HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
August 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 No.)

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

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

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

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

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 definition of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer |_| Accelerated filer |_|

Non-accelerated filer |_| Smaller reporting company |X|

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes |X| No |_|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $.01 Par Value, 3,553,533 shares outstanding as of August 13, 2008

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

Item 5. Other information

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Signatures

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Financial Condition

(In thousands, except share data)	
Assets	
Cash and amounts due from depository institutions	$
Interest bearing deposits in other banks	
Total cash and cash equivalents	
Investment securities held to maturity (fair value - June 30, $89,739; September 30, $109,305)	
Investment securities available-for-sale at fair value	
Mortgage-backed securities held to maturity (fair value - June 30, $220,769; September 30, $188,612)	
Mortgage-backed securities available-for-sale at fair value	
Loans receivable (net of allowance for loan losses - June 30, $1,960; September 30, $1,932)	
Accrued interest receivable	
Federal Home Loan Bank stock - at cost	
Office properties and equipment, net	
Prepaid expenses and other assets	
TOTAL ASSETS	$
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$
Advances	
Accrued interest payable	
Advances from borrowers for taxes and insurance	
Accounts payable and accrued expenses	
Total liabilities	
Stockholders' equity:	
Preferred Stock: $.01 par value; 12,500,000 shares authorized; none issued	
Common stock: $.01 par value; 25,000,000 shares authorized; 3,921,177 shares issued	
Additional paid-in capital	
Treasury stock, at cost (June 30, 2008 367,644 shares; September 30 2007, 203,658)	
Retained earnings - partially restricted	
Accumulated other comprehensive loss	

Total stockholders' equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$

See notes to unaudited consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Income

(In thousands,except per share data)	For the Three Months Ended June 30,		For the Nine Mont June 30,	
	2008	2007	2008	
INTEREST INCOME:				
Interest on mortgage loans	$ 4,797	$ 4,346	$ 14,053	$
Interest on commerical loans	449	206	1,166	
Interest on mortgage-backed securities	2,724	2,264	7,442	
Interest on consumer and other loans	1,373	1,507	4,356	
Interest on taxable investments	1,114	1,389	3,943	
Interest on tax-exempt investments	345	387	1,043	
Dividends on investment securities	10	16	32	
Total interest income	10,812	10,115	32,035	
Interest Expense:				
Interest on deposits	3,685	3,978	11,997	
Interest on borrowings	3,371	3,271	10,209	
Total interest expense	7,056	7,249	22,206	
Net Interest Income	3,756	2,866	9,829	
Provision for loan losses	35	--	40	
Net Interest Income after Provision for Loan Losses	3,721	2,866	9,789	
Other Income:				
Customer service fees	156	157	460	
Impairment of equity securities	(252)	--	(252)	
Gain on sale of investments	--	--	4	
Income on bank-owned life insurance	120	119	372	
Other income	177	199	583	
Total other income	201	475	1,167	
Other Expenses:				
Salaries and employee benefits	1,437	1,202	4,195	
Occupancy and equipment	289	293	817	

Deposit insurance premiums	12	13	37	
Data processing	186	145	434	
Other	630	663	1,882	
Total other expenses	2,554	2,316	7,365	
Income before Income Taxes	1,368	1,025	3,591	
Income tax expense	332	211	720	
Net Income	$ 1,036	$ 814	$ 2,871	$
Basic Earnings Per Share	$ 0.29	$ 0.21	$ 0.78	$
Diluted Earnings Per Share	$ 0.29	$ 0.21	$ 0.77	$
Dividends Per Share	$ 0.17	$ 0.17	$ 0.51	$

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Comprehensive Income

(In thousands)	Three Mon 30 2008
Net Income	$ 1,036
Other Comprehensive Income	
Unrealized gain (loss) on securities net of tax 2008, $2; 2007, $(21)	4(1
Total Comprehensive Income	$ 1,040

(1) Disclosure of reclassification amount, net of tax for the three months ended:	2008
Net unrealized loss arising during the three months ended	$ (246)
Reclassification adjustment for net loses included in net income	252
	$ 6
Tax (expense) benefit	(2)
Net unrealized gain (loss) on securities	$ 4

	Nine Mont 30 2008
Net Income	$ 2,871
Other Comprehensive Income	
Unrealized loss on securities net of tax benefit 2008, $55; 2007, $22	(107)(
Total Comprehensive Income	$ 2,764

