.0%	392,891	100.0%	3
Less:							
Loans in process	(5,109)		(2,794)		(4,941)		
Deferred loan fees	(452)		(453)		(544)		
Allowance for loan losses	(1,988)		(1,933)		(1,956)		
Total loans receivable net	$476,858		$419,053		$385,450		$3

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Contractual Maturities. The following table sets forth scheduled contractual maturities of the loan and mortgage-backed securities portfolio of the Company as of September 30, 2008 by categories of loans and securities. The principal balance of the loan is set forth in the period in which it is scheduled to mature. This table does not reflect loans in process or unamortized premiums, discounts and fees.

	Principal Balance at September 30, 2008	Principal Repayments Contractually Due in Year(s			
		2009	2010	2011-2013	2014-2017
			(In Thousands)		
Residential real estate loans:					
Single-family	$ 333,757	$ 5,006	$ 5,340	$ 18,023	$ 41,052
Multi-family	2,392	36	38	129	294
Construction	8,346	125	134	451	1,027
Lot loans	1,167	63	69	236	529
Mortgage-backed Securities	214,691	3,220	3,650	12,023	27,051
Commercial	44,407	1,599	1,732	6,084	14,077
Consumer and other loans	94,338	11,604	12,453	43,183	21,226
Total(1)	$ 699,098	$ 21,653	$ 23,416	$ 80,129	$105,256

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(1) With respect to the $677.4 million of loans with principal maturities contractually due after September 30, 2009, $661.5 million have fixed rates of interest and $15.9 million have adjustable or floating rates of interest.

Contractual principal maturities of loans do not necessarily reflect the actual term of the Company's loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan rates substantially exceed rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans substantially exceed current mortgage loan rates.

Interest rates charged by the Company on loans are affected principally by the demand for such loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and government budgetary matters. The interest rates charged by the Company are competitive with those of other local financial institutions.

Origination, Purchase and Sale of Loans. Although the Company has general authority to originate, purchase and sell loans secured by real estate located throughout the United States, the Company's lending activities are focused in its assessment area of Montgomery County, Pennsylvania and surrounding suburban counties.

The Company accepts loan applications through its branch network, and also accepts mortgage applications from mortgage brokers who are approved by the Board of Directors to do business with the Company. The Company generally does not engage in the purchase of whole loans. The Company did engage in the sale and the acquisition of participations of commercial loans on a limited basis during fiscal year 2008.

During the years ended September 30, 2008 and 2007, the Company did not sell any loans.

The Company's total loan originations increased by $21.7 million or 17.7% in fiscal 2008 and increased by $14.6 million or 13.6% in fiscal 2007. Of the $143.6 million and $121.9 million of total loans

originated in fiscal 2008 and 2007, respectively, $9.4 million and $5.7 million, respectively, were loans originated to fund multi-family and construction properties, and $67.9 million and $58.6 million, respectively, were loans to acquire residential property. During this period, the Company's originations of consumer loans amounted to $66.3 million and $57.7 million or 46.2% and 47.3% of total loan originations during fiscal 2008 and 2007, respectively. Management intends to continue to emphasize origination of consumer loans which may have adjustable rates, and generally have shorter terms than residential real estate loans.

The following table shows total loans originated, sold and repaid during the periods indicated.

	Year Ended September 30, 2008	Year Ended September 30, 2007
	(In Thousands)	
Real estate loan originations:		
Residential:		
Single-family	$ 67,873	$ 58,562
Multi-family	--	--
Construction	9,395	5,719
Lot loans	--	--
Commercial	31,764	23,823
Total real estate loan originations	109,032	88,104
Consumer loan originations(1)	34,584	33,831
Total loan originations	143,616	121,935
Purchases of mortgage-backed securities	61,835	20,939
Total loan originations, and purchases	205,451	142,874
Principal loan and mortgage-backed securities repayments	134,885	135,763
Sales of loans and mortgage-backed securities	1,268	--
Total principal repayments and sales	136,153	135,763
Net increase in loans and mortgage-backed securities	$ 69,298	$ 7,111

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(1) Includes installment home equity loans, home equity lines of credit, vehicle loans, secured and unsecured personal loans and lines of credit.

Loan Underwriting Policies. Each loan application received by the Company is underwritten to the standards of the Company's written underwriting policies as adopted by the Company's Board of Directors. The Company's Board of Directors has granted loan approval authority to several officers and employees of the Company, provided that the loan meets the guidelines set out in its written underwriting policies. Individual approval authority of $500,000 has been granted to the Company's Chief Executive Officer, the Company's Chief Financial Officer, and the Company's Chief Lending Officer. Joint approval authority of $1.0 million has been granted to a combination of at least two of the above named individuals. Individual lending authority of $250,000 has been granted to the Bank's Assistant Vice President/Loan Administration Manager, the Assistant Vice President/Loan Customer Service Manager and to the Bank's Consumer Loan and Residential Mortgage Underwriter, employed by the Company. Additional consumer loan lending authority of $50,000 has been granted to several delegated underwriters, employed by the Bank. Loans with policy exceptions require approval by the next highest approval authority. Loans over $1.0 million must be approved by the Company's Senior Loan Committee or the Board of Directors.

In the exercise of any loan approval authority, the officers of the Company will take into account the risk associated with the extension of credit to a single borrower, borrowing entity, or affiliation. The Company has an aggregate loans to one borrower limit of 15% of the Company's unimpaired capital and unimpaired surplus in accordance with federal regulations. At September 30, 2008, the largest aggregate amount of loans

outstanding to any borrower, including related entities, was $2.6 million, which did not exceed the Company's loan to one borrower limitation.

Single Family Residential Real Estate Lending. The Company is permitted to lend up to 97%, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the security property. The Company will generally lend up to 95% of the lesser of the appraised value or the sale price for the purchase of single-family, owner-occupied dwellings which conform to the secondary market underwriting standards. Refinancings are limited to 90% or less. Loans over $417,000 and other non-conforming loans, secured by 1-4 residential, owner-occupied dwellings, are limited to 90% of the lesser of the purchase price or appraised value. The purchase of non-owner occupied, 1-4 unit dwellings may be financed to 80% of the lower of the appraisal or sale price; a refinance is limited to 80% of the appraised value if the borrower's FICO score is 680 or higher.

All appraisals and other property valuations are performed by independent fee appraisers approved by the Company's Senior Loan Committee. On all amortizing real estate loans, the Company requires borrowers to obtain title insurance, insuring the Company has a valid first lien on the mortgaged real estate. Borrowers must also obtain and maintain a hazard insurance policy prior to closing and, when the real estate is located in a flood hazard area designated by the Federal Emergency Management Agency, a flood insurance policy is required. Generally, borrowers advance funds on a monthly basis together with payment of principal and interest into a mortgage escrow account from which the Company makes disbursements for items such as real estate taxes and insurance premiums as they fall due.

The Company presently originates fixed-rate loans on single-family residential properties pursuant to underwriting standards consistent with secondary market guidelines, and which may or may not be sold into the secondary mortgage market as conditions warrant. Adjustable rate mortgages ("ARMs"), as well as non-conforming and jumbo fixed-rate loans in amounts up to $2.0 million, are held in the portfolio. It is the Company's policy to originate both fixed-rate loans and ARMs for terms up to 30 years. As of September 30, 2008, $341.1 million or 48.9% and $2.4 million or 0.3% of the Company's total loan and mortgage-backed securities portfolio consisted of single-family (including construction loans) and multi-family residential loans, respectively. As of September 30, 2008, approximately $547.0 million or 90.4% of the Company's total mortgage loans and mortgage-backed securities portfolio consisted of fixed-rate, single-family residential mortgage loans. As of such date, $57.8 million or 9.6% of the total mortgage loan portfolio consisted of adjustable-rate single-family residential mortgage loans and mortgage-backed securities. Most of the Company's residential mortgage loans include "due on sale" clauses.

During the years ended September 30, 2008 and 2007, the Company originated $13.0 million and $4.6 million of ARM mortgages, respectively. ARMs represented 20.3% and 8.6% of the Company's total mortgage loan portfolio originations in fiscal 2008 and 2007, respectively. The ARM mortgages offered by the Company are originated with initial adjustment periods varying from one to 10 years, and provide for initial rates of interest below the rates which would prevail were the index used for repricing applied initially. The Company expects to emphasize the origination of ARMs as market conditions permit, in order to reduce the impact of rising interest rates in the market place. Such loans, however, may not adjust as rapidly as changes in the Company's cost of funds.

Multi-family Residential Real Estate Lending. Harleysville Savings Bank originates mortgage loans secured by multifamily dwelling units. At September 30, 2008, $2.4 million, or 0.3% of our total loan and mortgage-backed securities portfolio consisted of loans secured by multifamily residential real estate. The majority of our multifamily residential real estate loans are secured by apartment buildings located in the Bank's local market area. The interest rates for our multifamily residential real estate loans generally adjust at five- to ten-year intervals, with the rate to be negotiated at the end of such term or to automatically convert to

a floating interest rate. These loans generally have a five-year term with an amortization period of no more than twenty years. At September 30, 2008, the largest such loan had a balance of $529,000. At that date, we had no multifamily residential real estate loans that were delinquent in excess of 30 days.

Construction Loans. The Company offers fixed-rate and adjustable-rate construction loans on residential properties. Residential construction loans are originated for individuals who are building their primary residence as well as to selected local builders for construction of single-family dwellings. As of September 30, 2008, $8.3 million or 1.2% of the total loan and mortgage-backed securities portfolio consisted of construction loans.

Construction loans to homeowners are usually made in connection with the permanent financing on the property. The permanent loans have amortizing terms up to 30 years, following the initial construction phase during which time the borrower pays interest on the funds advanced. These loans are reclassified as permanent mortgage loans when the residences securing the loans are completed. The Company will make construction/permanent loans up to a maximum of 90% of the fair market value of the completed project. The rate on the loan during construction is the same rate as the Company will charge on the permanent loan on the completed project. Advances are made on a percentage of completion basis with the Company's receipt of a satisfactory inspection report of the project.

Historically, the Company has been active in on-your-lot home construction lending and intends to continue to emphasize such lending. Although construction lending is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate, the Company historically has not experienced any significant problems.

The Company also offers mortgage loans on undeveloped single lots held for residential construction. These loans are generally fixed-rate loans with terms not exceeding 15 years; they are not a significant part of the Company's lending activities. Additionally, the Bank has not been active in residential subdivision lending and has no acquisition/development of loans in the portfolio.

Commercial Real Estate Loans. Harleysville Savings Bank originates mortgage loans for the acquisition and refinancing of commercial real estate properties. At September 30, 2008, $44.4 million, or 6.4% of the Bank's total loan and mortgage-backed securities portfolio consisted of loans secured by commercial real estate properties, owner occupied commercial real estate loans and non-owner occupied commercial real estate loans. The majority of our commercial real estate loans are secured by office buildings, manufacturing facilities, distribution/warehouse facilities, and retail centers, which are generally located in our local market area. The interest rates for our commercial real estate loans generally adjust at one- to five-year intervals, and are typically renegotiated at the end of such period or automatically converted to a floating interest rate. The loans generally have a five-year term with an amortization period of no greater than twenty five years. At September 30, 2008, the largest such loan had a balance of $2.6 million.

Harleysville Savings Bank generally requires appraisals of the properties securing commercial real estate loans. Appraisals are performed by an independent appraiser designated by Harleysville Savings Bank and all appraisals are reviewed by management. Harleysville Savings Bank considers the quality and location of the real estate, the credit of the borrower, the cash flow of the project and the quality of management involved with the property when making decisions on commercial real estate loans.

Loan-to-value ratios on our commercial real estate loans are generally limited to 80% of the appraised value of the secured property. As part of the criteria for underwriting commercial real estate loans, we generally impose a debt service coverage ratio (the ratio of net operating income before payment of debt

service compared to debt service) of not less than 1.2-to-1. It is also our general practice to obtain personal guarantees from the principals of our corporate borrowers on commercial real estate loans.

Loans secured by commercial real estate typically have higher balances and are more difficult to evaluate and monitor and, therefore, involve a greater degree of credit risk than other types of loans. If the estimate of value proves to be inaccurate, the property may not provide us with full repayment in the event of default and foreclosure. Because payments on these loans are often dependent on the successful development, operation, and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Harleysville Savings Bank seeks to minimize these risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. Harleysville Savings Bank also generally obtains loan guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending generally involves greater credit risk than residential mortgage or consumer lending, and involves risks that are different from those associated with commercial real estate lending. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may represent an insufficient source of repayment because equipment and other business assets may, among other things, be obsolete or of limited use. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors), while liquidation of collateral is considered a secondary source of repayment.

Consumer and Other Loans. The Company actively originates consumer loans to provide a wider range of financial services to its customers and to improve the interest rate sensitivity of its interest-earning assets. Originations of consumer loans as a percent of total loan originations amounted to 46.2% and 47.3% during fiscal 2008 and 2007, respectively. The shorter-term and normally higher interest rates on such loans help the Company to maintain a profitable spread between its average loan yield and its cost of funds. The Company's consumer loan department offers a variety of loans, including home equity installment loans and lines of credit, vehicle loans, personal loans and lines of credit. Loans secured by deposit accounts at the Company are also made to depositors in an amount up to 90% of their account balances with terms of up to 15 years.

Home equity loans and lines of credit continue to be a popular product and represented $92.4 million or 13.4% of the loan and mortgage-backed securities portfolio at September 30, 2008. After taking into account first mortgage balances, the Company will lend up to 80% of the value of owner-occupied property on fixed rate terms up to 15 years. This amount may be raised to 100% when considering other factors, such as excellent credit history and income stability. At September 30, 2008, the Company had outstanding 3,022 home equity loans of which 1,800 were installment equity loans and 1,222 were line of credit loans. As of such date, the Company had an outstanding balance on line of credit loans of approximately $26.1 million and there was approximately $41.3 million of unused credit available on such loans.

Consumer loans generally involve more risk of collectibility than mortgage loans because of the type and nature of the collateral and, in certain cases, the absence of collateral. As continued payments are dependent on the borrower's continuing financial stability, these loans may be more likely to be adversely affected by job loss, divorce, personal bankruptcy or by adverse economic conditions.

Loan Fee and Servicing Income. The Company receives fees both for the origination of loans and for making commitments to originate and purchase residential and commercial mortgage loans. The Company also receives servicing fees with respect to residential mortgage loans it has sold. It also receives loan fees related to existing loans, including late charges, and credit life insurance commissions. Loan origination and

commitment fees and discounts are a volatile source of income, varying with the volume and type of loans and commitments made and purchased and with competitive and economic conditions.

