

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
August 13, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-29709

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

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-3028464
(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 No

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

Common Stock, \$.01 Par Value, 2,286,138 as of August 12, 2004

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

Index

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

	PAGE(S) -----
Part I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Unaudited Condensed Consolidated Statements of Financial Condition as of June 30, 2004 Unaudited and September 30, 2003	1
Unaudited Condensed Consolidated Statements of Income for the Three and Nine Months Ended June 30, 2004 and 2003	2
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2004 and 2003	3
Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended June 30, 2004	3
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2004 and 2003	4
Notes to Unaudited Condensed Consolidated Financial Statements	5 - 9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10 - 11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	12 - 13
Item 4. Controls and Procedures	13
Part II OTHER INFORMATION	
Item 1. - 6.	14
Signatures	15 - 20

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	June 30, 2004 -----	September 30, 2003 -----
Assets		
Cash and amounts due from depository institutions	\$ 1,738,823	\$ 1,565,499
Interest bearing deposits in other banks	3,800,931	4,836,099
	-----	-----
Total cash and cash equivalents	5,539,754	6,401,598
Investment securities held to maturity (fair value - June 30, \$71,301,000; September 30, \$84,473,000)	71,623,438	83,326,866
Investment securities available-for-sale at fair value	4,748,415	4,922,801
Mortgage-backed securities held to maturity (fair value - June 30, \$259,271,000; September 30, \$225,994,000)	261,492,835	223,591,665
Mortgage-backed securities available-for-sale at fair value	4,519,432	6,655,571

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Loans receivable (net of allowance for loan losses - June 30, \$1,980,000; September 30, \$1,991,000)	327,663,806	297,346,404
Accrued interest receivable	2,939,215	2,801,340
Federal Home Loan Bank stock - at cost	14,836,400	13,782,100
Office properties and equipment	4,778,518	4,928,071
Deferred income taxes	378,971	369,635
Prepaid expenses and other assets	9,393,503	9,162,160
	-----	-----
TOTAL ASSETS	\$ 707,914,287	\$ 653,288,211
	=====	=====
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 402,654,391	\$ 380,686,554
Advances from Federal Home Loan Bank	255,812,000	228,817,438
Accrued interest payable	1,091,432	1,070,969
Advances from borrowers for taxes and insurance	4,529,558	1,093,869
Accounts payable and accrued expenses	552,007	803,659
	-----	-----
Total liabilities	664,639,388	612,472,489
	-----	-----
Commitments (Note 9)		
Stockholders' equity:		
Preferred Stock: \$.01 par value; 7,500,000 shares authorized; none issued		
Common stock: \$.01 par value; 15,000,000 shares authorized; issued and outstanding, June 2004, 2,316,490; Sept. 2003, 2,316,490	23,165	23,165
Paid-in capital in excess of par	7,419,719	7,584,949
Treasury stock, at cost (June 2004, 24,424 shares; Sept. 2003, 49,651 shares)	(583,228)	(1,028,772)
Retained earnings - partially restricted	36,417,391	34,220,406
Accumulated other comprehensive (loss) income	(2,148)	15,974
	-----	-----
Total stockholders' equity	43,274,899	40,815,722
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 707,914,287	\$ 653,288,211
	=====	=====

See notes to unaudited condensed consolidated financial statements.

page -1-

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended June 30,		For the Nine June
	2004	2003	2004
	----	----	----
INTEREST INCOME:			
Interest on mortgage loans	\$ 3,702,001	\$ 4,210,229	\$11,160,749
Interest on mortgage-backed securities	2,583,294	2,352,111	7,635,195
Interest on consumer and other loans	932,996	851,227	2,669,771
Interest and dividends on tax-exempt investments	370,122	366,488	1,120,693
Interest and dividends on taxable investments	498,779	476,304	1,669,581