(1) Disclosure of reclassification amount, net of tax for the nine months ended:	2008
Net unrealized gain (loss) arising during the nine months ended	$ (410)
Reclassification adjustment for net losses (gains) included in net income	248
	$ (162)
Tax benefit	55
Net unrealized loss on security available for sale	(107)

See notes to unaudited consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retai Earni Parti Restr
Balance at October 1, 2007	3,921,177	$ 39	$ 8,044	$ (3,316)	$ 4
Net Income					
Dividends declared - $.51 per share					(
Stock Option Compensation			88		
Treasury stock purchased (205,358 shares)				(2,557)	
Treasury stock issued for stock options exercised (2,250 shares)			(19)	38	
Treasury Stock issued under Dividend Reinvestment Plan (31,122 shares)			(78)	487	
Treasury stock delivered under employee stock plan (8,000 shares)			(26)	133	
Change in unrealized holding loss on					

available - for- sale securities, net of tax					
Balance at June 30, 2008	3,921,177	$ 39	$ 8,009	$ (5,215)	$ 4

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retai Earni Parti Restr
Balance at October 1, 2006	3,921,177	$ 39	$ 7,992	$ (1,262)	$ 4
Net Income					
Dividends declared - $.51 per share					(
Stock Option Compensation			77		
Treasury stock purchased (25,996 shares)				(434)	
Treasury stock issued for stock options exercised (3,751 shares)			(16)	65	
Treasury Stock issued under Dividend Reinvestment Plan (24,361 shares)			(7)	423	
Change in unrealized holding loss on available - for- sale securities, net of tax					
Balance at June 30, 2007	3,921,177	$ 39	$ 8,046	$ (1,208)	$ 4

See notes to unaudited consolidated financial statement.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended June 30	
(In thousands)	2008	2007
Operating Activities:		
Net Income	$ 2,871	$ 2,4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	387	3
Provision for loan losses	40	
Gain on sale of securities	(4)	(1
Loss on impairment of securities	252	
Amortization of deferred loan fees	12	
Net amortization of premiums and discounts	122	1
Increase in cash surrender value	(372)	(3
Compensation charge on stock options	88	
Changes in assets and liabilities which provided (used) cash:		
Increase in accounts payable and accrued expenses	284	6

Increase in prepaid expenses and other assets	(804)	(6
Decrease (increase) in accrued interest receivable	41	(1
Increase (decrease) in accrued interest payable	11	(1
Net cash provided by operating activities	2,928	2,3
Investing Activities:		
Purchase of investment securities held to maturity	(20,997)	(19,9
Purchase of mortgage-backed securities held to maturity	(61,396)	(20,9
Purchase of investment securities available for sale	--	(4
Proceeds from maturities of investment securities available-for-sale	422	5,4
(Purchase) Proceeds from redemption of FHLB stock	(1,012)	1,4
Proceeds from maturities of investment securities held to maturity	31,818	22,2
Principal collected on mortgage-backed securities	39,172	35,3
Principal collected on long-term loans	66,039	68,7
Long-term loans originated or acquired	(103,170)	(93,3
Purchases of premises and equipment	(597)	(2,3
Net cash used in investing activities	(49,721)	(3,7
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	5,302	8,0
Net increase (decrease) in certificates of deposit	11,584	(4,2
Cash dividends	(1,459)	(1,5
Proceeds from long-term debt	182,300	25,0
Repayment of long-term debt	(151,755)	(31,5
Treasury stock delivered under employee stock plans	126	
Acquisition of Treasury stock	(2,557)	(4
Net increase in advances from borrowers for taxes and insurance	4,423	4,1
Net cash provided by (used in) financing activities	47,964	(5
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,171	(1,9
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,317	10,0
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,488	$ 8,0
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	$ 22,195	$ 21,3
Income taxes	683	5

See notes to unaudited consolidated financial statements.

Harleysville Savings Financial Corporation
Notes to Unaudited Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -The unaudited condensed consolidated financial statements include the accounts of Harleysville Savings Financial Corporation (the "Company") and its subsidiary. Harleysville Savings Bank (the "Bank") is the wholly owned subsidiary of the Company. The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiaries, HSB Inc, a Delaware corporation which was formed in order to hold certain assets, Freedom Financial 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.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and nine months ended June 30, 2008 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2008 or any other period. The financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the period ended September 30, 2007.

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

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.

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. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. 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 measurement 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 FSP 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 EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with early adoption permitted. The Company is continuing to evaluate the impact of this statement on its consolidated financial statements.