Loans fees generated on origination of loans under accounting principles generally accepted in the United States of America are deferred to the extent that they exceed the costs of originating such loans. Deferred loan fees and discounts on mortgage loans purchased are amortized to income as a yield adjustment over the estimated remaining terms of such loans using the interest method.

As of September 30, 2008, the Company was servicing $2.9 million of loans for others, which related to loans sold by the Company to the FHLMC and Federal Home Loan Bank of Pittsburgh in the amounts of $17,900 and $2.9 million, respectively. The Company receives a servicing fee of 0.25% on such loans.

Non-performing Loans and Real Estate Owned. When a borrower fails to make a required loan payment, the Company attempts to cure the default by contacting the borrower; generally, after a payment is more than 15 days past due, at which time a late charge is assessed. Defaults are cured promptly in most cases. If the delinquency on a mortgage loan exceeds 60 days and is not cured through the Company's normal collection procedures, or an acceptable arrangement is not worked out with the borrower, the Company will institute measures to remedy the default. This may include commencing a foreclosure action or, in special circumstances, accepting from the borrower a voluntary deed of the secured property in lieu of foreclosure with respect to mortgage loans and equity loans, or title and possession of collateral in the case of other consumer loans. Substantial delays may occur in instituting and completing residential foreclosure proceedings due to the extensive procedures and time periods required to be complied with under Pennsylvania law.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest income is recognized using the interest method when the collection is reasonably assured. The Company had no loans outstanding which were recorded as loans accounted for on a non-accrual basis as of the end of fiscal 2007 and one residential mortgage loan totaling $244,000 which was classified as non-accrual at the end of fiscal year 2008.

If foreclosure is effected, the property is sold at a public auction in which the Company may participate as a bidder. If the Company is the successful bidder, the acquired real estate property is then included in the Company's real estate owned ("REO") account until it is sold. When property is acquired, it is recorded at the market value at the date of acquisition less estimated cost to sell and any write-down resulting is charged to the allowance for loan losses. Interest accrual, if any, ceases on the date of acquisition and all costs incurred in maintaining the property from that date forward are expended. Costs incurred for the improvement or development of such property are capitalized. The Company is permitted under Department regulations to finance sales of real estate owned by "loans to facilitate," which may involve more favorable interest rates and terms than generally would be granted under the Company's underwriting guidelines. The Company had no REO at the end of fiscal 2008 or 2007.

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The following table sets forth information regarding non-accrual loans, loans which are 90 days or more delinquent but on which the Company is accruing interest, troubled debt restructuring, and other real estate owned held by the Company at the dates indicated. The Company continues to accrue interest on loans which are 90 days or more overdue where management believes that such interest is collectible.

	As of September 30,				
	2008	2007	2006	2005	2004
	(Dollars in Thousands)				
Residential real estate loans:					
Non-accrual loans	$ 244	$ --	$ --	$ --	$ --
Accruing loans 90 days overdue	192	--	--	260	291
Troubled debt restructurings	--	--	--	--	--
Total	436	--	--	260	291
Commercial loans:					
Non-accrual loans	--	--	--	--	--
Accruing loans 90 days overdue	815	--	--	--	--
Troubled debt restructurings	--	--	--	--	--
Total	815	--	--	--	--
Consumer loans:					
Non-accrual loans	--	--	--	--	--
Accruing loans 90 days overdue	7	28	18	--	--
Troubled debt restructurings	--	--	--	--	--
Total	7	28	18	--	--
Total non-performing loans:					
Non-accrual loans	244	--	--	--	--
Accruing loans 90 days overdue	1,014	28	18	260	291
Troubled debt restructurings	--	--	--	--	--
Total	$1,258	$ 28	$ 18	$ 260	$ 291
Total non-performing loans to total loans	.26%	n/m*	n/m*	.07%	.09%
Total real estate owned, net of related reserves	--	--	--	--	--
Total non-performing loans and other real estate owned to total assets	n/m*	n/m*	n/m*	.03%	.04%

* Not material

Management establishes reserves for losses on delinquent loans when it determines that losses are probable. The Company has recorded a provision for general loan losses totaling $85,000 in fiscal 2008, due to the increase in unemployment trends and decline in property values reflecting an instability in the economy. The Company did not record a provision for general loan losses in fiscal 2007 due to the overall performance of the loan portfolio and management's assessment of the overall adequacy of the allowance for loan losses. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, future adjustments to reserves may be necessary if economic conditions differ substantially from the assumptions used in making the initial determinations.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectibility because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish specific reserves for losses on delinquent consumer loans and commercial loans when it determines that losses are probable. In addition, consumer loans are charged against reserves if they are more than 120 days delinquent unless a satisfactory repayment schedule is arranged.

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The following table summarizes activity in the Company's allowance for loan losses during the periods indicated.

	Year Ended September 30,			
	2008	2007	2006	2005
	(In Thousands)			
Total loans outstanding at end of period	484,407	424,233	392,892	373,580
Average loans outstanding	454,320	408,563	383,236	360,167
Allowances at beginning of year	$ 1,933	$ 1,956	$ 1,968	$ 1,977
Provision for loan loss	85	--	--	--
Charge-offs:				
Single family	--	--	--	--
Multi family	--	--	--	--
Construction	--	--	--	--
Commercial	--	--	--	--
Home equity	(13)	(1)	--	--
Consumer non-real estate	(27)	(35)	(20)	(14)
Total charge-offs	(40)	(36)	(20)	(14)
Recoveries of loans previously charged off	10	13	8	5
Allowance for loan losses, end of period	$ 1,988	$ 1,933	$ 1,956	$ 1,968
Allowance for loan losses as a percent non-performing loans	158.03%	6,903.57%	10,866.67%	756.92%
Ratio of net charge-offs during the period to average loans outstanding during the period	0.01%	0.01%	0.00%	0.00%

The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

As of September 30,						
2008		2007		2006		
Amount of Allowance	Loan Category as a % of total Loans	Amount of Allowance	Loan Category as a % of total Loans	Amount of Allowance	Loan Category as a % of total Loans	Amoun of Allowa

	(Dollars in Thousands)						
Single-family	$ 543	68.8%	$ 304	71.3%	$ 285	72.1%	$
Commercial real estate and multi family residential	486	9.7	236	4.2	49	0.9	
Construction	13	1.7	9	1.4	10	1.8	
Lot loan	3	0.2	1	0.1	2	0.2	
Installment equity loans	99	13.7	115	17.5	107	17.9	
Line of credit loans	103	5.5	125	5.1	133	6.6	
Savings account loans	1	0.2	1	0.2	1	0.3	
Automobile and other loans	19	0.2	17	0.2	15	0.2	
Unallocated	721	--	1,125	--	1,354	--	1,
Total	$ 1,988	100.0%	$ 1,933	100.0%	$ 1,956	100.0%	$ 1,

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

Investment Activities

The Company's investment portfolio consists primarily of United States government agency mortgage-backed securities and debt obligations of United States government agencies. The other investments include tax-exempt municipal obligations, money market mutual funds, and stock of the FHLB of Pittsburgh. The Company has primarily invested in instruments that reprice within five years; the amount of such investments as of September 30, 2008 was $49.5 million.

As of September 30, 2008, the Company had $214.7 million of mortgage-backed securities, invested in Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA") or Federal National Mortgage Association ("FNMA") backed securities. FHLMC securities are guaranteed by the FHLMC, GNMA securities by the Federal Housing Administration and FNMA securities by the FNMA, which are an instrumentality of the United States government, and, pursuant to federal regulations, are deemed to be part of the Company's loan portfolio.

The following table sets forth certain information relating to our investment and mortgage-backed securities portfolios and our investments in FHLB stock at the dates indicated.

	September 30,			
	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Mortgage-backed securities	$ 214,691	$212,572	$ 193,660	$189,430

U.S. government and agency Obligations	54,314	54,076	83,155	82,834
Municipal securities	24,940	24,897	25,538	26,472
Equity securities	842	842	1,334	1,334
Mutual Funds	12	12	576	576
FHLB stock	16,574	16,574	14,140	14,140
Total investment and mortgage-backed securities and FHLB stock	$ 311,373	$308,973	$ 318,403	$314,786

The following table sets forth the amount of investment and mortgage-backed securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at September 30, 2008. No tax-exempt yields have been adjusted to a tax-equivalent basis.

	Amounts at September 30, 2008 Which Mature in						
	One year Or less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Through Ten Years	Weighted Average Yield	
				(Dollars in Thousands)			
Bonds and other Debt securities:							
Mortgage-backed securities	$ 3,517	3.96%	$ 27,149	4.32%	$ 27,590	4.37%	$
U.S. government agency obligations	--	--	5,000	4.21%	2,000	4.46%	
Municipal securities	--	--	--	--	2,231	5.63%	
Total	$ 3,517	3.96%	$ 32,149	4.30%	$ 31,821	4.47%	$

The Company's investment strategy is set and reviewed periodically by the entire Board of Directors.

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Sources of Funds

General. Deposits are the primary source of the Company's funds for use in lending and for other general business purposes. In addition to deposits, the Company obtains funds from loan payments and prepayments, FHLB advances and other borrowings, and, to a lesser extent, sales of loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general market interest rates and economic conditions.

Deposits. The Company has a number of different programs designed to attract both short-term and long-term deposits from the general public by providing an assortment of accounts and rates consistent with FDIC regulations.

These programs include passbook and club savings accounts, NOW and regular checking accounts, money market deposit accounts, retirement accounts, certificates of deposit ranging in terms from 90 days to 60 months and jumbo certificates of deposit in denominations of $100,000 or more. The interest rates on the Company's various accounts are determined weekly by the Interest Rate Risk Management Officer based on reports prepared by members of senior management. The Company attempts to control the flow of deposits by pricing its accounts to remain competitive with other financial institutions in its market area.

The Company's deposits are obtained primarily from residents of Montgomery and Bucks Counties; the Company does not utilize brokered deposits. The principal methods used by the Company to attract deposit accounts include local advertising, offering a wide variety of services and accounts, competitive interest rates and convenient office locations. The Company also is a member of the "STAR" ATM network.

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The following table shows the distribution of, and certain other information relating to, the Company's deposits by type as of the dates indicated.

	As of September 30,			
	2008		2007	
	Amount	Percent of Deposits	Amount	Percent of Deposits
	(Dollars in Thousands)			
Passbook and club accounts	$ 2,641	0.7%	$ 2,864	0.7%
NOW and interest-bearing checking accounts	42,203	9.9	39,460	9.3
Non-interest-bearing checking accounts	10,964	2.6	11,741	2.9
Money market demand accounts	50,928	12.0	50,966	12.0
Certificates of deposit:				
3 month	584	0.1	703	0.2
6 month	1,840	0.4	2,697	0.6
7 month	69,257	16.4	41,186	9.7
9 month	15,488	3.6	55,684	13.1
12 month	19,327	4.5	6,269	1.5
15 month	6,113	1.4	10,989	2.6
17 month	40,895	9.6	56,257	13.3
18 month	14,039	3.3	4,336	1.0
20 month	18,811	4.4	971	0.2
24 month	3,037	0.7	2,576	0.6
27 month	582	0.1	728	0.2
36 month	30,048	7.1	5,099	1.2
48 month	33,636	7.9	60,381	14.2
60 month	8,591	2.0	15,464	3.6
Other	203	0.0	204	0.0
Retirement accounts:				
Money market deposit accounts	1,076	0.3	860	0.2
Certificates of deposit	55,250	13.0	54,600	12.9

Total deposits	$ 425,513	100.0%	$ 424,035	100.0%

The large variety of deposit accounts offered by the Company has increased the Company's ability to retain deposits and has allowed it to be competitive in obtaining new funds, although the threat of disintermediation (the flow of funds away from savings institutions into direct investment vehicles such as government and corporate securities and non-deposit products) still exists. The new types of accounts; however, have been more costly than traditional accounts during periods of high interest rates. In addition, the Company has become more vulnerable to short-term fluctuations in deposit flows as customers have become more rate-conscious and willing to move funds into higher yielding accounts. The ability of the Company to attract and retain deposits and the Company's cost of funds have been, and will continue to be, significantly affected by money market conditions.

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The following table presents certain information concerning the Company's deposit accounts as of September 30, 2008 and the scheduled quarterly maturities of its certificates of deposit.

	Amount	Percentage of Total Deposits	Weighted Average Nominal Rate
		(Dollars in Thousands)	
Passbook and club accounts	$ 2,641	0.6%	1.00%
NOW and interest-bearing checking accounts	42,203	9.9	0.83
Non-interest-bearing checking accounts	10,963	2.6	0.00
Money market deposits accounts(1)	52,005	12.2	1.47
Total	$ 107,812	25.3%	1.06%
Certificate accounts maturing by quarter:			
December 31, 2008	$ 91,899	21.6%	3.56%
March 31, 2009	69,615	16.5	3.31
June 30, 2009	26,572	6.2	3.08
September 30, 2009	20,804	4.9	3.13
December 31, 2009	16,356	3.8	3.10
March 31, 2010	26,974	6.3	3.70
June 30, 2010	3,183	0.7	3.28
September 30, 2010	1,975	0.5	3.81
December 31, 2010	1,425	0.3	4.28
March 31, 2011	1,794	0.4	4.17
June 30, 2011	10,857	2.6	3.92
September 30, 2011	25,272	6.0	3.95
Thereafter	20,975	4.9	3.81
Total certificate accounts(1)	317,701	74.7	3.49

Total deposits	$ 425,513	100.0%	2.87%

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(1) Includes retirement accounts.

Management of the Company expects, based on historical experience and its pricing policies, to retain a significant portion of the $208.9 million of certificates of deposit which mature during the 12 months ending September 30, 2009.

The following table sets forth the net deposit flows of the Company during the periods indicated.

	Year Ended September 30,	
	2008	2007
	(In Thousands)	
Decrease before interest credited	$ (13,740)	$ (19,514)
Interest credited	15,218	14,295
Net deposit increase (decrease)	$ 1,478	$ (5,219)

The following table presents by various interest rate categories the amounts of certificate accounts as of the dates indicated and the amounts of certificate accounts as of September 30, 2008 which mature during the periods indicated.

	As of September 30, 2008	Amounts at September 30, 2008 Maturing			
		One Year or Less	Two Years	Three Years	Thereaf
		(In Thousands)			
Certificate accounts:					
0.01% to 2.00%	$ 996	$ 964	$ 32	$ --	$
2.01% to 4.00%	223,768	137,686	34,344	34,963	16,
4.01% to 6.00%	92,937	70,239	14,113	4,385	4,
Total certificate accounts(1)	$ 317,701	$ 208,889	$ 48,489	$ 39,348	$ 20,

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(1) Includes retirement accounts.