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Total interest income	8,087,192	8,256,359	24,255,989
Interest Expense:			
Interest on deposits	2,228,591	2,583,279	6,783,958
Interest on borrowings	2,818,120	2,772,530	8,438,768
Total interest expense	5,046,711	5,355,809	15,222,726
Net Interest Income	3,040,481	2,900,550	9,033,263
Provision for loan losses	--	--	--
Net Interest Income after Provision for Loan Losses	3,040,481	2,900,550	9,033,263
Other Income:			
Gain on sales of securities	20,217	--	245,467
Gain on sale of loans	--	5,611	17,673
Other income	302,335	324,209	947,146
Total other income	322,552	329,820	1,210,286
Other Expenses:			
Salaries and employee benefits	1,005,482	938,777	2,897,332
Occupancy and equipment	374,987	365,813	1,114,675
Deposit insurance premiums	14,995	15,007	44,089
Other	496,016	412,640	1,470,254
Total other expenses	1,891,480	1,732,237	5,526,350
Income before Income Taxes	1,471,553	1,498,133	4,717,199
Income tax expense	350,323	378,100	1,152,324
Net Income	\$ 1,121,230	\$ 1,120,033	\$ 3,564,875
Basic Earnings Per Share	\$ 0.49	\$ 0.49	\$ 1.56
Diluted Earnings Per Share	\$ 0.48	\$ 0.48	\$ 1.53
Dividends Per Share	\$ 0.20	\$ 0.16	\$ 0.60

See notes to unaudited condensed consolidated financial statements.

page -2-

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

	Three Months Ended 2004	
Net Income	\$ 1,121,230	\$ 1,121,230
Other Comprehensive Income		
Unrealized (loss) gain on securities net of tax (benefit) expense	(55,874)	(55,874)
Total Comprehensive Income	<u>\$ 1,065,356</u>	<u>\$ 1,065,356</u>

	Nine Months Ended 2004	
Net Income	\$ 3,564,875	\$ 3,564,875
Other Comprehensive Income		
Unrealized (loss) gain on securities net of tax (benefit) expense	(18,122) (1)	(18,122) (1)
Total Comprehensive Income	<u>\$ 3,546,753</u>	<u>\$ 3,546,753</u>

(1) Disclosure of reclassification amount, net of tax for the year ended:	2004

Net unrealized gain arising during the year	\$ 143,886
Less: Reclassification adjustment for net gains included in net income	162,008

Net unrealized loss on securities	<u>\$ (18,122)</u>

page -3-

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

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retained Earnings- Partially Restrict
Balance at October 1, 2003	\$ 23,165	\$ 7,584,949	\$ (1,028,772)	\$ 34,220,4
Net Income				3,564,8

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Dividends - \$.20 per share				(1,367,8
Treasury stock purchased			(251,580)	
Treasury stock delivered under				
Dividend Reinvestment Plan	124,344		272,282	
Treasury stock delivered under				
employee stock plan	(289,574)		424,842	
Unrealized holding loss on available-				
for-sale securities, net of tax				
Balance at June 30, 2004	\$ 23,165	\$ 7,419,719	\$ (583,228)	\$ 36,417,3

See notes to unaudited condensed consolidated financial statements.

page -3-

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30	
	2004	2003
	----	----
Operating Activities:		
Net Income	\$ 3,564,875	\$ 3,444,
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation	180,068	227,
Amortization of deferred loan fees	(417,225)	(1,339,
Gain on sale of loans	17,673	6,
Proceeds from the sale of loans held for sale	1,166,114	394,
Origination of loans held for sale	(1,166,114)	(394,
Gain on sale of securities	245,467	
Deferred income taxes	(9,335)	(70,
Changes in assets and liabilities which provided (used) cash:		
Decrease in accounts payable and accrued		
expenses	(251,652)	(4,
Increase in prepaid expenses and other assets	(231,343)	(224,
Increase in accrued interest receivable	(137,875)	(91,
Increase in accrued interest payable	20,463	24,
Net cash provided by operating activities	2,981,116	1,972,
Investing Activities:		
Purchase of investment securities held to maturity	(5,989,750)	(43,392,
Proceeds from maturities of investment securities held to maturity	17,693,178	26,778,
Purchase of investment securities available for sale	(2,374,949)	
Proceeds from sale of investment securities available for sale	1,498,177	
Purchase of FHLB stock	(1,054,300)	(2,593,
Long-term loans originated or acquired	(102,366,161)	(114,470,
Purchase of mortgage-backed securities available for sale	(5,010,238)	(20,686,
Purchase of mortgage-backed securities held to maturity	(108,268,993)	(207,676,
Principal collected on long-term loans & mortgage-backed securities	150,750,079	294,182,
Purchases of premises and equipment	(30,515)	(186,