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. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on 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 Company is currently assessing the impact of EITF 06-10 on its 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 Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

2. 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 is as follows:

	June 30, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
U.S. Government Agencies	$ 63,786	$ 453	$ (63)	$ 6
Tax-Exempt Obligations	24,915	919	(271)	2
Total Investment Securities	$ 88,701	$ 1,372	$ (334)	$ 8

	September 30, 2007			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
U.S. Government Agencies	$ 83,155	$ 211	$ (533)	$ 8
Tax Exempt Obligations	25,538	1,101	(167)	2
Total Investment Securities	$ 108,693	$ 1,312	$ (700)	$ 10

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	June 30, 2008		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses

Equity Securities	$ 1,250	$ --	$ (309)
Money Market Mutual Funds	208	--	--
Total Investment Securities	$ 1,458	$ --	$ (309)

At June 30, 2008 the Company had 2 equity securities with unrealized losses of $202,000 in this position for a time period greater than twelve months. The Company also had 5 equity securities with unrealized losses of $107,000 in this position for a time period less than twelve months. All these securities are equity holdings of other financial institutions. The severity and duration of the impairment is consistent with market developments in the financial industry. Management believes these equity securities in an unrealized loss position will recover in the foreseeable future. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation the Company's ability and intent to hold those securities for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider these equity securities to be other-than-temporarily impaired.

	September 30, 2007		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Equity Securities	$ 1,501	$ 6	$ (173)
Money Market Mutual Funds	576	--	--
Total Investment Securities	$ 2,077	$ 6	$ (173)

4. 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:

	June 30,2008		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Collateralized mortgage obligations	$ 15,176	$ 9	$ (485)
FHLMC pass-through certificates	92,603	274	(1,305)
FNMA pass-through certificates	116,134	108	(1,953)
GNMA pass-through certificates	206	2	--

Total Mortgage-Backed Securities	$ 224,119	$ 393	$ (3,743)

	September 30,2007		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Collateralized mortgage obligations	$ 16,471	$ 97	$ (299)
FHLMC pass-through certificates	89,533	164	(2,198)
FNMA pass-through certificates	86,586	12	(2,008)
GNMA pass-through certificates	252	2	--
Total Mortgage-Backed Securities	$ 192,842	$ 275	$ (4,505)

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	June 30, 2008		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
FNMA pass-through certificates	$ 785	$ 12	$ --
Total Mortgage-Backed Securities	$ 785	$ 12	$ --

	September 30, 2007		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
FNMA pass-through certificates	$ 785	$ 32	$ --
Total Mortgage-Backed Securities	$ 785	$ 32	$ --

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	(In thousands) June 30, 2008	September 30, 20
Residential Mortgages	$ 332,259	$ 305,341
Commercial Mortgages	30,993	15,314
Construction	6,768	6,093
Savings Account	886	977
Home Equity	68,368	74,218
Automobile and other	1,006	904
Home Equity Line of Credit	24,383	21,386
Total	464,663	424,233
Undisbursed portion of loans in process	(6,119)	(2,795)
Deferred loan fees	(452)	(453)
Allowance for loan losses	(1,960)	(1,932)
Loans Receivable - net	$ 456,132	$ 419,053

The total amount of loans being serviced for the benefit of others was approximately $3.0 million and $3.6 million at June 30, 2008 and September 30, 2007, respectively.

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

	Nine Months Ended June 30, 2008	Year Ended September 30, 2007
	(In thousands)	
Balance, beginning of period	$ 1,932	$ 1,956
Provision for loan losses	40	--
Amounts charged-off	(22)	(37)
Loan recoveries	10	13
Balance, end of period	$ 1,960	$ 1,932

7. DEPOSITS

Deposits are summarized as follows:

	(In thousands) June 30,2008	September 30,2007

Non-interest bearing checking	$ 12,173	$ 11,740
NOW accounts	15,197	13,711
Interest checking accounts	28,908	25,750
Money Market Demand accounts	52,326	51,827
Passbook and Club accounts	2,590	2,864
Certificate accounts	329,727	318,143
Total deposits	$ 440,921	$ 424,035

The aggregate amount of certificate accounts in denominations of more than $100,000 at June 30, 2008 and September 30, 2007 amounted to approximately $54.9 million and $53.6 million, respectively. Amounts in excess of $100,000 may not be federally insured.