The following table sets forth the maturity of our certificates of deposit of $100,000 or more at September 30, 2008, by time remaining to maturity.

At September 30, 2008

Quarter Ending:	Amount	Weighted Average Rate
	(Dollars in Thousands)	
December 31, 2008	$ 16,015	3.44%
March 31, 2009	14,666	2.98%
June 30, 2009	4,278	3.03%
September 30, 2009	3,414	3.14%
After September 30, 2009	15,056	3.90%
Total certificates of deposit with balances of $100,000 or more	$ 53,429	3.39%

Borrowings. The Bank obtains advances from the FHLB of Pittsburgh upon the security of its capital stock in the FHLB of Pittsburgh and a portion of its first mortgages. See "Regulation - Regulation of the Bank - Federal Home Loan Bank System." At September 30, 2008, the Bank had advances with maturities of one year or less totaling $35.9 million at an interest rate of 3.18% and FHLB advances with maturities of 13 months to 10 years totaling $262 million at interest-rates ranging from 2.05% to 5.60%. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $50 million at interest-rates ranging from 3.50% to 4.55%.

Depending on the program, limitations on the amount of advances are based on either a fixed percentage of assets or the FHLB of Pittsburgh's assessment of the Bank's creditworthiness. FHLB advances are generally available to meet seasonal and other withdrawals of deposit accounts, to purchase mortgage-backed securities, investment securities and to expand lending.

The following table sets forth certain information regarding the borrowings of the Company as of the dates indicated.

	September 30,			
	2008		2007	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars In Thousands)			
Advances	$ 347,846	4.12%	$ 298,609	4.65%

The following table sets forth certain information concerning the short-term borrowings of the Company for the periods indicated.

	Year Ended September 30,	
	2008	2007
	(In Thousands)	
Advances :		

Average balance outstanding	$ 16,934	$ 48,172
Maximum amount outstanding at any month-end during the period	$ 39,000	$ 67,400
Weighted average interest rate during the period	2.96%	5.36%

Employees

The Company had 71 full-time employees and 46 part-time employees as of September 30, 2008. None of these employees is represented by a collective bargaining agent, and the Company believes that it enjoys good relations with its personnel.

Regulation

The references to laws and regulations which are applicable to the Company and the Bank set forth below and elsewhere herein are brief summaries thereof which do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

Regulation of the Company

General. The Company is a registered bank holding company pursuant to the Bank Holding Company Act ("BHCA") and, as such, is subject to regulation and supervision by the Federal Reserve Board and the Department. The Company is required to file annually a report of its operations with, and is subject to examination by, the Federal Reserve Board and the Department.

BHCA Activities and Other Limitations. The BHCA prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve Board. The BHCA also generally prohibits a bank holding company from acquiring any bank located outside of the state in which the existing bank subsidiaries of the bank holding company are located unless specifically authorized by applicable state law. No approval under the BHCA is required; however, for a bank holding company already lawfully owning or controlling more than 50% of the voting shares of a bank to acquire additional shares of such bank.

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The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The BHCA permits a bank holding company to elect to be considered a financial holding company ("FHC"). A bank holding company that makes an FHC election is permitted to engage in activities that are financial in nature or incidental to such financial activities. The BHCA lists certain activities that are considered financial in nature and permits the Federal Reserve Board to expand that list to include other activities that are complementary to the activities on the preapproved list. The preapproved activities include (1) securities underwriting, dealing and market making; (2) insurance underwriting; (3)

merchant banking; and (4) insurance company portfolio investments. The Company has not made the FHC election.

The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the BHCA. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities, including real estate brokerage and syndication, land development, property management and underwriting of life insurance not related to credit transactions, are not closely related to banking and a proper incident thereto. However, under the BHCA certain of these activities are permissible for a bank holding company that becomes an FHC.

Limitations on Transactions with Affiliates. Transactions between savings banks and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings bank is any company or entity which controls, is controlled by or is under common control with the savings bank. In a holding company context, the parent holding company of a savings bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings bank. Generally, Section 23A (i) limits the extent to which the savings bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least favorable, to the bank or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from, issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings bank to an affiliate.

In addition, Sections 22(h) and (g) of the Federal Reserve Act places restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a savings bank, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings bank's loans to one borrower limit (generally equal to 15% of the bank's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the

same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings bank to all insiders cannot exceed the bank's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders' equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital), less goodwill and, with certain exceptions, intangibles. Tier II capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Single-family residential first mortgage loans which are not past-due (90 days or more) or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighing system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total assets of 3.0%. Total assets for this purpose does not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Tier I leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies will be expected to maintain Tier I leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition.

Financial Support of Affiliated Institutions. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances when it might not do so absent such policy. Section 18 of the Federal Deposit Insurance Act ("FDIA") describes the circumstances under which a Federal banking agency would be protected from a claim by an affiliate or a controlling shareholder of an insured depository institution seeking the return of assets of such an affiliate or controlling shareholder. Under that provision, a claim would not be permitted if (1) the insured depository institution was under a written Federal directive to raise capital, (2) the institution was undercapitalized, and (3) the subject Federal banking agency followed the procedures set forth in Section 5(g) of the BHCA.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 generally established a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors. Among other things, the legislation (i) created a public company accounting oversight board which is empowered to set auditing, quality control and ethics standards, to inspect registered public accounting firms, to conduct investigations and to take disciplinary actions, subject to SEC oversight and review; (ii)

strengthened auditor independence from corporate management by, among other things, limiting the scope of consulting services that auditors can offer their public company audit clients; (iii) heightened the responsibility of public company directors and senior managers for the quality of the financial reporting and disclosure made by their companies; (iv) adopted a number of provisions to deter wrongdoing by corporate management; (v) imposed a number of new corporate disclosure requirements; (vi) adopted provisions which generally seek to limit and expose to public view possible conflicts of interest affecting securities analysts; and (vii) imposed a range of new criminal penalties for fraud and other wrongful acts, as well as extended the period during which certain types of lawsuits can be brought against a company or its insiders.

Regulation of the Bank

General. The Bank is subject to extensive regulation and examination by the Department and by the FDIC, which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. There are periodic examinations by the Department and the FDIC to test the Bank's compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department, the FDIC or the Congress could have a material adverse impact on the Bank and its operations.

Pennsylvania Savings Bank Law. The Pennsylvania Banking Code of 1965, as amended (the "Banking Code") contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, employees and members, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

One of the purposes of the Banking Code is to provide savings banks with the opportunity to be competitive with each other and with other financial institutions existing under other Pennsylvania laws and other state, federal and foreign laws. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in Pennsylvania, with the prior approval of the Department.

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

Interstate Acquisitions. The Interstate Banking Act allows federal regulators to approve mergers between adequately capitalized banks from different states regardless of whether the transaction is prohibited under any state law, unless one of the banks' home states has enacted a law expressly prohibiting out-of-state mergers before June 1997. This act also allows a state to permit out-of-state banks to establish and operate new branches in this state. The Commonwealth of Pennsylvania has not "opted out" of this interstate merger provision. Therefore, the federal provision permitting interstate acquisitions applies to banks chartered in Pennsylvania. Pennsylvania law, however, retained the requirement that an acquisition of a Pennsylvania institution by a Pennsylvania or a non-Pennsylvania-based holding company must be approved by the Banking Department. The Interstate Act also allows a state to permit out-of-state banks to establish and operate new branches in this state. Pennsylvania law permits an out of state banking institution to establish a branch office in Pennsylvania only if the laws of the state where that institution is located would permit an institution chartered under the laws of Pennsylvania to establish and maintain a branch in such other state on substantially the same terms and conditions.

FDIC Insurance Premiums. The deposits of the Bank are insured by the Deposit Insurance Fund, which is administered by the FDIC. Insured institutions are assigned to one of three capital groups which are based solely on the level of an institution's capital: "well capitalized," "adequately capitalized," and "undercapitalized." There are also three supervisory groups generally based on an institution's CAMEL-composite rating. Assessment rates for insured institutions are determined semi-annually by the FDIC and currently range from zero basis points for well-capitalized healthy institutions, such as the Bank, to 43 basis points for undercapitalized institutions with substantial supervisory concerns.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. The assessment rate for the third quarter of 2008 was .0028% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance. At September 30, 2008, the Bank's regulatory capital exceeded all of its capital requirements.

On October 16, 2008, the Federal Deposit Insurance Corporation published a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 1.01% of insured deposits on June 30, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the Federal Deposit Insurance Corporation proposes to change both its risk-based assessment system and its base assessment rates. Assessment rates would increase by seven basis points across the range of risk weightings of depository institutions. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, including CDARS, increasing premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for their unsecured debt.

Capital Requirements. The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks which, like the Bank, are not members of the Federal

Reserve System. The FDIC's capital regulations establish a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC's regulation, highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

The FDIC also requires that savings banks meet a risk-based capital standard. The risk-based capital standard for savings banks requires the maintenance of total capital which is defined as Tier I capital and supplementary (Tier 2 capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The components of Tier I capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan losses. Allowance for loan losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At September 30, 2008, the Bank met each of its capital requirements.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies (including the FDIC) have adopted substantially similar regulations to implement Section 38 of the FDIA. Under the regulations, a savings bank shall be deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized", (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized" if it has a total risk-based ratio that is less than 6.0%, a

Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which the FDIC may reclassify a well capitalized savings bank as adequately capitalized and may require an adequately capitalized savings bank or an undercapitalized savings bank to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized savings bank as critically undercapitalized). At September 30, 2008, the Bank was in the "well capitalized" category.

The Bank is also subject to more stringent Department capital guidelines. Although not adopted in regulation form, the Department utilizes capital standards requiring a minimum of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC.

Loans-to-One Borrower Limitation. With certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers on an "unsecured" basis an amount equal to 15% of its capital account.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Pursuant to FDIC regulations promulgated under Section 24 of the FDIA, insured savings banks engaging in impermissible activities may seek approval from the FDIC to continue such activities. Savings banks not engaging in such activities but that desire to engage in otherwise impermissible activities may apply for approval from the FDIC to do so; however, if such bank fails to meet the minimum capital requirements or the activities present a significant risk to the FDIC insurance funds, such application will not be approved by the FDIC. The FDIC has authorized the bank's subsidiary HARL, LLC, to invest up to 15% of its capital in the equity securities of bank holding companies, banks or thrifts. As of September 30, 2008, $842,000 was invested by HARL, LLC in such equity securities.

Regulatory Enforcement Authority. FIRREA included substantial enhancement to the enforcement. Federal banking regulators have substantial enforcement authority over the financial institutions that they regulate including, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Except under certain circumstances, federal law requires public disclosure of final enforcement actions by the federal banking agencies.

Federal and State Taxation

General. The Bank is subject to federal income taxation in the same general manner as other corporations with some exceptions, including particularly the reserve for bad debts discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Bank.

Method of Accounting. For federal income tax purposes, the Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending September 30 for filing its federal income tax returns.

Bad Debt Reserves. The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2008 and 2007 includes approximately $1.3 million representing bad debt deductions for which no deferred income taxes have been provided.

Distributions. If the Bank distributes cash or property to its stockholders, and the distribution is treated as being from its accumulated pre-1988 tax bad debt reserves, the distribution will cause the Bank to have additional taxable income. A distribution to stockholders is deemed to have been made from accumulated bad debt reserves to the extent that (a) the reserves exceed the amount that would have been accumulated on the basis of actual loss experience, and (b) the distribution is a "non-dividend distribution." A distribution in respect of stock is a non-dividend distribution to the extent that, for federal income tax purposes, (i) it is in redemption of shares, (ii) it is pursuant to a liquidation of the institution, or (iii) in the case of a current distribution, together with all other such distributions during the taxable year, it exceeds the Bank's current and post-1951 accumulated earnings and profits. The amount of additional taxable income created by a non-dividend distribution is an amount that when reduced by the tax attributable to it is equal to the amount of the distribution.

Minimum Tax. The Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The alternative minimum tax is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. The other items of tax preference that constitute AMTI include (a) tax exempt interest on newly-issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds and (b) for taxable years beginning after 1989, 75% of the excess (if any) of (i) adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses). Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding three taxable years and forward to the succeeding 15 taxable years. Effective for net operating losses arising in tax years beginning after October 1, 1997, the carryback period is reduced from three years to two years and the carryforward period is extended from 15 years to 20 years. At September 30, 2008, the Bank had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf. However, a corporation may deduct 100% of dividends from a member of the same affiliated group of corporations.

Other Matters. The Company's federal income tax returns for its tax years 1993 and beyond are open under the statute of limitations and are subject to review by the Internal Revenue Service ("IRS").

Pennsylvania Taxation. The Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, which imposes a tax at the rate of 11.5% on the Bank's net earnings, determined in accordance with accounting principles generally accepted in the United States of America, as shown on its books. For fiscal years beginning in 1983, and thereafter, net operating losses may be carried forward and allowed as a deduction for three succeeding years. This Act exempts the Bank from all other corporate taxes imposed by Pennsylvania for state tax purposes, and from all local taxes imposed by political subdivisions thereof, except taxes on real estate and real estate transfers.

Subsidiary

The Bank is the only direct wholly owned subsidiary of the Company. The Bank formed HSB, Inc., a Delaware company, as a wholly owned subsidiary of the Bank during fiscal 1997. HSB, Inc. was formed in order to accommodate the transfer of certain assets that are legal investments for the Bank and to provide for a greater degree of protection to claims of creditors. The laws of the State of Delaware and the court system create a more favorable environment for the proposed business affairs of the subsidiary. HSB, Inc. currently manages the investment securities for the Bank, which as of September 30, 2008 amounted to approximately $159.2 million. The Bank formed two limited liability companies in 2002, Freedom Financial Solutions LLC ("FFS") and HARL, LLC. FFS was established to engage in the sale of insurance products through a third party. HARL, LLC was established for the purpose of investing in FDIC insured financial institutions/holding company equity securities.

Item 1A. Risk Factors.

In analyzing whether to make or to continue an investment in our securities, investors should consider, among other factors, the following risk factors.

Our results of operations are significantly dependent on economic conditions and related uncertainties.

Commercial banking is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, real estate values, government monetary policy, international conflicts, the actions of terrorists and other factors beyond our control may adversely affect our results of operations. Changes in interest rates, in particular, could adversely affect our net interest income and have a number of other adverse effects on our operations, as discussed in the immediately succeeding risk factor. Adverse economic conditions also could result in an increase in loan delinquencies, foreclosures and nonperforming assets and a decrease in the value of the property or other collateral which secures our loans, all of which could adversely affect our results of operations. We are particularly sensitive to changes in economic conditions and related uncertainties in Eastern Pennsylvania because we derive substantially all of our loans, deposits and other business from this area. Accordingly, we remain subject to the risks associated with prolonged declines in national or local economies.