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Net cash used in investing activities	(55,153,472)	(68,043,

Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	13,612,243	16,513,
Net increase (decrease) in certificates of deposit	8,355,594	(3,809,
Cash dividends	(1,367,890)	(1,089,
Net increase in FHLB advances	26,994,562	19,882,
Treasury stock delivered under Dividend Reinvestment and employee stock plan	531,894	513,
Purchase of treasury stock	(251,580)	(681,
Net increase in advances from borrowers for taxes & insurance	3,435,689	3,186,

Net cash provided by financing activities	51,310,512	34,514,

DECREASE IN CASH AND CASH EQUIVALENTS	(861,844)	(31,556,
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,401,598	36,302,

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,539,754	\$ 4,746,
=====		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$ 1,213,893	\$ 1,191,
Interest expense	15,243,189	17,577,

See notes to unaudited condensed consolidated financial statements.

page -4-

Harleysville Savings Financial Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Harleysville Savings Financial Corp. (the "Company") is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. Harleysville Savings Bank (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 accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and nine months ended June 30, 2004 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. The financial information should be read in conjunction with the annual report on Form 10-K.

Use of Estimates in Preparation of Financial Statements - The preparation of the

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

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 estimates is the allowance for loan losses. Actual results could differ from those estimates.

Accounting for Stock Options - In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation --Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected to continue application of APB Opinion No. 25 and related interpretations for stock options and, accordingly no compensation expense has been recorded in the consolidated financial statements. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	For the Three Months Ended		For the Nine Months	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	-----	-----	-----	-----
Net income	\$ 1,121,230	\$ 1,120,033	\$ 3,564,875	\$ 3,564,875
Less: Stock based compensation expense	--	30,531	37,773	37,773
	-----	-----	-----	-----
Proforma net income	\$ 1,121,230	\$ 1,089,502	\$ 3,527,102	\$ 3,527,102
Earnings per share:				
Basic - as reported	\$ 0.49	\$ 0.49	\$ 1.56	\$ 1.56
Basic - pro forma	0.49	0.48	1.55	1.55
Diluted - as reported	\$ 0.48	\$ 0.48	\$ 1.53	\$ 1.53
Diluted - pro forma	0.48	0.47	1.51	1.51

Treasury Stock - The Company records treasury stock purchases at cost. The excess of cost over par value is allocated to capital in excess of par value based on the per share amount of capital in excess of par value for all shares, with the difference charged to retained earnings.

In March 2004, the Company repurchased 8,400 shares of common stock at \$29.95 per share for its treasury at a cost of \$251,580.

New Accounting Pronouncements - In March 2004, the FASB's Emerging Issues Task Force ("EITF") reached a consensus regarding EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires certain disclosures for equity investments accounted for under the cost method. Disclosures about unrealized losses that have not been recognized as other-than-temporary impairments that were required under an earlier EITF 03-1 consensus remain in effect. The EITF 03-1 guidance for determining other-than-temporary impairment is effective for the Company's reporting periods beginning after June 15, 2004, and the

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

disclosures for the cost method investments are effective for the Company's fiscal year ending December 31, 2004.

page -5-

2. INVESTMENT SECURITIES HELD TO MATURITY

A comparison of amortized cost and approximate fair value of investment securities, by maturities, is as follows:

June 30, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approxim Fair Val
U.S. Government agencies				
Due after 1 years through 5 years	\$ 999,131		\$ (9,131)	\$ 990,
Due after 5 years through 10 years	15,364,900	\$ 105,523	(118,423)	15,352,
Due after 10 years through 15 years	29,912,082	5,110	(1,154,192)	28,763,
Tax Exempt Obligations				
Due after 10 years through 15 years	4,672,881	212,119	--	4,885,
Due after 15 years	20,674,444	672,607	(36,051)	21,311,
Total Investment Securities	\$ 71,623,438	\$ 995,359	\$ (1,317,797)	\$ 71,301,

A summary of investment with unrealized losses, aggregated by category, at June 30, 2004 is as follows:

	Less than 12 Months		12 Months or Longer		Total Fair Va
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
US Government agencies	\$ 31,629,450	\$ (1,281,763)	\$ --	\$ --	\$ 31,629
Tax exempt obligations	2,187,700	(36,052)	--	--	2,187
Total	\$ 33,817,150	\$ (1,317,815)	\$ --	\$ --	\$ 33,817

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

September 30, 2003				
	Amortized	Gross Unrealized	Gross Unrealized	Approxim

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

	Cost	Gains	Losses	Fair Val

U.S. Government agencies				
Due after 1 years through 5 years	\$ 3,000,000	\$ 4,000		\$ 3,004,
Due after 5 years through 10 years	15,881,650	190,972	\$ (31,622)	16,041,
Due after 10 years through 15 years	39,154,746	180,293	(713,039)	38,622,
Tax Exempt Obligations				
Due after 10 years through 15 years	3,636,130	270,870	--	3,907,
Due after 15 years	21,654,340	1,244,660	--	22,899,
	-----	-----	-----	-----
Total Investment Securities	\$ 83,326,866	\$ 1,890,795	\$ (744,661)	\$ 84,473,
	=====	=====	=====	=====

The Company has the positive intent and the ability to hold these securities to maturity. At June 30, 2004, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

page -6-

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

A comparison of amortized cost and approximate fair value of investment securities is as follows:

June 30, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value

Equities	\$ 1,213,969	\$ 42,060	\$ (17,658)	\$ 1,238,371
ARM Mutual Funds	3,510,044	--	--	3,510,044
	-----	-----	-----	-----
Total Investment Securities	\$ 4,724,013	\$ 42,060	\$ (17,658)	\$ 4,748,415
	=====	=====	=====	=====

September 30, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value

Equities	\$ 1,061,228	\$ 56,533	\$ (6,611)	\$ 1,111,150
Mutual Funds	3,811,651	--	--	3,811,651
	-----	-----	-----	-----
Total Investment Securities	\$ 4,872,879	\$ 56,533	\$ (6,611)	\$ 4,922,801
	=====	=====	=====	=====

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

A comparison of amortized cost and approximate fair value of mortgage-backed securities is as follows:

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

June 30, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	\$ 9,681,163	\$ 34,979	\$ (166,142)	\$ 9,550,000
FHLMC pass-through certificates	108,683,281	364,959	(1,313,240)	107,735,000
FNMA pass-through certificates	130,477,599	419,410	(2,152,009)	128,745,000
GNMA pass-through certificates	12,650,792	592,064	(1,856)	13,241,000
Total Mortgage-backed Securities	\$261,492,835	\$ 1,411,412	\$ (3,633,247)	\$259,271,000

A summary of mortgage-backed securities held to maturity with unrealized losses, aggregated by category, at June 30, 2004 is as follows:

	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses
Mortgage-backed securities held to maturity	\$196,131,797	\$ (3,633,247)	\$ --	\$ --
Total	\$196,131,797	\$ (3,633,247)	\$ --	\$ --

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

September 30, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	\$ 28,584,778	\$ 51,196	\$ (158,974)	\$ 28,477,000
FHLMC pass-through certificates	55,503,939	711,406	(121,345)	56,094,000
FNMA pass-through certificates	117,081,660	1,173,281	(346,941)	117,908,000
GNMA pass-through certificates	22,421,288	1,093,712	--	23,515,000
Total Mortgage-backed Securities	\$223,591,665	\$ 3,029,595	\$ (627,260)	\$225,994,000

The Company has the positive intent and the ability to hold these securities to maturity. At June 30, 2004, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

A comparison of amortized cost and approximate fair value of mortgage-backed securities is as follows:

June 30, 2004				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
FNMA pass-through certificates	\$ 4,547,088	\$ 200	\$ (27,856)	\$ 4,519,432
Total Mortgage-backed Securities	\$ 4,547,088	\$ 200	\$ (27,856)	\$ 4,519,432

A summary of mortgage-backed securities available for sale with unrealized losses, aggregated by category, at June 30, 2004 is as follows:

	Less than 12 Months Unrealized Fair Value	Losses	12 Months or Long Fair Value	Unreal Loss
Mortgage-backed securities available for sale	\$ 2,497,380	\$ (27,856)	\$ --	\$ --
Total	\$ 2,497,380	\$ (27,856)	\$ --	\$ --