8. COMMITMENTS

At June 30, 2008, the following commitments were outstanding:

	(In thousands)
Commitments to originate mortgage loans	$ 20,388
Unused line of credit loans	46,793
Loans in process	6,119
Total	$ 73,300

9. EARNINGS PER SHARE

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2008	2007	2008	2007
Basic	3,555,039	3,859,397	3,669,262	3,859,267
Diluted	3,598,927	3,877,469	3,713,388	3,888,142

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

10. ADVANCES

Advances consists of the following:

June 30, September 30,

(In thousands) Maturing Period	2008 Amount	2008 Weighted Interest Rate	2007 Amount	2007 Weighted Interest Rate
1 to 12 months	$ 29,445	3.71%	$ 69,227	5.07%
13 to 24 months	27,560	4.35%	20,043	4.37%
25 to 36 months	15,000	4.71%	17,410	4.50%
37 to 48 months	51,027	4.61%	23,595	4.99%
49 to 60 months	39,130	3.78%	58,334	4.48%
61 to 72 months	41,711	4.23%	20,000	4.63%
73 to 84 months	4,842	3.58%	20,000	4.26%
85 to 120 months	120,439	4.05%	70,000	4.50%
Total	$ 329,154	4.15%	$ 298,609	4.65%

The majority of the advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which $12.5 million out of $75.0 million was used at June 30, 2008 and $31.5 million was used as of September 30, 2007, for general purposes. Included in the table above at June 30, 2008 and September 30, 2007 are convertible advances whereby the FHLB has the option at a predetermined strike rate to convert the fixed interest rate to an adjustable rate tied to London Interbank Offered Rate ("LIBOR"). The Company then has the option to repay these advances if the FHLB converts the interest rate. These advances are included in the periods in which they mature. The Company has a total FHLB borrowing capacity of $536.4 million of which $279.2 million was used as of June 30, 2008. In addition, there are four long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $50 million.

11. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (the "Bank") is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of June 30, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 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.

	Actual		For Capita Adequacy Pur
	Amount	Ratio	Amount
As of June 30, 2008			
Tier 1 Capital (to assets)	$ 45,918	5.64%	$ 32,582
Tier 1 Capital (to risk weighted assets)	45,918	10.98%	16,721
Total Capital (to risk weighted assets)	47,879	11.45%	33,442
As of September 30, 2007			
Tier 1 Capital (to assets)	$ 46,797	6.02%	$ 31,021
Tier 1 Capital (to risk weighted assets)	46,797	12.12%	15,443
Total Capital (to risk weighted assets)	48,729	12.62%	30,886

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

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

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

Critical Accounting Policies and Judgments

The Company's consolidated financial statements are prepared based on the application of certain accounting policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the consolidated financial statements: allowance for loan losses and other-than-temporary security impairment.

Allowance for Loan Losses

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 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 Loans: We establish an allowance for certain impaired loans for the amounts by which the collateral value, present value of future cash flows 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 may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

Other-than-Temporary Impairment of Investment Securities

Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced, and a corresponding charge to earnings is recognized. The Company recorded an other-than-temporary impairment charge of $252,000 in the third quarter ended June 30, 2008 related to several equity securities held by the Company.

Changes in Financial Position for the Nine-Month Period Ended June 30, 2008

Total assets at June 30, 2008 were $824.7 million, an increase of $51.1 million for the nine-month period then ended. The increase was primarily due to the retail growth in mortgage and commercial loans, resulting in an overall increase in loans receivable of approximately $37.1 million. There was also an increase in investments due to purchases less maturities of approximately $10.5 million.

Asset growth was primarily funded by deposit growth during the nine -month period ended June 30, 2008, total deposits increased by $16.9 million to $440.9 million. There was also an increase in advances of $30.5 million. Advances from borrowers for taxes and insurance also increased by $4.4 million due to the timing of property tax payments.

Comparisons of Results of Operations for the Three and Nine Month Period Ended June 30, 2008 with the Three Month and Nine Month Period Ended June 30, 2007

Net Interest Income

Net interest income was $3.8 million for the three-month period ended June 30, 2008 compared to $2.9 million for the comparable period in 2007. The increase in the net interest income for the three-month period ended June 30, 2008 when compared to the same period in 2007 can be attributed to the increase in interest rate spread from 1.29% in 2007 to 1.84% in 2008, and in the difference between the average interest earning assets in relation to the average interest earning liabilities in comparable periods. The increase in the net interest income for the nine-month period ended June 30, 2008 when compared to the same period in 2007 can be attributed to the increase in interest rate spread from 1.42% in 2007 to 1.91% in 2008. Net interest income was $9.8 million for the nine-month period ended June 30, 2008 compared to $8.6 million for the comparable period in 2007.