Changes in interest rates could have a material adverse effect on our operations.

The operations of financial institutions such as ours are dependent to a large extent on net interest income, which is the difference between the interest income earned on interest-earning assets such as loans and investment securities and the interest expense paid on interest-bearing liabilities such as deposits and borrowings. Changes in the general level of interest rates can affect our net interest income by affecting the difference between the weighted average yield earned on our interest-earning assets and the weighted average rate paid on our interest-bearing liabilities, or interest rate spread, and the average life of our interest-earning assets and interest-bearing liabilities. Changes in interest rates also can affect our ability to originate loans; the

value of our interest-earning assets and our ability to realize gains from the sale of such assets; our ability to obtain and retain deposits in competition with other available investment alternatives; the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we believe that the estimated maturities of our interest-earning assets currently are well balanced in relation to the estimated maturities of our interest-bearing liabilities (which involves various estimates as to how changes in the general level of interest rates will impact these assets and liabilities), there can be no assurance that our profitability would not be adversely affected during any period of changes in interest rates.

There are increased risks involved with multi-family residential, commercial real estate, commercial business and consumer lending activities.

Our lending activities include loans secured by existing multi-family residential and commercial real estate. In addition, from time to time we originate loans for the construction of multi-family residential real estate and land acquisition and development loans. Multi-family residential, commercial real estate and construction lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity. Our lending activities also include commercial business loans and leases to small to medium businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home improvement loans, home equity loans, education loans and loans secured by automobiles, boats, mobile homes, recreational vehicles and other personal property. Although commercial business loans and leases and consumer loans generally have shorter terms and higher interests rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

We are subject to extensive regulation which could adversely affect our business and operations.

We and our subsidiaries are subject to extensive federal and state governmental supervision and regulation, which are intended primarily for the protection of depositors. In addition, we and our subsidiaries are subject to changes in federal and state laws, as well as changes in regulations, governmental policies and accounting principles. The effects of any such potential changes cannot be predicted but could adversely affect the business and operations of us and our subsidiaries in the future.

We face strong competition which may adversely affect our profitability.

We are subject to vigorous competition in all aspects and areas of our business from banks and other financial institutions, including savings and loan associations, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. We also compete with non-financial institutions, including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers. Certain of our competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems and a wider array of commercial banking services. Competition from both bank and non-bank organizations will continue.

Our ability to successfully compete may be reduced if we are unable to make technological advances.

The banking industry is experiencing rapid changes in technology. In addition to improving customer services, effective use of technology increases efficiency and enables financial institutions to reduce costs. As a result, our future success will depend in part on our ability to address our customers' needs by using technology. We cannot assure you that we will be able to effectively develop new technology-driven products and services or be successful in marketing these products to our customers. Many of our competitors have far greater resources than we have to invest in technology.

We and our banking subsidiary are subject to capital and other requirements which restrict our ability to pay dividends.

Our ability to pay dividends to our shareholders depends to a large extent upon the dividends we receive from Harleysville Savings Bank. Dividends paid by the Bank are subject to restrictions under Pennsylvania and federal laws and regulations. In addition, Harleysville Savings Bank must maintain certain capital levels, which may restrict the ability of the Bank to pay dividends to us and our ability to pay dividends to our shareholders.

Holders of our common stock have no preemptive rights and are subject to potential dilution.

Our articles of incorporation do not provide any shareholder with a preemptive right to subscribe for additional shares of common stock upon any increase thereof. Thus, upon the issuance of any additional shares of common stock or other voting securities of the Company or securities convertible into common stock or other voting securities, shareholders may be unable to maintain their pro rata voting or ownership interest in us.

Our deposit insurance premium could be substantially higher in the future which would have an adverse effect on our future earnings.

Under the Federal Deposit Insurance Act, the FDIC, absent extraordinary circumstances, must establish and implement a plan to restore the deposit insurance reserve ratio to 1.15% of insured deposits, over a five-year period, at any time that the reserve ratio falls below 1.15%. The recent failures of a large financial institution and several smaller ones have significantly increased the Deposit Insurance Fund's loss provisions, resulting in a decline in the reserve ratio to 1.01% as of June 30, 2008, 18 basis points below the reserve ratio as of March 31, 2008. The FDIC expects a higher rate of insured institution failures in the next few years, which may result in a continued decline in the reserve ratio.

On October 7, 2008, the FDIC released a five-year recapitalization plan and a proposal to raise premiums to recapitalize the fund. In order to implement the restoration plan, the FDIC proposed to change both its risk-based assessment system and its base assessment rates. Assessment rates would increase by seven basis points across the range of risk weightings. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, increasing premiums for excessive use of secured liabilities, and lowering premiums for smaller institutions with very high capital levels.

The actions of the U.S. Government for the purpose of stabilizing the financial markets, or market response to those actions, may not achieve the intended effect, and our results of operations could be adversely effected.

In response to the financial issues affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the U.S. Congress recently enacted the

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Emergency Economic Stabilization Act of 2008 ("EESA"). The EESA provides the U.S. Secretary of the Treasury with the authority to establish a Troubled Asset Relief Program to purchase from financial institutions up to $700 billion of residential or commercial mortgages and any securities, obligations or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, as well as any other financial instrument that the U.S. Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve, determines the purchase of which is necessary to promote financial market stability. As of the date hereof, the Treasury has determined not to purchase troubled assets under the program.

As part of the EESA, the Treasury Department has developed a Capital Purchase Program to purchase up to $250 billion in senior preferred stock from qualifying financial institutions. The Capital Purchase Program was designed to strengthen the capital and liquidity positions of viable institutions and to encourage banks and thrifts to increase lending to creditworthy borrowers. The EESA also establishes a Temporary Liquidity Guarantee Program that gives the

Federal Deposit Insurance Corporation the ability to provide a guarantee for newly-issued senior unsecured debt and non-interest bearing transaction deposit accounts at eligible insured institutions. For non-interest bearing transaction deposit accounts, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of $250,000. We have elected not to participate in the Capital Purchase Program but will participate in the Temporary Liquidity Guarantee Program.

The U.S. Congress or federal banking regulatory agencies could adopt additional regulatory requirements or restrictions in response to the threats to the financial system and such changes may adversely affect the operations of Company and the Bank. In addition, the EESA may not have the intended beneficial impact on the financial markets or the banking industry. To the extent the market does not respond favorably to the Troubled Asset Relief Program or the program does not function as intended, our prospects and results of operations could be adversely effected.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of September 30, 2008, the Company conducted its business from its main office in Harleysville, Pennsylvania and five other full service branch offices. The Company is also part of the STAR ATM System, which provides customers with access to their deposits at locations worldwide.

County	Address	Owned or Leased	Lease Expiration Date	Net Book Value of Property and Leasehold Improvements at September 30, 2008 (In Thousands)	
Montgomery	1889 Ridge Pike Royersford, Pennsylvania	Owned	--	$ 3,152	$
Montgomery	271 Main Street Harleysville, Pennsylvania	Owned	--	1,089	
Montgomery	640 East Main Street Lansdale, Pennsylvania	Leased	May 2043(1)	854	
Montgomery	1550 Hatfield Valley Road Hatfield, Pennsylvania	Leased	January 2064(1)	855	
Montgomery	2301 West Main Street Norristown, Pennsylvania	Owned	--	507	
Montgomery	3090 Main Street Sumneytown, Pennsylvania	Owned	--	281	
Total				$ 6,738	$

(1) The land at this office is leased; however, the Bank owns the building.

Item 3. Legal Proceedings.

The Company is not involved in any legal proceedings except nonmaterial litigation incidental to the ordinary course of business.

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

Not Applicable.

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PART II

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

(a) The information for all equity based and individual compensation arrangements is incorporated by reference from Part III, Item 12 hereof.

Harleysville Savings Financial Corporation's Common Stock is listed on the Nasdaq Global Market under the symbol "HARL". The Common Stock was issued at an adjusted price of $1.45 per share in connection with the Company's conversion from mutual to stock form and the Common Stock commenced trading on the NASDAQ Stock Market on September 3, 1987. Prices shown below reflect the prices reported by the NASDAQ Stock Market during the indicated periods. The closing price of the Common Stock on September 30, 2008 was $12.57 per share. There were 3,567,934 shares outstanding as of September 30, 2008, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
September 30, 2008	$13.50	$10.70	$12.57	$0.18
June 30, 2008	14.31	11.85	11.85	0.17
March 31, 2008	13.99	10.55	13.50	0.17
December 31, 2007	14.69	12.00	12.50	0.17
September 30, 2007	16.72	13.30	13.71	0.17
June 30, 2007	17.59	16.00	16.20	0.17
March 31, 2007	19.25	16.02	16.75	0.17
December 31, 2006	19.93	15.60	18.48	0.17

(b) Not applicable.

(c) The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of Common Stock of the Company during the fourth quarter of fiscal 2008.

	Total Number of Shares	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or	Maximum Number of Shares that May Yet Purchased Under the P

Period	Purchased	per Share	Programs	or Programs(1)
July 1-31, 2008	--	$ --	--	66,351
August 1-31, 2008	--	--	--	66,351
September 1-30, 2008 ..	--	--	--	66,351
Total	--	$ --	--	66,351

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(1) On June 20, 2007, the Company announced its current program to repurchase up to 5.0% of the outstanding shares of Common Stock of the Company, or 196,000 shares. The program does not have an expiration date and all shares are purchased in the open market.

Item 6. Selected Financial Data.

Selected Balance Sheet Data:
(Dollars in thousands, except per share data)

	As of September 30,				
	2008	2007	2006	2005	200
Total Assets	$825,675	$773,544	$775,638	$766,990	$718,
Mortgage-backed securities held to maturity	213,933	192,842	219,494	263,964	261,
Mortgage-backed securities available-for-sale	758	818	820	1,045	3,
Consumer loans receivable	434,439	405,672	386,486	368,034	340,
Commercial loans	44,407	15,314	920	--	
Allowance for loan losses	1,988	1,933	1,956	1,968	1,
Investment securities held to maturity	79,254	108,693	111,099	87,364	68,
Investment securities available-for-sale	854	1,910	8,108	2,835	7,
Other investments (1)	25,948	22,457	25,549	23,971	19,
Deposits	425,513	424,035	429,254	418,980	405,
FHLB advances and other borrowings	347,846	298,609	294,611	297,268	265,
Total stockholders' equity	47,209	47,041	48,471	47,576	44,
Book value per share (3)	13.23	12.65	12.59	12.20	11

Selected Operations Data:

	Year Ended September 30,				
	2008	2007	2006	2005	200
Interest income	$ 43,076	$ 40,289	$ 39,091	$ 35,902	$ 32,
Interest expense	29,016	28,806	26,366	22,747	20,

Net interest income	14,060	11,483	12,725	13,155	12,
Provision for loan losses	85	--	--	(40)	
Net interest income after provision for loan losses	13,975	11,483	12,725	13,195	12,
Gain (loss) on impairment of securities and sales of loans and securities	(179)	160	27	115	
Other income	1,909	1,730	1,273	1,351	1,
Other expense	10,094	9,216	8,568	7,965	7,
Income before taxes	5,611	4,157	5,457	6,696	6,
Income tax expense	1,232	911	1,255	1,693	1,
Net income	$ 4,379	$ 3,246	$ 4,202	$ 5,003	$ 4,
Earnings per share - basic (3)	$ 1.20	$ 0.85	$ 1.09	$ 1.29	$ 1
Earnings per share - diluted (3)	1.20	0.83	1.08	1.27	1
Dividends per share (3)	.69	0.68	0.64	0.58	0

Selected Other Data:

	Year Ended September 30,				
	2008	2007	2006	2005	200
Return on average assets (2)	0.54%	0.42%	0.55%	0.67%	0
Return on average equity (2)	9.42%	6.71%	8.76%	10.91%	11
Dividend payout ratio	57.26%	80.02%	58.72%	44.96%	37
Average equity to average assets (2)	5.76%	6.13%	6.21%	6.19%	6
Interest rate spread (2)	1.57%	1.39%	1.51%	1.65%	1
Net yield on interest-earning assets (2)	1.79%	1.58%	1.71%	1.82%	1
Ratio of non-performing assets to total assets at end of period	0.15%	0.00%	0.00%	0.03%	0
Ratio of interest-earning assets to Interest-bearing liabilities at end of period	105.9%	104.7%	105.6%	105.4%	10
Full service banking offices at end of period	6	6	6	5	

(1) Includes interest-bearing deposits at other depository institutions & stock of the Federal Home Loan Bank of Pittsburgh.

(2) All ratios are based on average monthly balances during the indicated periods.

(3) The number of shares and per share information for all periods presented has been restated to reflect the five for three stock split as of February 24, 2005.

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

The following discussion is intended to assist in understanding our financial condition, and the results of operations for Harleysville Savings Financial Corporation, and its subsidiary Harleysville Savings Bank, for the fiscal years ended September 30, 2008 and 2007. The information in this section should be read in conjunction with the Company's financial statements and the accompanying notes included elsewhere herein.

Critical Accounting Policies and Judgments

The Company's consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 2, Summary of Significant 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 an 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.

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 is 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, 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.

Investment Securities Impairment Valuation. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the 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.

Overview

Harleysville Savings Financial Corporation, a bank holding company, of which Harleysville Savings Bank (the "Bank"), is a wholly owned subsidiary, was formed in February 2000. For purposes of this discussion, the Company, including its wholly owned subsidiary, will be referred to as the "Company." The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other thrift institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. To reduce the effect of adverse changes in interest rates on its operations, the Company has adopted certain asset and liability management strategies, described below. The Company's earnings are also affected by, among other factors, other non-interest income, other expenses, and income taxes.

The Company's total assets at September 30, 2008, amounted to $825.7 million, compared to $773.5 million as of September 30, 2007. The increase in assets was primarily due to the retail growth in mortgage and commercial loans, resulting in an overall increase in loans receivable of approximately $57.8 million. In addition, there was an increase in Federal Home Loan Bank stock and cash equivalents of $2.4 million and $1.1 million, respectively. These increases were offset by a decrease in mortgage-backed and investment securities of approximately $9.5 million. Total liabilities at September 30, 2008 were $778.5 million compared to $726.5 million at September 30, 2007. The increase in liabilities was due to an increase in long-term borrowing and deposits of $58.9 million and $1.5 million, respectively. This increase was offset by a decrease in short-term borrowing of $9.7 million. Stockholder's equity totaled $47.2 million as of September 30, 2008, compared to $47.0 million at September 30, 2007.