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

September 30, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
FNMA pass-through certificates	\$ 6,681,291	\$ 4,865	\$ (30,585)	\$ 6,655,571
Total Mortgage-backed Securities	\$ 6,681,291	\$ 4,865	\$ (30,585)	\$ 6,655,571

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	June 30, 2004	September 30, 2003
	-----	-----
Residential Mortgages	\$ 252,878,551	\$ 237,184,337
Commercial Mortgages	927,336	1,015,228
Construction	6,823,726	10,027,955
Education	--	471
Savings Account	878,925	733,048
Home Equity	43,585,663	29,725,909
Automobile and other	631,157	578,193
Line of Credit	31,027,788	29,420,476
	-----	-----
Total	336,753,146	308,685,617
Undisbursed portion of loans in process	(6,017,735)	(7,828,925)
Deferred loan fees	(1,091,654)	(1,519,616)
Allowance for loan losses	(1,979,951)	(1,990,672)
	-----	-----
Loans receivable - net	\$ 327,663,806	\$ 297,346,404
	=====	=====

The total amount of loans being serviced for the benefit of others was approximately \$3.3 million and \$2.6 million at June 30, 2004 and September 30, 2003, respectively.

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

	June 30, 2004	September 30, 2003
	-----	-----
Balance, beginning of period	\$ 1,990,672	\$ 2,034,832
Amounts charged-off	(11,077)	(44,160)
Loan recoveries	356	--
	-----	-----
Balance, end of period	\$ 1,979,951	\$ 1,990,672
	=====	=====

7. OFFICE PROPERTIES AND EQUIPMENT

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

	June 30, 2004	September 30, 2003
	-----	-----
Land and buildings	\$ 5,370,261	\$ 5,404,864
Furniture, fixtures and equipment	3,044,242	3,658,034
Branch office in construction	119,471	--
Automobiles	24,896	24,896
	-----	-----
Total	8,558,870	9,087,794
Less accumulated depreciation	(3,780,352)	(4,159,723)
	-----	-----
Net	\$ 4,778,518	\$ 4,928,071
	=====	=====

8. DEPOSITS

Deposits are summarized as follows:

	June 30, 2004	September 30, 2003
	-----	-----

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

NOW accounts	\$ 21,430,621	\$ 17,340,055
Checking accounts	11,649,781	10,047,306
Money Market Demand accounts	104,732,722	96,969,856
Passbook and Club accounts	4,183,690	4,027,354
Certificate accounts	260,657,577	252,301,983
	-----	-----
Total deposits	\$402,654,391	\$380,686,554
	=====	=====

The aggregate amount of certificate accounts in denominations of more than \$100,000 at June 30, 2004 amounted to approximately \$25.9 million.

page -8-

9. COMMITMENTS

At June 30, 2004, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	\$ 12,238,018
Origination of adjustable-rate mortgage loans	1,290,060
Unused line of credit loans	36,032,892
Loans in process	6,017,735

Total	\$ 55,578,705
	=====

10. DIVIDEND

On July 21, 2004, the Company's Board of Directors declared a cash dividend of \$.20 per share payable on August 18, 2004 to the stockholders' of record at the close of business on August 4, 2004.

11. EARNINGS PER SHARE

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2004	2003	2004	2003
	----	----	----	----
Basic	2,288,116	2,275,936	2,281,762	2,271,791
Diluted	2,335,893	2,328,722	2,334,127	2,321,813

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

12. ADVANCES FROM FEDERAL HOME LOAN BANK

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

Maturing Period	June 30, 2004		September 30, 2003	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

1 to 12 months	\$ 33,925,080	2.16%	\$ 23,896,414	2.79%
13 to 24 months	20,803,602	5.10%	26,555,770	5.39%
25 to 36 months	21,434,431	3.82%	11,477,325	3.82%
37 to 48 months	31,368,063	5.52%	10,786,600	4.66%
49 to 60 months	51,280,824	3.93%	59,101,329	5.07%
61 to 72 months	5,000,000	5.60%	10,000,000	5.55%
73 to 84 months	30,000,000	5.67%	--	--
85 to 120 months	62,000,000	4.47%	87,000,000	4.94%
Total	\$ 255,812,000	4.34%	\$ 228,817,438	4.76%

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 \$21.5 million of \$30.0 million was used as of June 30, 2004. Included in the table above at June 30, 2004 and September 30, 2003 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.

13. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (the "Bank") is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2004, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes
	Amount	Ratio	Amount

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

As of June 30, 2004

Tier 1 Capital (to assets)	\$ 43,093,000	6.19%	\$ 27,838,000
Tier 1 Capital (to risk weighted assets)	43,093,000	13.82%	12,474,000
Total Capital (to risk weighted assets)	45,084,000	14.46%	24,948,000

As of September 30, 2003

Tier 1 Capital (to assets)	\$ 40,630,000	6.20%	\$ 26,193,000
Tier 1 Capital (to risk weighted assets)	40,630,000	14.37%	11,313,000
Total Capital (to risk weighted assets)	42,644,000	15.08%	22,626,000

page -9-

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Critical Accounting Policies and Judgments

The Company's unaudited condensed consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1, 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.

Allowance for Loan Losses - In management's opinion, the most critical accounting policy affecting the Company's consolidated financial statements is the evaluation of the allowance for loan loss. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). The Company's periodic evaluation of the allowance is based on known and inherent risks in the portfolio, past loan loss experience, current economic conditions, trends within the Company's market area and other relevant factors. The first step in determining the allowance for loan losses is recognizing a specific allowance on individual impaired loans. Special mention, nonaccrual, substandard and doubtful residential and other consumer loans are considered for

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

impairment. An allowance is recognized for loan losses in the remainder of the loan portfolio based on known and inherent risk characteristics in the portfolio, past loss experience and prevailing market conditions. Because evaluating losses involves a high degree of management judgment, a margin is included for the imprecision inherent in making these estimates. While management believes that the allowance is adequate to absorb estimated credit losses in its existing loan portfolio, future adjustments may be necessary in circumstances that differ substantially from the assumptions used in evaluating the adequacy of the allowance for loan losses.

Changes in Financial Position for the Nine-Month Period Ended June 30, 2004

Total assets at June 30, 2004 were \$707.9 million, an increase of \$54.6 million or 8.36% for the nine month period. This increase was primarily the result of an increase in mortgage-backed securities held to maturity and in loans receivable of approximately \$37.9 million and \$30.3 million, respectively. The remainder was due to an increase in Federal Home Loan Bank stock of approximately \$1.1 million. This growth is one of the ways the Company manages its capital based on its business plan. These increases were partially offset by decreases in investment securities held to maturity and mortgage backed securities available for sale, of approximately \$11.7 million and \$2.1 million, respectively. The decreases were due to the normal maturities and repayments in the investment portfolio.

During the nine-month period ended June 30, 2004, total deposits increased by \$22.0 million to \$402.7 million. Advances from borrowers for taxes and insurance also increased by \$3.4 million. This is a seasonal increase as the majority of taxes that the Company escrows for are disbursed in the month of August. There was also an increase in advances from Federal Home Loan Bank of \$27.0 million, which was used to fund the purchase of mortgage-backed securities held to maturity and originate residential loans. Accounts payable and accrued expenses decreased by \$252,000.

page -10-

Comparisons of Results of Operations for the Three and Nine Month Period Ended June 30, 2004 with the Three and Nine Month Period Ended June 30, 2003.

Net Interest Income

The increase in the net interest income for the three and nine month periods ended June 30, 2004 when compared to the same periods in 2003 can be attributed to the increase in the average balance of interest-earning assets to \$679.2 million and \$673.5 million from \$636.0 million and \$557.4 million, respectively. These increases were partially offset by a smaller increase in the average balance of interest-bearing liabilities of \$641.3 million and \$637.2 million for the three and nine month periods ended June 30, 2004, respectively, when compared to \$601.2 million, and \$527.5 million the same periods in 2003.

Total interest income was \$8.1 million for the three month period ended June 30, 2004 compared to \$8.3 million for the comparable period in 2003. For the nine month period ended June 30, 2004, total interest income was \$24.3 million compared to \$25.3 million for the comparable period in 2003. The decrease is the result of the decreased average yield for the interest-earning assets to 4.76% and 4.80% for the three and nine-month period ended June 30, 2004, respectively, from 5.19% and 6.06% for the comparable periods in 2003.