Non-Interest Income

Non-interest income decreased to $201,000 for the three-month period ended June 30, 2008 from $475,000 for the comparable period in 2007. For the nine-month period ended June 30, 2008, non-interest income decreased to $1.17 million from $1.41 million for the comparable period in 2007. The decrease is primarily due to an impairment write-down of two equity securities resulting in a loss of

$252,000.

Non-Interest Expenses

For the three-month period ended June 30, 2008, non-interest expenses increased by $238,000 or 10.3% to $2.6 million compared to $2.3 million for the same period in 2007. For the nine-month period ended June 30, 2008, non-interest expenses increased by $475,000 or 6.9% to $7.4 million compared to $6.9 million for the same period in 2007. Management believes that these are reasonable increases in the cost of operations after considering the impact of additional expenses related to the Company's new commercial loan department and business banking. The annualized ratio of non-interest expenses to average assets for the three and nine-month periods ended June 31, 2008 and 2007 were 1.25%, 1.23% and 1.21%, 1.21%, respectively.

Income Taxes

The Company made provisions for income taxes of $332,000 and $720,000 for the three-month and nine-month period ended June 30, 2008, respectively, compared to $211,000 and $661,000 for the comparable periods in 2007. These provisions are based on the levels of pre-tax income, adjusted primarily for tax-exempt interest income on investments.

Liquidity and Capital Recourses

For a financial institution, liquidity is a measure of the ability to fund customers' needs for loans and deposit withdrawals. Harleysville Savings Bank 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 Bank's core deposit base. In addition to cash, the Bank maintains a portfolio of short-term investments to meet its liquidity requirements. Harleysville Savings 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 Bank 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 June 30, 2008, the Company had $73.3 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and new deposits.

The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh up to the Company's maximum borrowing capacity, which was $536.4 million at June 30, 2008 of which $279.2 million was outstanding at June 30, 2008.

The Bank's net income for the nine months ended June 30, 2008 is $2.9 million compared to $2.5 million for the comparable period in 2007. In spite of a profitable nine month period, the decrease in our stockholder's equity is due to a repurchase of common stock in an unsolicited private transaction. The Company repurchased the shares at a price of $12.45 per share or $2,557,000 in the aggregate. The Bank's stockholders' equity of $46 million or 5.6% of total assets is in excess of the Bank's minimum regulatory capital requirement.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

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

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

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

	1 Year or less	1 to 3 Years	3 to 5 Years
Interest-earning assets:			
Mortgage loans	$ 66,761	$ 53,837	$ 22,5
Commercial loans	12,265	3,557	1,5
Mortgage-backed securities	74,644	76,637	22,0
Consumer and other loans	45,919	25,278	7,0
Investment securities and other investments	42,862	38,629	16,0
Total interest-earning assets	242,451	197,938	69,2
Interest-bearing liabilities:			
Passbook and Club accounts	--	--	
NOW and checking accounts	--	--	
Consumer Money Market Deposit accounts	12,938	--	
Business Money Market Deposit accounts	5,906	--	
Certificate accounts	259,615	51,082	19,0
Borrowed money	37,564	54,188	77,1
Total interest-bearing liabilities	316,023	105,270	96,2
Repricing GAP during the period	$ (73,572)	$ 92,668	$ (26,9
Cumulative GAP	$ (73,572)	$ 19,096	$ (7,8
Ratio of GAP during the period to total assets	-8.92%	11.24%	-3.
Ratio of cumulative GAP to total assets	-8.92%	2.32%	-0.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

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

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Part II OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part 1, Item 1A, Risk Factors"' of the Company's Form 10-K for the year ended September 30, 2007. Please refer to that section for disclosures regarding the risk and uncertainties related to the Company's business. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds . Item 3. Defaults upon Senior Securities Not applicable.

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

Not applicable.

Item 5. Other information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

No.	
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

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Signatures

Pursuant to the requirements 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

Date: August 13, 2008	By: /s/ Ronald B. Geib Ronald B. Geib Chief Executive Officer
Date: August 13, 2008	By: /s/ Brendan J. McGill Brendan J. McGill Senior Vice President Treasurer and Chief Financial Officer