During fiscal 2008, net interest income after provision for loan losses increased $2.5 million or 21.7% from prior fiscal year. This increase was the result of an 8.29% increase in the average interest-earning assets which was offset by a 7.08% increase in average interest-bearing liabilities, and an increase in the interest rate spread from 1.39% in fiscal year 2007 to 1.57% in fiscal year 2008. Earnings for fiscal 2008 were $4.4 million compared to $3.2 million for fiscal year ended 2007. The Company's return on average assets (net income divided by average total assets) was .54% during fiscal 2008 compared to ..42% during fiscal year 2007. Return on average equity (net income divided by average equity) was 9.42% during fiscal year 2008 compared to 6.71% in fiscal year 2007. This increase in return on average assets and return on average equity during the two-year period was a direct result of the growth in the balance sheet.

Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis.

	As of Sept. 30, 2008	For The Year Ended September 30,					
		2008			2007		
	Rate	Average Balance	Interest	Yield/ Rate	Balance	Interest	Yield/ Rate
					(Dollars in Thousands)		
Interest-earning assets:							
Mortgage loans (2)(3)	5.87%	$ 320,925	$ 19,043	5.93%	$ 294,014	$ 17,270	5.87
Mortgage-backed securities	4.86%	211,563	10,088	4.77%	204,546	9,339	4.57
Commercial	6.45%	26,492	1,799	6.79%	8,839	674	7.63
Consumer and other loans(3)	5.83%	108,747	5,719	5.26%	96,481	6,035	6.37
Investments	4.81%	119,133	6,427	5.39%	122,748	6,971	5.68
Total interest-earning assets	5.48%	786,860	43,076	5.47%	726.627	40,289	5.54
Interest-bearing liabilities:							
Savings and money market	1.45%	54,669	1,189	2.17%	58,503	1,552	2.65
Checking	0.83%	42,832	367	0.86%	51,198	506	0.97

Certificate of deposit	3.49%	329,405	13,662	4.15%	307,567	13,414	4.36
Total deposits	2.95%	426,906	15,218	3.56%	418,268	15,472	3.70
Borrowings	4.12%	315,935	13,798	4.37%	275,429	13,334	4.84
Total interest-bearing liabilities	3.48%	742,841	29,016	3.90%	693,697	28,806	4.15
Net interest income/ interest rate spread	2.00%		$ 14,060	1.57%		$ 11,483	1.39
Net interest-earning assets/net yield on interest-earning assets(1)		$ 44,019		1.79%	$ 32,930		1.58
Ratio of interest-earning assets to interest-bearing liabilities				105.9%			104.7

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(1) Net interest income divided by average interest-earning assets.

(2) Loan fee income is immaterial to this analysis.

(3) There was one non-accruing loan totaling $244,000 at September 2008, and there were no non-accruing loans at September 2007.

The following table shows, for the periods indicated, the changes in interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior year rate) and changes in rate (changes in rate multiplied by prior year volume). Changes in rate/volume (determined by multiplying the change in rate by the change in volume) have been allocated to the change in rate or the change in volume based upon the respective percentages of their combined totals.

	Fiscal 2008 Compared to Fiscal 2007 Increase (Decrease)			Fiscal 2007 Compa to Fiscal 2006 Increase (Decreas		
(In Thousands)	Volume	Rate	Total	Volume	Rate	
Interest income on interest-earning assets:						
Mortgage loans (1)	$ 1,595	178	$ 1,773	$ 976	193	$
Mortgage-backed securities	327	422	749	(1,694)	232	
Commercial	1,206	(81)	1,125	673	--	
Consumer and other loans (1)	713	(1,029)	(316)	(30)	390	
Interest and dividends on Investments	(201)	(343)	(544)	(398)	856	

Total	3,640	(853)	2,787	(473)	1,671	
Interest expense on interest-bearing liabilities:						
Deposits	312	(566)	(254)	(7)	2,314	
Borrowings	1,846	(1,382)	464	(521)	654	
Total	2,158	(1,948)	210	(528)	2,968	
Net change in net interest income	$ 1,482	$ 1,095	$ 2,577	$ 55	$(1,297)	$

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(1) There was one non-accruing loan totaling $244,000 at September 2008, and there were no non-accruing loans at September 2007.

Net Interest Income

Net interest income after provision for loan losses increased by $2.5 million or 21.7% in fiscal 2008, and decreased by $1.2 million or 9.76% in fiscal 2007 over the prior period. The increase in the net interest income after provision for loan losses in fiscal 2008 was due to a increase in the interest rate spread between interest bearing assets and interest earning liabilities and the growth in the balance sheet. The driving factors are further explained below in Interest Income and Interest Expense.

Interest Income

Interest income on mortgage loans increased by $1.8 million or 10.3% in fiscal 2008 and increased by $1.2 million or 7.3% in fiscal 2007 from the prior year. During fiscal 2008, the average balance of mortgage loans increased $26.9 million or 9.2% and the yield increased by 6 basis points. The combined increase in yield on mortgage loans and the higher loan volume increased income for the period. During fiscal 2007, the average balance of mortgage loans increased $16.7 million or 6.0% and the yield increased by 6 basis points. The increase in volume and yield during 2007 increased income for the period. The majority of loans during both years were fixed rate mortgages. The increase in interest income on mortgage-backed securities during fiscal 2008 reflected an increase of $7.0 million or 3.43% in the average balance. In addition, there was an increase in yield earned by 20 basis points during fiscal 2008. During fiscal 2007, the decrease in interest income on mortgage-backed securities reflected a decrease of $37.2 million or 15.4% in the average balance. There was, however, an increase in yield earned by 10 basis points during fiscal 2007. In 2008, the decrease in interest income on consumer and other loans reflected a decrease in the yield of 100 basis points, in spite of the average balance increase of $12.3 million or 12.7%. In 2007, the increase in interest income on consumer and other loans reflected an increase of $1.5 million or 1.6% in the average balance. This increase is primarily due to an increase in the average yield to 6.4%. The increase in interest income on commercial loans during fiscal 2008 reflected an increase of $17.7 million in average balance in spite of the decrease in yield to 6.79%. During fiscal 2007, the average growth of commercial loans was $8.8 million.

Interest and dividends on investments decreased by $544,000 or 7.8% in fiscal 2008 over the prior year. Interest and dividends on investments increased by $457,000 or 7.0% in fiscal 2007 over the prior year. During fiscal 2008, the decrease resulted from a 29 basis point decrease in yield, and the redundant average balance of investments decreased $3.6 million or 2.9%. During fiscal 2007, the increase resulted from a 69 basis point increase in yield, even though the average balance of investments decreased $7.7 million or 5.9%. The decrease in the average balance in 2008 reflects funds that were redeployed from normal cash flows to commercial and residential lending. The decrease in the average balance in 2007 reflects funds that were redeployed from normal cash flows to pay down borrowings.

Interest Expense

Interest expense on deposits decreased $254,000 or 1.6% in fiscal 2008 and increased by $2.3 million or 17.5% in fiscal 2007 as compared to the prior year. In fiscal 2008, the average balance of deposits increased by $8.6 million or 2.1% with a 14 basis point decrease in the average rate paid. In fiscal 2007, the average balance of deposits decreased $238,000 or 0.1% with a 55 basis point increase in the average rate paid. The decrease in the average balance reflects additional competition in a challenging rate environment. The average rate paid on deposits was 3.56% for the year ended September 30, 2008, compared to 3.70% for the year ended September 30, 2007. The average rate paid on deposits is a direct reflection of the falling interest rate environment.

Interest expense on borrowings increased by $464,000 or 3.5% in fiscal 2008 and increased by $133,000 or 1.0% in fiscal 2007 as compared to the prior year. The increase in 2008 was the result of an increase in the average balance in borrowings of $40.5 million or 14.7% offset by a decrease in the average rate paid to 4.4%. Even though there was a decrease in the average balance of borrowings of $11.1 million or 3.9%, the increase in the average rate paid of 23 basis points increased the interest expense in 2007.

Borrowings were primarily obtained during fiscal 2008 and 2007 to fund the purchase of mortgage-backed securities and to originate long-term fixed-rate mortgages. Long-term FHLB advances were used to match the expected maturity terms of these mortgage products.

Provision for Loan Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of loan loss reserves is based upon a regular monthly review of loan delinquencies and "classified assets", as well as local and national economic trends. The allowance for loan losses totaled $2.0 million and $1.9 million at September 30, 2008 and 2007 or 0.4% and 0.5% of total loans at September 30, 2008 and 2007, respectively. The Company has recorded a provision for general loan losses totaling $85,000 in fiscal 2008, due to the increase in unemployment trends and declines in property values reflecting an instability in the economy. Due to the Company's loan portfolio status and its analysis of quantitative and qualitative factors, no provision was made in fiscal 2007.

Other Income

The Company's total other operating income decreased to $1.7 million in fiscal 2008 and increased to $1.9 million in fiscal 2007 compared to the prior year. The decrease in 2008 was primarily due to an other than temporary impairment of equity securities of $252,000. The increase in 2007 was primarily attributed to a gain on the sale of investments and mortgage backed securities available for sale of $160,000 in fiscal 2007.

Customer service fees were $633,000 and $564,000 in 2008 and 2007, respectively. The increases were due to more NFS fees during the periods.

Bank Owned Life Insurance ("BOLI") income was $499,000 and $475,000 in 2008 and 2007, respectively.

Other income, which consists primarily of loan servicing fees, the sale of non-deposit products and insurance commissions, increased by $86,000 or 12.4% during fiscal 2008. During fiscal 2007, other income increased by $223,000 or 47.5% during fiscal year 2007. The fees, which comprise other income, are set by the Company at a level, which is intended to cover the cost of providing the related services and expenses to customers and employees.

Other Expenses

Salaries and employee benefits increased by $775,000 or 15.6% in fiscal 2008 and by $365,000 or 7.9% in fiscal 2007 as compared to prior fiscal year. The increased expenses of salaries and employee benefits during the periods are attributable to the increased staffing, normal growth, normal salary increases and increased employee benefit expenses. The Company anticipates increases in salaries and employee benefits in fiscal year 2009 due to additional staffing needs of opening a branch, normal salary increases and stock option expense.

Occupancy and equipment expense decreased by $17,000 or 1.5% in fiscal 2008 and increased by $154,000 or 15.9% in fiscal 2007 as compared to the prior fiscal year. Data processing costs increased by $23,000 in fiscal 2008 and decreased by $11,000 in fiscal 2007. The increase in occupancy and equipment expenses was attributable to the normal activity of the Company.

The Company anticipates additional increases in occupancy and equipment expenses due to opening of a new branch, normal growth, normal technology needs and inflationary effects in fiscal year 2009.

The Company anticipates an increase in the FDIC insurance premiums in 2009. See "Risk Factors - Our deposit insurance premium could be substantially higher in the future which would have an adverse effect on our future earnings" in Item 1A.

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Other expenses, which consist primarily of advertising expenses, directors' fees, ATM network fees, professional fees, checking account costs, stockholders expense, and insurance premiums, increased by $93,000 or 3.7% in fiscal 2008 and increased by $142,000 or 6.0% in fiscal 2007 over the prior respective fiscal years. The increases in other expenses are primarily attributable to a additional commercial lending and business deposits in 2008, as well as additional legal and auditing expenses.

Income Taxes

The Company recorded income tax provisions of $1.2 million and $911,000 for fiscal years 2008 and 2007, respectively. The primary reason for the increase in the income tax provision in fiscal 2008 and 2007 was an increase in pretax income. See Note 11 of the "Notes to Consolidated Financial Statements" which provides an analysis of the provision for income taxes.

Commitments and Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and the unused portions of lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Commitments to extend credit and lines of credit are not recorded as an asset or liability by us until the instrument is exercised. At September 30, 2008 and 2007, we had no commitments to originate loans for sale.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. The amount and type of collateral required varies, but may include accounts receivable, inventory, equipment, real estate and income-producing commercial properties. At September 30, 2008 and 2007, commitments to originate loans and commitments under unused lines of credit, including undisbursed portions of construction loans in process, for which the Company is obligated amounted to approximately $66.5 million and $63.4 million, respectively.

Letters of credit are conditional commitments issued by the Company guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Commercial letters of credit are used primarily to facilitate trade or commerce and are also issued to support public and private borrowing arrangements, bond financings and similar transactions. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Collateral may be required to support letters of credit based upon management's evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. Most letters of credit expire within one year. At September 30, 2008 and September 30, 2007, the Company had letters of credit outstanding of approximately $741,000 and $292,000, respectively, of which all are standby letters of credit. At September 30, 2008 and 2007, the uncollateralized portion of the letters of credit extended by the Company was approximately $151,000 and $26,000, respectively, of which $135,000 was for standby letters of credit in current year.

The Company is also subject to various pending claims and contingent liabilities arising in the normal course of business, which are not reflected in the unaudited consolidated financial statements. Management considers that the aggregate liability, if any, resulting from such matters will not be material.

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We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

The following tables summarize our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding Letters of credit, lines of credit and under our construction loans at September 30, 2008.

	Total Amounts Committed
	(In Thousands)
Letters of credit	$ 741
Commitments to originate loans	15,583
Unused portion of home equity lines of credit	41,379
Unused portion of commercial lines of credit	4,106
Undisbursed portion of construction loans in process	4,691
Total commitments	$ 66,500

Contractual Obligations

The Company's contractual cash obligations at September 30, 2008 were as follows:

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(In Thousands)				
Lease agreements	$ 639	$ 121	$ 250	$ 268	$ --
Borrowings	347,846	35,855	49,144	96,372	166,475
Certificates of deposit	317,701	208,889	87,837	20,975	--
	$ 666,186	$ 244,865	$ 137,231	$ 117,615	$ 166,475

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Asset and Liability Management

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases or decreases 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 and decreases in interest rates, the Company remains vulnerable to material and prolonged increases and decreases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets and interest rate sensitive assets exceed interest rate sensitive liabilities, respectively.

The authority and responsibility for interest rate management is vested in the Company's Board of Directors. The Chief Financial 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. The Chief Financial Officer 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 September 30, 2008, 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. However, many of our assets can prepay at any time without a penalty unlike many of our liabilities that have a contractual maturity.

The passbook accounts, negotiable order of withdrawal ("NOW") accounts and a portion of the 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 table below 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 in a different period.