Total interest expense decreased to \$5.0 million for the three month period ended June 30, 2004 from \$5.4 million for the comparable period in 2003. For the

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

nine-month period ended June 30, 2004, total interest expense decreased to \$15.2 million from \$16.5 million for the comparable period in 2003. These decreases occurred as a result of a decrease in the average rate paid on interest-bearing liabilities to 3.15% and 3.19% for the three and nine month periods ended June 30, 2004, respectively, from 3.56% and 4.17% for the comparable period ended June 30, 2003.

Other Income

Other income decreased to \$323,000 for the three-month period ended June 30, 2004 from \$330,000 for the comparable period in 2003. For the nine-month period ended June 30, 2004, other income increased to \$1.2 million from \$942,000 for the comparable period in 2003. The three and nine-month increase is mainly due to an increase in the gain on sale of investments available for sale.

Other Expenses

During the quarter ended June 30, 2004, other expenses increased by \$159,000 or 9.2% to \$1.9 million when compared to the same period in 2003. For the nine month period ended June 30, 2004, other expenses increased by \$365,000 or 7.1% compared to the comparable period in 2003. Management believes these are normal increases in the cost of operations after considering the effects of inflation and the impact of the 7.5% growth in the assets of the Company when compared to the same periods in 2003. The annualized ratio of expenses to average assets for the three and nine month periods ended June 30, 2004 was 1.08% and 1.06% respectively.

Income Taxes

The Company made provisions for income taxes of \$350,000 and \$1.2 million for the three and nine month periods ended June 30, 2004, respectively, compared to \$378,000 and \$1.2 million for the comparable periods in 2003. These provisions are based on the levels of taxable income.

Liquidity and Capital Recourses

As of June 30, 2004, the Company had \$55.6 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and new deposits. The amount of certificate accounts, which are scheduled to mature during the 12 months ending June 30, 2005, is \$113.9 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company.

The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh up to the Company's maximum borrowing capacity, which was \$524.9 million at June 30, 2004 of which \$255.8 million was outstanding at June 30, 2004.

page -11-

The Bank's net income for the nine months ended June 30, 2004 of \$3,565,000 increased the Bank's stockholders' equity to \$43.3 million or 6.1% of total assets. This amount is well in excess of the Bank's minimum regulatory capital requirement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

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

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

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of June 30, 2004, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

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

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

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years
	-----	-----	-----	-----
Interest-earning assets				
Mortgage loans	\$ 34,026	\$ 50,921	\$ 38,604	\$ 129,328
Mortgage-backed securities	55,199	56,854	40,759	113,200
Consumer and other loans	49,103	17,637	6,053	3,331
Investment securities and other investments	28,909	3,293	3,273	69,734
	-----	-----	-----	-----
Total interest-earning assets	167,237	128,705	88,689	315,593
	-----	-----	-----	-----
Interest-bearing liabilities				
Passbook and Club accounts	--	--	--	4,184
NOW and checking accounts	--	--	--	24,607
Money Market Deposit accounts	30,939	--	--	53,455
Choice Savings	5,085	--	--	15,254
Certificate accounts	113,942	98,679	48,036	--
Borrowed money	55,406	53,514	49,893	96,999
	-----	-----	-----	-----
Total interest-bearing liabilities	205,372	152,193	97,929	194,499
	-----	-----	-----	-----
Repricing GAP during the period	\$ (38,135)	\$ (23,488)	\$ (9,240)	\$ 121,094
	=====	=====	=====	=====
Cumulative GAP	\$ (38,135)	\$ (61,623)	\$ (70,863)	\$ 50,231
	=====	=====	=====	=====
Ratio of GAP during the period to total assets	-5.55%	-3.42%	-1.34%	17.62%
	=====	=====	=====	=====
Ratio of cumulative GAP to total assets	-5.55%	-8.97%	-10.31%	7.31%
	=====	=====	=====	=====

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.

page -13-

Part II OTHER INFORMATION

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

Item 6. Exhibits and Reports on Form 8-K

None

page -14-