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years
			(In Thousands)	
Interest-earning assets:				
Mortgage loans	$ 68,188	$ 54,866	$ 23,027	$ 191,235
Commercial Mortgage loans	17,448	5,123	7,438	14,398
Mortgage-backed securities	70,875	73,346	21,141	49,329
Consumer and other loans	47,055	24,549	6,820	24,260
Investment securities and other investments	30,143	16,455	10,572	46,670

Total interest-earning assets	233,709	174,339	68,998	325,892
Interest-bearing liabilities:				
Passbook and Club accounts	--	--	--	2,641
NOW and interest-bearing checking accounts	--	--	--	42,203
Consumer Money Market Deposit accounts	12,530	--	--	30,368
Business Money Market Deposit accounts	6,830	--	--	2,277
Certificate accounts	209,041	87,715	20,945	--
Borrowed money	43,299	58,853	90,610	155,084
Total interest-bearing liabilities	271,700	146,568	111,555	232,573
Repricing GAP during the period	$ (37,991)	$ 27,771	$ (42,557)	$ 93,319
Cumulative GAP	$ (37,991)	$ (10,220)	$ (52,777)	$ 40,542
Ratio of GAP during the period to total assets	-4.60%	3.36%	-5.15%	11.30%
Ratio of cumulative GAP to total assets	-4.60%	-1.24%	-6.39%	5.23%

Liquidity and Capital Resources

The Company's assets increased to $825.7 million as of September 30, 2008, from $773.5 million as of September 30, 2007. Stockholders' equity increased to $47.2 million as of September 30, 2008, from $47.0 million as of September 30, 2007. As of September 30, 2008, stockholders' equity amounted to 5.7% of the Bank's total assets under accounting principles generally accepted in the United States of America ("GAAP"). For a financial institution, liquidity is a measure of the ability to fund customers' needs for loans, deposit withdrawals and repayment of borrowings. Harleysville Savings regularly evaluates economic conditions in order to maintain a strong liquidity position. One of the most significant factors considered by management when evaluating liquidity requirements is the stability of the Company's core deposit base. In addition to cash, the Company maintains a portfolio of cash flows generating investments to meet its liquidity requirements. The Company also relies upon cash flow from operations and other financing activities, generally short-term and long-term debt. Liquidity is also provided by investing activities including the repayment and maturity of loans and investment securities as well as the management of asset sales when considered necessary. The Company also has access to and sufficient assets to secure lines of credit and other borrowings in amounts adequate to fund any unexpected cash requirements.

As of September 30, 2008, the Company had a remaining borrowing capacity with the Federal Home Loan Bank of Pittsburgh of approximately $230.1 million. To the extent that the Company cannot meet its liquidity needs with normal cash flows and deposit growth, the Company will be able to utilize the available borrowing capacity provided by the Federal Home Loan Bank of Pittsburgh to fund asset growth and loan commitments. At September 30, 2008 the Company had exposures to limited recourse arrangements with respect to the Company's sale of whole loans. At September 30, 2008, the exposure, which represents a portion of credit risk associated with the sold interests, amounted to $84,000. The exposure is for the life of the related loans and payable, on our proportional share, as losses are incurred.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since prices are affected by inflation to a larger extent than interest rates.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Harleysville Savings Financial Corporation
Harleysville, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of Harleysville Savings Financial Corporation and subsidiary ("the Company") as of September 30, 2008 and 2007, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harleysville Savings Financial Corporation and subsidiary as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United

States of America.

/s/ Beard Miller Company LLP

Beard Miller Company LLP
Allentown, Pennsylvania
December 15, 2008

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Consolidated Statements of Financial Condition

(In thousands, except share data)	200
Assets	
Cash and amounts due from depository institutions	$
Interest bearing deposits	
Total cash and cash equivalents	
Investment securities held to maturity (fair value - 2008, $78,973; 2007, $109,306)	7
Investment securities available-for-sale at fair value	
Mortgage-backed securities held to maturity (fair value - 2008, $211,814; 2007, $188,612)	21
Mortgage-backed securities available-for-sale at fair value	
Loans receivable (net of allowance for loan losses - 2008, $1,988; 2007, $1,933	47
Accrued interest receivable	
Federal Home Loan Bank stock - at cost	1
Office properties and equipment, net	1
Prepaid expenses and other assets	1
TOTAL ASSETS	$ 82
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 42
Short-term borrowings	2
Long-term debt	32
Accrued interest payable	
Advances from borrowers for taxes and insurance	
Accounts payable and accrued expenses	
Total liabilities	77
Commitments and contingencies (Notes 16 & 17)	
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 3,921,177 shares: outstanding 2008 3,567,934 shares 2007 3,717,519 shares	
Additional paid-in capital	
Treasury stock, at cost (2008, 353,243 shares; 2007, 203,658 shares)	(
Retained earnings - partially restricted	4
Accumulated other comprehensive loss	
Total stockholders' equity	4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 82

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year
(In thousands, except share data)	200
Interest Income:	
Interest and fees on mortgage loans	$ 1
Interest on mortgage-backed securities	1
Interest on commercial loans	
Interest on consumer and other loans	
Interest on taxable investments	
Interest on tax-exempt investments	
Dividends on investment securities	
Total interest and dividend income	4
Interest Expense:	
Interest on deposits	1
Interest on borrowings	1
Total interest expense	2
Net Interest Income	1
Provision for loan losses	
Net Interest Income, after Provision for Loan Losses	1
Other Income:	
Customer service fees	

Impairment of equity securities	
Realized gains on investments and mortgage-backed securities	
Income on bank-owned life insurance	
Other income	
Total other income	
Other Expenses:	
Salaries and employee benefits	
Occupancy and equipment	
Deposit insurance premiums	
Data processing	
Other	
Total other expenses	1
Income before Income Taxes	
Provision for income taxes	
Net Income	$
Earnings Per Share:	
Basic	$
Diluted	$
Weighted Average Shares Outstanding:	
Basic	3,64
Diluted	3,66

See notes to consolidated financial statements.

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Consolidated Statements of Income

(In Thousands)	Year Ended 2008
Net Income	$ 4,379
Other Comprehensive (Loss) Income	
Unrealized gain (loss) on securities available for sale, net of tax (benefit) or expense -- 2008, $25; 2007, $(40)	48 (

Total Comprehensive Income	$ 4,427

(1) Disclosure of reclassification amount, net of tax for the years ended:

	2008
Net unrealized gain (loss) arising during the year	$ (106)
Reclassification adjustment for net losses (gains) included in net income	179
	$ 73
Tax (expense) benefit	(25)
Net unrealized gain (loss) on securities	$ 48

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accumu Oth Compreh Income
Balance at September 30, 2006	3,849,736	$ 39	$ 7,992	$ 41,714	$
Net income				3,246	
Dividends - $.68 per share				(2,597)	
Stock option compensation			97		
Treasury stock purchased	(169,496)				
Treasury stock delivered under employee stock plans	3,751		(16)		
Treasury stock delivered under dividend reinvestment plan	33,528		(29)		
Change in unrealized holding loss on available-for-sale securities, net of tax					
Balance at September 30, 2007	3,717,519	$ 39	$ 8,044	$ 42,363	$
Net income				4,379	
Dividends - $.69 per share				(2,507)	
Stock option compensation			99		
Treasury stock purchased	(205,358)				
Treasury stock delivered under employee stock plans	8,000		(32)		
Treasury stock delivered under					

dividend reinvestment plan	42,773		(118)		
Employee options exercised	5,000				
Change in unrealized holding loss on available-for-sale securities, net of tax					
Balance at September 30, 2008	$ 3,567,934	$ 39	$ 7,993	$ 44,235	$

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(In Thousands)	Year Ended September 30, 2008	2007
Operating Activities:		
Net Income	$ 4,379	$ 3,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	523	511
Deferred income taxes	(41)	56
Provision for loan losses	85	--
Gain on sales of securities	(73)	(160)
Loss on impairment of securities	252	--
Amortization of deferred loan fees	9	(19)
Net amortization of premiums and discounts	147	206
Increase in cash surrender value	(499)	(475)
Compensation charge on stock options	99	97
Changes in assets and liabilities which provided (used) cash:		
Increase in accounts payable and accrued expenses	882	344
Decrease (increase) in prepaid expenses and other assets	230	(228)
Decrease (increase) in accrued interest receivable	248	(77)
Increase in accrued interest payable	130	150
Net cash provided by operating activities	6,371	3,651
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	(61,835)	(20,939)
Purchase of investment securities held to maturity	(20,997)	(19,918)
Purchase of investment securities available-for-sale	--	(466)
Net (purchase) redemption of FHLB stock	(2,434)	1,359
Proceeds from the sale of investment securities available-for-sale	442	--
Proceeds from maturities of investment securities	42,408	28,987
Principal collected on mortgage-backed securities	49,168	38,897
Principal collected on long-term loans	85,717	96,866
Long-term loans originated or acquired	(143,616)	(121,935)
Purchases of premises and equipment	(760)	(2,414)

Net cash (used in) provided by investing activities	(51,907)	437
Financing Activities:		
Net increase (decrease) in demand deposits, NOW accounts And savings accounts	1,920	(2,891)
Net decrease in certificates of deposit	(442)	(2,295)
Cash dividends	(1,979)	(2,051)
Net decrease in short-term borrowings	(9,700)	(26,700)
Proceeds from long-term debt	113,000	63,000
Repayment of long-term debt	(54,063)	(32,302)
Acquisition of treasury stock	(2,556)	(2,694)
Treasury stock delivered under employee stock plan	177	49
Net increase in advances from borrowers for taxes and insurance	236	63
Net provided (used in) by cash financing activities	46,593	(5,821)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,057	(1,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,317	10,050
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,374	$ 8,317
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	$ 28,886	$ 28,656
Income Tax	1,183	665

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

The Company is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. The Bank is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential and consumer loans. The Bank's customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiary, HSB Inc a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions LLC that allows the Company to offer non deposit products and HARL, LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of the Consolidated 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. The most significant of these estimates and assumptions in the Company's consolidated financial statements is the allowance for loan losses. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk - Most of the Company's activities are with customers located within the southeastern region of Pennsylvania. Notes 3, 4, 5 and 6 discuss types of securities that the Company invests in. Note 7 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks.

Interest-Bearing Deposits in Banks - Interest-bearing deposits in banks are carried at cost.

Investment and Mortgage-Backed Securities - The Company classifies and accounts for debt and equity securities as follows:

Held to Maturity - Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale - Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of the trade date, reported in the consolidated statement of income and determined using the amortized cost of the specific security sold.

For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security's fair value has been below cost as well as the general market conditions, industry

characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security until its fair value has recovered to a level at least equal to the amortized cost. When the Company determines that a security's unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

Loans - The Company grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southeastern Pennsylvania. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Interest Income on Loans - Interest income is accrued on the unpaid principal balance. Interest on loans is recognized as income when earned. The accrual of interest on mortgage loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Deferred Loan Fees - Loan origination fees, net of certain direct origination costs, are deferred and the balance is amortized to income as an adjustment over the life of the loan using the interest method.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, status of nonperforming loans, general economic conditions as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio.

The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned 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.

The general allowance for loans that are not classified is established 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 non-classified loans by loan category and

assigning allowance percentages to each category. The allowance percentages have been derived using percentages commonly applied under the regulatory framework for the Company and similarly sized institutions. The percentages are adjusted for significant factors that, in management's judgment, could 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, 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.

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

Large groups of smaller balances homogenous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Foreclosed Real Estate - Real estate acquired through, or in lieu of, loan foreclosures are carried at the fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had no foreclosed real estate at September 30, 2008 and 2007.

Office Properties and Equipment - Land is carried at cost. Office properties and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets that range from four to fifty years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Federal Home Loan Bank Stock - The Company reports its investment in Federal Home Loan Bank (FHLB) stock at cost in the consolidated statements of financial condition. Federal law requires a member of the FHLB to hold stock according to a predetermined formula.

Cash Surrender Value Of Bank Owned Life Insurance (BOLI) - The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the consolidated statements of income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the consolidated statements of financial condition and amounted to $12,906,000 and $12,407,000 at September 30 2008 and 2007, respectively.

Income Taxes - Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets

have been isolated from the Company (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Treasury Stock - The Company records treasury stock purchases at cost. Gains and losses on subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method.

Accounting for Stock Options - The Company currently has several stock option plans in place for employees and directors of the Company. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004), "Share-Based Payment", which revises SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Statement requires an entity to recognize the cost of employee services received in exchange for an award of equity investment based on grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The Company adopted the modified prospective method provisions of SFAS No. 123R. Stock-based compensation expense related to stock options for the years ended September 30, 2008 and 2007 was $99,000 and $97,000, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2008 and 2007 was $5,000 and $5,000, respectively.

The weighted average fair value of options granted in the years ended September 30, 2008 and 2007 was $1.39 and $2.81, respectively, and was estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions:

	Year Ended September 30, 2008	2007
Risk free interest rate of return	3.59%	4.77%
Expected option life	84 months	84 months
Expected volatility	17%	17%

Expected dividends	5.4%	3.9%

The expected volatility is based on historic volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Earnings Per Share - Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30, 2008	2007
Weighted average shares outstanding - basic	3,643,363	3,834,518
Increase in shares due to dilutive stock options	20,106	61,799
Weighted average shares outstanding - diluted	3,663,469	3,896,317

Other Comprehensive Income - The Company presents, as a component of comprehensive income, amounts from transactions and other events, which are currently excluded from the statement of income and are recorded directly to stockholders' equity. The Company's other comprehensive income consists of net unrealized holding gains or losses on securities available-for-sale, net of income taxes.

Recent Accounting Pronouncements - - In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must presume the tax position will be examined by the relevant tax authority and determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 represents a change in accounting principle and shall be reported as an adjustment to the opening balance of retained earnings. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. There was no impact on the Company's financial statements upon adoption of FIN 48 as of October 1, 2007 and for the year ended September 30, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for

Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company October 1, 2008. We do not expect the adoption of SFAS No. 159 to have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for certain financial instruments which require retrospective application as of the beginning of the fiscal year of initial application (a limited form of retrospective application). The transition adjustment, measured as the difference between the carrying amounts and the fair values of those financial instruments at the date SFAS No. 157 is initially applied, should be recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the impact of adopting SFAS No. 157 on its Consolidated Financial Statements.

In February 2000, the FASB issued FASB Staff Position (FSP) 157-2, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measured provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement 157 in interim or annual financial statements before FSB 157-2 is effective. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-2 will have on the Company's operating income or net earnings.

In September 2006, the Emerging Issues Task Force (EITF) of FASB issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus

highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The adoption of this new accounting standard will not have an impact to our consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements: (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 will not have an impact on the Company's consolidated financial position and results of operations.

In December of 2007, FASB issued statement No. 141 (R) "Business Combinations". This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The new pronouncement will impact the Company's accounting for business combinations completed beginning October 1, 2009.

In December 2007, FASB issued statement No. 160 "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51". This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The Company believes that this new pronouncement will have an immaterial impact on the Company's financial statements in future periods.

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133" (Statement 161). Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The implementation of this standard will not have any impact on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active" (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial condition as of and for the periods ended September 30, 2008.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

3. INVESTMENT SECURITIES HELD TO MATURITY

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

	September 30, 2008			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies				
Due after 1 year through 5 years	$ 5,000	$ 67	$ --	$ 5,067
Due after 5 years through 10 years	2,500	5	--	2,005
Due after 10 years through 15 years	38,497	11	(341)	38,167
Due after 15 years	8,818	64	(44)	8,838
Tax Exempt Obligations				
Due after 10 years through 15 years	21,544	592	(109)	22,027
Due after 15 years	3,395	--	(526)	2,869
Total Investment Securities	$ 79,254	$ 739	$ (1,020)	$ 78,973

	September 30, 2007			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies				
Due after 1 year through 5 years	$ 5,000	$ --	$ (27)	$ 4,973
Due after 5 years through 10 years	20,919	38	(114)	20,843

Due after 10 years through 15 years	48,422	87	(342)	48,167
Due after 15 years	8,814	87	(50)	8,851
Tax Exempt Obligations				
Due after 10 years through 15 years	15,853	717	--	16,570
Due after 15 years	9,685	384	(167)	9,902
Total Investment Securities	$ 108,693	$ 1,313	$ (700)	$ 109,306

A summary of investments with unrealized losses, aggregated by category, at September 30, 2008 is as follows:

	Less than 12 Months		12 Months or Longer		Tot
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair V
			(In Thousands)		
US Government agencies	$ 34,501	$ (385)	$ --	$ --	$ 34
Tax exempt obligations	4,502	(298)	1,675	(337)	6
Total	$ 39,003	$ (683)	$ 1,675	$ (337)	$ 40

At September 30, 2008, investment securities in a gross unrealized loss position consisted of 21 securities that at such date had an aggregate depreciation of ..36% 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. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until maturity. Management does not believe any individual unrealized loss as of September 30, 2008 represents an other-than-temporary impairment.

A summary of investments with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer		Tot
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair V
US Government agencies	$ 4,446	$ (26)	$ 56,849	$ (506)	$ 61
Tax exempt obligations	2,849	(168)	--	--	2
Total	$ 7,295	$ (194)	$ 56,849	$ (506)	$ 64

4. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

A comparison of amortized cost and approximate fair value of investment securities available-for sale with gross unrealized gains and losses, is as follows:

September 30, 2008 (In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equity Securities	$ 877	$ 46	$ (81)	$ 842
Money Market Mutual Funds	12	--	--	12
Total Investment Securities	$ 889	$ 46	$ (81)	$ 854

September 30, 2007 (In Thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equity Securities	$ 1,501	$ 6	$ (173)	$ 1,334
Money Market Mutual Funds	576	--	--	576
Total Investment Securities	$ 2,077	$ 6	$ (173)	$ 1,910

A summary of investments with unrealized losses, aggregated by category, at September 30, 2008 is as follows:

	Less than 12 Months		12 Months or Longer		Tot
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair V
Equity Securities	$ 258	$ (14)	$ 339	$ (67)	$

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As of September 30, 2008 there were 3 equity securities in an unrealized loss position. Management evaluated the length of time and the extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may effect the future earnings potential. 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 September 30, 2008 represents an other-than-temporary impairment.

A summary of investments with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer		Tot
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair V
Equity Securities	$ 793	$ (89)	$ 255	$ (84)	$ 1

Proceeds from the sale of investment securities available for sale during the year ended September 30, 2008 were $442,000 resulting in a gross gain of $69,000 and an after tax gain of $46,000. There were no sales of investment securities available for sale for the year ended September 30, 2007.

During the year ended September 30, 2008, the Company recognized an impairment charge of $252,000 on two equity securities.

5. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	September 30, 2008			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 14,708	$ 8	$ (624)	$ 14,092
FHLMC pass-through certificates	88,594	283	(826)	88,051
FNMA pass-through certificates	110,431	99	(1,061)	109,469
GNMA pass-through certificates	200	2	--	202
Total mortgage-backed securities	$ 213,933	$ 392	$ (2,511)	$ 211,814

	September 30, 2007			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 16,470	$ 97	$ (299)	16,268
FHLMC pass-through certificates	89,533	164	(2,198)	87,499
FNMA pass-through certificates	86,587	12	(2,008)	84,591
GNMA pass-through certificates	252	2	--	254
Total Mortgage-Backed Securities	$ 192,842	$ 275	$ (4,505)	$ 188,612

A summary of securities with unrealized losses, aggregated by category, at September 30, 2008 is as follows:

	Less than 12 Months		12 Months or Longer		
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fa
Mortgage-backed securities held to maturity	$ 159,415	$ (2,412)	$ 4,615	$ (99)	$

At September 30, 2008, mortgage-backed securities in a gross unrealized loss position for twelve months or longer consisted of 6 securities that at such date had an aggregate depreciation of 10.9% 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. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer. The Company has the ability and intent to hold these securities until maturity. Management does not believe any individual unrealized loss as of September 30, 2008 represents an other-than-temporary impairment.

A summary of securities with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer		
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fa
Mortgage-backed securities held to maturity	$ 11,829	$ (95)	$ 162,008	$ (4,410)	$

Proceeds from the sales of mortgage-backed securities during the year ended September 30, 2008 were $1,271,000 resulting in a gross gain of $4,000 and an after tax gain of $3,000. Proceeds from the sales of mortgage-backed securities during the year ended September 30, 2007 were $10,281,000 resulting in a gross gain of $160,000 and an after tax gain of $106,000. The Company sold securities held to maturity in accordance with provisions of SFAS No. 115 allowing such securities to be sold if principal reductions on such securities were at least 85%.

6. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

(In Thousands)	Amortized Cost	September 30, 2008 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 785	$ --	$ (27)	$ 758
Total mortgage-backed securities	$ 785	$ --	$ (27)	$ 758

The Company has one security in an unrealized loss position at September 30, 2008 for less than twelve months. Management does not believe this loss represents an other-than-temporary impairment.

(In Thousands)	Amortized Cost	September 30, 2007 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 785	$ 33	$ --	$ 818
Total mortgage-backed securities	$ 785	$ 33	$ --	$ 818

7. LOANS RECEIVABLE

Loans receivable consists of the following:

(In Thousands)	September 30, 2008	2007
Residential Mortgages	$ 337,316	$ 305,341
Commercial Mortgages	44,407	15,314
Construction	8,346	6,093
Savings Account	955	977
Home Equity	66,280	74,218
Home Equity Line of Credit	26,103	21,386
Automobile and other	1,000	904
Total	484,407	424,233
Undisbursed portion of loans in process	(5,109)	(2,794)
Deferred loan fees	(452)	(453)
Allowance for loan losses	(1,988)	(1,933)
Loans Receivable - net	$ 476,858	$ 419,053

At September 30, 2008 and 2007, the Company was servicing loans for others amounting to approximately $2,918,000 and $3,642,000 respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. In connection with the loans serviced for others, the Company held borrowers' escrow balances of approximately $13,000 and $18,000, at September 30, 2008 and 2007, respectively.

Loans to officers and directors at September 30, 2008 and 2007, were approximately $554,000 and $582,000, respectively. Additional loans and repayments for the year ended September 30, 2008, were $0 and $28,000, respectively.

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

(In Thousands)	Year Ended September 30, 2008	2007
Balance, beginning of year	$ 1,933	$ 1,956
Provision of loan losses	85	--
Recoveries	10	13
Charge offs	(40)	(36)
Balance, end of year	$ 1,988	$ 1,933

The activity in the recoveries and charge off accounts was primarily the result of the Company's Bounce protection program. This program extends credit automatically to our depositors. If the account is not brought current by the depositor the loan is charged off. If the customer subsequently brings the account current, a recovery is recognized.

The provision for loan losses charged to expense is based upon past loss experiences and an evaluation of potential losses in the current loan portfolio, including the evaluation of impaired loans under SFAS No. 114. A loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired. For this purpose, delays less than 90 days are considered to be insignificant. As of September 30, 2008, 100% of the impaired loan balance was measured for impairment based on the fair value of the loans' collateral. Impairment losses are included in the provision for loan losses. SFAS No. 114 does not apply to large groups of smaller balance homogeneous loans that are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring. Loans collectively evaluated for impairment include consumer loans and residential real estate loans. At September 30, 2008 and 2007, the Company had impaired loans of $815,000 and $0, respectively, with a related allowance for loan losses of $122,000 and $0, respectively. At September 30, 2008, the Company had non-accrual loans of $244,000. At September 30, 2007, the Company had no non-accrual loans. At September 30, 2008 and 2007, the Company had loans in excess of 90 days delinquent and still accruing interest in the amount of $1,014,000 and $28,000, respectively.

8. OFFICE PROPERTIES AND EQUIPMENT

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

(In Thousands)	September 30, 2008	September 30, 2007
Land	$ 1,159	$ 1,159
Buildings	7,725	7,548
Branch office in construction	2,430	2,193
Furniture, fixtures and equipment	4,251	3,904
Automobiles	25	25
Total	15,590	14,829
Less accumulated depreciation	(5,436)	(4,913)
Net	$ 10,154	$ 9,916

Depreciation expense for the years ended September 30, 2008 and 2007 amounted to approximately $523,000 and $511,000 respectively.

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9. DEPOSITS

Deposits are summarized as follows:

	September 30, 2008		September 30, 2007	
(Dollars in Thousands)	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
Non-interest bearing checking accounts	$ 10,963	0.00%	$ 11,740	0.00%
NOW accounts	14,315	0.25	13,711	0.25
Interest bearing checking accounts	27,888	1.13	25,750	2.41
Money market deposit accounts	52,005	1.47	51,827	1.80
Passbook and club accounts	2,641	1.00	2,864	0.98
Certificate of deposit accounts	317,701	3.49	318,143	4.50
Total Deposits	$ 425,513	2.87%	$ 424,035	3.76%

At September 30, 2008, the amounts of scheduled maturities of certificate of deposit accounts were as follows:

For the year ended September 30:	2009	$ 208,889
	2010	48,489
	2011	39,348
	2012	12,760
	2013	8,215
Total		$ 317,701

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The aggregate amount of certificate accounts in denominations of $100,000 or more at September 30, 2008 and 2007 amounted to approximately $53.4 million and $53.6 million, respectively. On October 3, 2008, FDIC deposit insurance temporarily increased from $100,000 to $250,000 per depositor through December 31, 2009

Interest expense on savings deposits is composed of the following:

(In Thousands)	Year Ended September 30, 2008	2007
NOW, interest-bearing checking and MMDA accounts	$ 2,212	$ 2,558
Passbook and club accounts	31	32
Certificate accounts	12,975	12,882
Total	$ 15,218	$ 15,472

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Company has a line of credit with the Federal Home Loan Bank of which $21.8 million and $31.5 million of the available $75.0 million was used at September 30, 2008 and 2007, respectively. The average balance outstanding on the line of credit for the years ended September 30, 2008 and 2007 was $16.9 million and $48.2 million, respectively. The maximum amount outstanding at any time for 2008 and 2007 was $39.0 million and $67.4 million, respectively. The weighted average interest rate during 2008 and 2007 was 2.96% and 5.36%. The interest rate at September 30, 2008 and 2007 was 2.05% and 5.15%, respectively.

Long-term debt consist of the following:

		Amount		Weighted Average Rate	
		2008	2007	2008	2007
		(dollars in thousands)			
FHLB long-term debt:					
Fixed rate advances maturing:					
	2009	$ 14,055		4.93%	
	2010	31,405		4.36%	
	2011	17,740		4.33%	
	2012	57,090		4.48%	
	2013	24,282		3.61%	
	2014	11,444		3.47%	
	2015	19,683		3.81%	
	Maturing after 9/30/2015:	100,347		4.32%	
Total FHLB long-term debt		276,046	227,109	4.25%	4.56%

Other long-term debt:				
Fixed rate advances maturing:				
2013	15,000		4.55%	
2014	15,000		4.50%	
Maturing after 9/30/2015:	10,000		3.50%	
Total other long term debt fixed	40,000	30,000	4.27%	4.70%
Adjustable long-term debt maturing:				
Maturing after 9/30/2015:	10,000	10,000	4.37%	4.97%
Total other long term debt	$ 50,000	40,000	4.29%	4.77%
Total Long Term Debt	$ 326,046	$ 267,109	4.26%	4.59%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $50 million.

11. INCOME TAXES

The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2008 and 2007 includes approximately $1,325,000 representing bad debt deductions for which no deferred income taxes have been provided.

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The expense for income taxes differs from that computed at the statutory federal corporate tax rate as follows:

	Year Ended September 30, 2008		2007	
(Dollars in Thousands)	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
At statutory rate	$ 1,908	34.0%	$ 1,413	34.0%
Adjustments resulting from:				
Tax-exempt income	(597)	(10.6)	(557)	(13.4)
State tax-net of federal tax benefit	--	--	--	--
Other	(79)	(1.4)	55	1.3
Expense per consolidated statements of income	$ 1,232	22.0%	$ 911	21.9%

Income tax expense is summarized as follows:

Year Ended September 30,

(In thousands)	2008	2007
Current	$ 1,273	$ 855
Deferred	(41)	56
Total Income Tax Expense	$ 1,232	$ 911

Items that gave rise to significant portions of the deferred tax accounts are as follows:

	September 30,	
(In thousands)	2008	2007
Deferred Tax Assets:		
Deferred Loan Fees	$ 37	$ 55
Allowance for Loan Losses	676	657
Unrealized loss on investment securities	21	46
Securities impairment	86	--
Other	32	27
Sub-Total	852	785
Deferred Tax Liabilities:		
Properties and equipment	(501)	(450)
Sub-Total	(501)	(450)
Total	$ 351	$ 335

12. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are 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 Company's 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

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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 September 30, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2008, 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.

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes		To Be Considere Capitalized U Prompt Correc Action Provis
	Amount	Ratio	Amount	Ratio	Amount
Tier 1 Capital (to assets)	$ 47,191	5.69%	$ 33,167	4.00%	$ 41,459
Tier 1 Capital (to risk weighted assets)	47,191	10.97%	17,203	4.00%	25,804
Total Capital (to risk weighted assets)	49,179	11.44%	34,406	8.00%	43,007
Tier 1 Capital (to assets)	$ 46,797	6.02%	$ 31,021	4.00%	$ 38,776
Tier 1 Capital (to risk weighted assets)	46,797	12.12%	15,443	4.00%	23,164
Total Capital (to risk weighted assets)	48,729	12.62%	30,886	8.00%	38,607

The Company's capital ratios are not significantly different than the Bank's disclosed above.

13. RETIREMENT SAVINGS PLANS

The Company has an employee stock ownership pension plan and a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for both plans are at the discretion of the Company's Board of Directors. Contributions expense related to the plans was $309,000 and $278,000 for the years ended September 30, 2008 and 2007, respectively.

14. STOCK OPTIONS

In January 1996, the stockholders approved the 1995 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options.

In January 2001, the stockholders approved the 2000 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options.

In January 2006, the stockholders approved the 2005 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options. There are 151,499 options remaining for grant in this plan.

A summary of transactions under this plan follows:

	Year Ended September 30, 2008		2007	
		Weighted Average		Weighted Average

	Options	Price	Options	Price
Outstanding, beginning of year	279,799	$ 15.54	243,100	$ 15.01
Exercised	(5,000)	8.87	(3,751)	10.10
Canceled	(10,918)	15.61	(8,750)	14.35
Granted	79,478	12.50	49,200	17.68
Outstanding, end of year	343,359	$ 15.02	279,799	$ 15.54
Options exercisable, end of year	145,666	$ 14.45	145,599	$ 13.86

A summary of the exercise price ranges at September 30, 2008 is as follows:

Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
127,527	$ 8.10-12.50	6.72	$ 11.50
101,567	13.13-17.50	6.09	16.41
114,265	17.68-18.00	5.88	17.81
343,359	$ 8.10-18.00	7.34	$ 15.02

For the years ended September 30, 2008 and 2007, the aggregate intrinsic value of options outstanding was $137,000 and $251,000, respectively. For the years ended September 30, 2008 and 2007, the aggregate intrinsic value of options exercisable was $131,000 and $242,000, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2008. This amount changes based on changes in the market value of the Company's stock.

Stock based compensation expense related to stock options for the years ended September 30, 2008 and 2007 was $99,000, or $94,000 net of tax and $97,000, or $92,000, net of tax, respectively. As of September 30, 2008, there was approximately $231,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

The Company also has established an Employee Stock Purchase Plan (the "Purchase Plan") whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee's total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company's Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. During 2008 and 2007, no shares were issued to employees, respectively. At September 30, 2008 and 2007, there were 31,081 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

15. COMMITMENTS

At September 30, 2008, the Company had approximately $10.6 million in outstanding commitments to originate mortgage loans, of which $10.4 million were at fixed rates ranging from 5.00% to 7.625% and adjustable rates of $167,000 at 6.00%. The unfunded line of credit commitments at September 30, 2008 were $41.3 million. The Company had $4.7 million and $370,000 of committed commercial and consumer loans, respectively at September 30, 2008. In addition, the Company had $4.1 million of unused commercial lines of credit. The amounts of undisbursed portions of loans in process at September 30, 2008 were $4.7 million. The Company had a total of $741,000 in standby letters of credit. Also, at September 30, 2008 the Company had no outstanding futures or options positions.

The Company leases land for two of its branch offices. Minimum rental commitments for the next five years at September 30, 2008, are summarized below:

	Fiscal Year	Rental Amount
	2009	$ 121,627
	2010	124,272
	2011	125,595
	2012	130,463
	2013	137,277
Total		$ 639,234

16. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

17. CONVERSION TO A STOCK SAVINGS BANK

At the time of conversion, in 1987, the Bank established a liquidation account in an amount equal to the Bank's net worth as reflected in the latest consolidated statement of financial condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder's proportionate amount of the total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately $2,300,000 at September 30, 2008. Furthermore, the Company may not repurchase any of its stock if the effect thereof would cause the Company's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

18. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret the market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	September 30, 2008		2007	
(In Thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Est
Assets:				
Cash and cash equivalents	$ 9,374	$ 9,374	$ 8,317	$
Investment securities held to maturity	79,254	78,973	108,693	
Investment securities available-for-sale	854	854	1,910	
Mortgage-backed securities held to maturity	213,933	211,814	192,842	
Mortgage-backed securities available-for-sale	758	758	818	
Loans receivable - net	476,858	476,399	419,053	
Federal Home Loan Bank Stock	16,574	16,574	14,140	
Accrued interest receivable	3,799	3,799	4,047	
Liabilities:				
Checking, Passbook, Club and NOW accounts	55,807	55,807	54,065	
Money Market Demand accounts	52,005	52,005	51,827	
Certificate accounts	317,701	318,929	318,143	
Borrowings	347,846	357,376	298,609	
Accrued interest payable	1,686	1,686	1,556	
Off balance sheet financial instruments	--	--	--	

The carrying amounts of cash and short-term instruments approximate fair values. The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. The fair value of investment securities and mortgage-backed securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Although Federal Home Loan Bank Stock (FHLB) is an equity interest in FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount. The fair value of accrued interest receivable and payable is the carrying amount.

The fair value of checking, NOW and money market deposits and savings accounts is the amount reported in the consolidated financial statements. The fair value of savings certificates and borrowings are based on a present value estimate using rates currently offered for instruments of similar remaining maturity. Fair values for off-balance sheet lending commitments are based on fees currently charged to enter similar agreements.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2008 and 2007. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of

these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

19. PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Condensed financial statements of Harleysville Savings Financial Corporation are as follows:

Condensed Statements of Financial Condition

	September 30, 2008	September 30, 2007
(In Thousands)		
Assets		
Cash	$ 47	$ 195
Investment in subsidiary	47,618	47,312
Total Assets	$ 47,665	$ 47,507
Liabilities & Stockholders' Equity		
Other liabilities	$ 456	$ 466
Stockholders' equity	47,209	47,041
Total Liabilities & Stockholders' Equity	$ 47,665	$ 47,507

Condensed Statement of Income:

	For the Year Ended September 30, 2008	2007
Equity in income of subsidiary	$ 4,788	$ 3,680
Other expense	409	434
Net income	$ 4,379	$ 3,246

Condensed Statements of Cash Flows

For the Year Ended September 30,

	2008	2007
Net income	$ 4,379	$ 3,246
(Decrease) increase in other liabilities	(10)	92
Income of Harleysville Savings Bank	(4,788)	(3,680)
Net cash used by operating activities	(419)	(342)
Investing activities:		
Dividends received from subsidiary	4,629	5,050
Net cash provided by investing activities	4,629	5,050
Financing activities:		
Acquisition of treasury stock	(2,556)	(2,694)
Issuance of treasury stock	177	49
Dividends paid	(1,979)	(2,051)
Net cash used in financing activities	(4,358)	(4,696)
Net increase (decrease) in cash and cash equivalents	(148)	12
Cash and cash equivalents at the beginning of the period	195	183
Cash and cash equivalents at the end of the period	$ 47	$ 195

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20. Quarterly Financial Data (Unaudited)

Unaudited quarterly financial data for the years ended September 30, 2008 and 2007 is as follows: (in thousands, except per share data)

	2008					
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR
(In Thousands)						
Interest Income	$ 10,501	$ 10,722	$ 10,812	$ 11,041	$ 9,840	$ 9,899
Interest Expense	7,631	7,519	7,056	6,810	7,015	6,957
Net Interest Income	2,870	3,203	3,756	4,231	2,825	2,942
Provision for loan losses	--	5	35	45	--	--
Net interest income after						

provision for loan losses	2,870	3,198	3,721	4,186	2,825	2,942
Impairment of equity securities	--	--	252	--	--	--
Gain on sales of investments	--	4	--	69	--	160
Other Income	499	463	453	494	373	386
Non-interest expense	2,386	2,425	2,554	2,729	2,260	2,315
Income before income taxes	983	1,240	1,368	2,020	938	1,173
Income tax expense	182	206	332	512	181	269
Net income	$ 801	$ 1,034	$ 1,036	$ 1,508	$ 757	$ 904
Per Common Share:						
Earnings per share - basic	$ 0.22	$ 0.28	$ 0.29	$ 0.42	$ 0.20	$ 0.23
Earnings per share - diluted	$ 0.21	$ 0.28	$ 0.29	$ 0.42	$ 0.19	$ 0.23

Earnings per share is computed independently for each period presented. Consequently, the sum of the quarters may not equal the total earnings per share for the year.

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

The information required herein is incorporated by reference from the information contained in the section captioned "Ratification of Selection of Independent Registered Public Accounting Firm - Change in Auditors" in the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in January 2009 (the "Proxy Statement").

Item 9A(T). 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 September 30, 2008. 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 fourth fiscal quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Management's Assessment of Internal Control over Financial Reporting

Management is responsible for designing, implementing, documenting, and maintaining an adequate system of internal control over financial reporting. An adequate system of internal control over financial reporting encompasses the processes and procedures that have been established by management to:

- maintain records that accurately reflect the company's transactions;
- prepare financial statement and footnote disclosures in accordance with GAAP that can be relied upon by external users;
- prevent and detect unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the criteria in Internal Control-Integrated Framework, management concluded that internal control over financial reporting was effective as of September 30, 2008. Furthermore, during the conduct of its assessment, management identified no material weakness in its financial reporting control system.

The Board of Directors of Harleysville Savings Financial Corporation, through its Audit Committee, provides oversight to managements' conduct of the financial reporting process. The Audit Committee, which is composed entirely of independent directors, is also responsible to recommend the appointment of independent public accountants. The Audit Committee also meets with management, the internal audit staff, and the independent public accountants throughout the year to provide assurance as to the adequacy of the financial reporting process and to monitor the overall scope of the work performed by the internal audit staff and the independent public accountants.

Because of its inherent limitations, our disclosure controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances

of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to a temporary rule of the Securities and Exchange Commission that permits the Company to provide only management's report in this annual report.

/s/ Ronald B. Geib	/s/ Brendan J. McGill
President and Chief Executive Officer	Chief Financial Officer

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned "Information with Respect to Nominees for Director, Directors Whose Terms Continue and Executive Officers" and "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the 2009 Annual Meeting of Stockholders to be held in January 2009 (the "Proxy Statement").

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. A copy of the Code of Ethics may be found on the Company's website at www.harleysvillesavingsbank.com.

Item 11. Executive Compensation.

The information required herein is incorporated by reference from the information contained in the sections captioned "Management Compensation" in the Proxy Statement.

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

The information required herein is incorporated by reference from the information contained in the section captioned "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management" in the Proxy Statement.

Equity Compensation Plan Information

The following table sets forth certain information for all equity compensation plans and individual compensation arrangements (whether with employees or non-employees, such as directors), in effect as of September 30, 2008.

Plan Category	Number of Shares to be issued upon the Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options	Number of Sha Future Issuanc in t
Equity compensation plans approved by security holders	343,359	$15.02	
Equity compensation plans not approved by security holders	--	--	
Total	343,359	$15.02	

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(1) Does not take into account purchase rights accruing under the Company's 1995 Employee Stock Purchase Plan, which was approved by stockholders and provides for up to 87,281 shares to be issued. Under the Employee Stock Purchase Plan, each eligible employee may purchase shares of common stock at semi-annual intervals each year at a purchase price determined by the committee of the board of directors which administers the plan, which shall not be less than the lesser of (i) 85% of the fair market value of a share of common stock on the first business day of the applicable semi-annual offering period or (ii) 85% of the fair market value of a share of common stock on the last business day of such offering period. In no event may the amount of common stock purchased by a participant in the Employee Stock Purchase Plan in a calendar year exceed $25,000, measured as of the time an option under the plan is granted.

(2) Includes shares available for future issuance under the Employee Stock Purchase Plan. As of September 30, 2008, an aggregate of 53,583 shares of common stock were available for issuance under this plan. The Company suspended participation in the Employee Stock Purchase Plan in March 2005 and the plan is not currently active.

Item 13. Certain Relationships and Related Transactions and Directors Independence.

The information required herein is incorporated by reference from the information contained in the sections captioned "Management Compensation - Related Party Transactions" and "Information with Respect to Nominees for Director, Continuing Directors and Executive Officers" in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required herein is incorporated by reference from the information contained in the section captioned "Relationship with Independent Registered Public Accounting Firm - Audit Fees" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) The following financial statements are incorporated by reference from Item 8 hereof:

Consolidated Statements of Financial Condition as of September 30, 2008 and 2007
Consolidated Statements of Income for the Years Ended September 30, 2008 and 2007
Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2008 and 2007
Consolidated Statements of Comprehensive Income for the Years Ended September 30, 2008 and 2007
Consolidated Statements of Cash Flows for the Years Ended September 30, 2008 and 2007
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Description
3.1	Amended and Restated Articles of Incorporation
3.2	Amended and Restated Bylaws
4.0	Common Stock Certificate
10.1	1995 Stock Option Plan*
10.2	Amended and Restated 2000 Stock Option Plan*
10.3	Amended and Restated 2005 Stock Option Plan*
10.4	Profit Sharing Incentive Plan*
10.5	Amended and Restated Employment Agreement between the Company, the Bank and Ronald B. Geib*
22.0	Subsidiaries of the Registrant - Reference is made to "Item 1. Business - Subsidiaries" of this Form 10-K for the required information
23.1	Consent of Beard Miller Company LLP
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.0	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

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* Denotes management compensation plan or arrangement.

(1) Incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on August 17, 2007.

(2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 25, 2000.

(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003, filed with the SEC on December 23, 2003.

(4) filed with the SEC on December 16, 2005.

(6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 21, 2008.

(b) Exhibits

The exhibits listed under (a)(3) of this Item 15 are filed herewith.

(c) Reference is made to (a)(2) of this Item 15.

SIGNATURES

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

HARLEYSVILLE SAVINGS
FINANCIAL CORPORATION

December 19, 2008 By: /s/ Ronald B. Geib

Ronald B. Geib
President and Chief Executive Officer

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

Name	Title	Date
/s/ Edward J. Molnar Edward J. Molnar	Chairman of the Board	December 19, 2008
/s/ Ronald B. Geib Ronald B. Geib	President and Chief Executive Officer (principal executive officer)	December 19, 2008
/s/ Brendan J. McGill Brendan J. McGill	Senior Vice President, Treasurer and Chief Financial Officer (principal financial and principal accounting officer)	December 19, 2008
/s/ Sanford L. Alderfer Sanford L. Alderfer	Director	December 19, 2008
/s/ Mark R. Cummins Mark R. Cummins	Director	December 19, 2008
/s/ David J. Friesen David J. Friesen	Director	December 19, 2008

Name	Title	Date
/s/ Charlotte A. Hunsberger Charlotte A. Hunsberger	Director	December 19, 2008
/s/ George W. Meschter George W. Meschter	Director	December 19, 2008
/s/ James L. Rittenhouse James L. Rittenhouse	Director	December 19, 2008