HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
May 13, 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 March 31, 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

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, 3,543,190 shares outstanding as of May 12, 2008

Harleysville Savings Financial Corporation
and Subsidiary
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Item 6. Exhibits

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 - March 31, $99,268; September 30, $109,305)	
Investment securities available-for-sale at fair value	
Mortgage-backed securities held to maturity (fair value - March 31, $224,234; September 30, $188,612)	
Mortgage-backed securities available-for-sale at fair value	
Loans receivable (net of allowance for loan losses - March 31, $1,925; 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 (March 31, 2008 377,987 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 condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Income

(In thousands,except per share data)	For the Three Months Ended March 31,		For the Six Months March 31,	
	2008	2007	2008	
INTEREST INCOME:				
Interest on mortgage loans	$ 4,671	$ 4,230	$ 9,256	$
Interest on commerical loans	409	112	717	
Interest on mortgage-backed securities	2,437	2,335	4,718	
Interest on consumer and other loans	1,466	1,495	2,982	
Interest on taxable investments	1,378	1,328	2,829	
Interest on tax-exempt investments	348	383	699	
Dividends on investment securities	13	16	22	
Total interest income	10,722	9,899	21,223	
Interest Expense:				
Interest on deposits	4,167	3,806	8,312	
Interest on borrowings	3,352	3,151	6,839	
Total interest expense	7,519	6,957	15,151	
Net Interest Income	3,203	2,942	6,072	
Provision for loan losses	5	--	5	
Net Interest Income after Provision for Loan Losses	3,198	2,942	6,067	
Other Income:				
Customer service fees	140	127	304	
Gain on sale of investments	4	160	4	
Income on bank-owned life insurance	121	116	252	
Other income	202	143	406	
Total other income	467	546	966	
Other Expenses:				
Salaries and employee benefits	1,438	1,302	2,758	
Occupancy and equipment	262	273	527	
Deposit insurance premiums	12	13	25	
Data Processing	130	131	248	
Other	583	596	1,252	
Total other expenses	2,425	2,315	4,810	

Income before Income Taxes	1,240	1,173	2,223	
Income tax expense	206	269	388	
Net Income	$ 1,034	$ 904	$ 1,835	$
Basic Earnings Per Share	$ 0.28	$ 0.23	$ 0.49	$
Diluted Earnings Per Share	$ 0.28	$ 0.23	$ 0.49	$
Dividends Per Share	$ 0.17	$ 0.17	$ 0.34	$

See notes to unaudited consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Comprehensive Income

	Thre
(In thousands)	2008
Net Income	$ 1,03
Other Comprehensive Income	
Unrealized gain on securities net of tax 2008, ($7); 2007, $(22)	1
Total Comprehensive Income	$ 1,04

(1) Disclosure of reclassification amount, net of tax for the three months ended:	2008
Net unrealized gain arising during the three months ended	$ 1
Less: Reclassification adjustment for net gains included in net income net of tax expense 2008, $0; 2007, $54	-
Net unrealized gain on securities	$ 1

	Si
	2008

Net Income	$ 1,83
Other Comprehensive Income	
Unrealized loss on securities net of tax benefit 2008, $57; 2007, $1	(11
Total Comprehensive Income	$ 1,72

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

	2008
Net unrealized gain arising during the six months ended	$
Less: Reclassification adjustment for net gains included in net income net of tax expense 2008, $59; 2007, $54	11
Net unrealized (loss) on securities	$ (11

See notes to unaudited consolidated financial statements.

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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	Reta Earn Part Restr
Balance at October 1, 2007	3,921,177	$ 39	$ 8,044	$(3,316)	$ 4
Net Income					
Dividends - $.34 per share					(
Option Compensation			54		
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 (20,779 shares)			(71)	345	
Treasury stock delivered under employee stock plan (8,000 shares)			(26)	133	
Change in unrealized holding loss on available - for- sale securities					
Balance at March 31, 2008	3,921,177	$ 39	$ 7,982	$(5,357)	$ 4

	Common Stock	Common	Additional Paid-in	Treasury	Reta Earn Part

	Shares	Stock	Capital	Stock	Restr
Balance at October 1, 2006	3,921,177	$ 39	$ 7,992	$(1,262)	$ 4
Net Income					
Dividends - $.34 per share					(
Option Compensation			56		
Treasury stock issued for stock options exercised (3,334 shares)			(13)	58	
Treasury Stock issued under Dividend Reinvestment Plan (16,746 shares)			(4)	291	
Change in unrealized holding loss on available - for- sale securities					
Balance at March 31, 2007	3,921,177	$ 39	$ 8,031	$ (913)	$ 4

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

	Six Months Ended Marc	
(In thousands)	2008	20
Operating Activities:		
Net Income	$ 1,835	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	257	
Provision for loan losses	5	
Gain on sale of securities	(4)	
Amortization of deferred loan fees	12	
Net amortization of premiums and discounts	17	
Increase in cash surrender value	(252)	
Compensation charge on stock options	54	
Changes in assets and liabilities which provided (used) cash:		
(Decrease) Increase in accounts payable and accrued expenses	(296)	
Increase in prepaid expenses and other assets	(104)	
Decrease in accrued interest receivable	166	
Decrease in accrued interest payable	(74)	
Net cash provided by operating activities	1,616	
Investing Activities:		
Purchase of investment securities held to maturity	(18,086)	(
Purchase of mortgage-backed securities held to maturity	(48,147)	
Proceeds from maturities of investment securities available-for-sale	568	
Proceeds from sale of investment securities available-for-sale	--	
Proceeds from sales of mortgage-backed securities	--	
Proceeds from redemption of FHLB stock	44	

Proceeds from maturities of investment securities held to maturity	29,948	
Principal collected on long-term loans & mortgage-backed securities	62,287	
Long-term loans originated or acquired	(65,394)	(
Purchases of premises and equipment	(311)	
Net cash (used in) provided by investing activities	(39,091)	
Financing Activities:		
Net (decrease) increase in demand deposits, NOW accounts and savings accounts	(620)	
Net increase (decrease) in certificates of deposit	27,101	
Cash dividends	(1,265)	
Proceeds from long-term debt	121,800	
Repayment of long-term debt	(111,124)	(
Treasury stock delivered under Dividend Reinvestment and employee stock plans	400	
Acquisition of Treasury stock	(2,557)	
Net increase in advances from borrowers for taxes and insurance	3,167	
Net cash provided by (used in) financing activities	36,902	(
DECREASE IN CASH AND CASH EQUIVALENTS	(573)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,317	
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,744	$
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	$ 15,225	$
Income taxes	433	

See notes to 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:

March 31, 2008				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies	$ 71,741	$ 1,173	$ --	$ 72,914
Tax-Exempt Obligations	25,090	1,377	(113)	26,354
Total Investment Securities	$ 96,831	$ 2,550	$ (113)	$ 99,268

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	September 30, 2007			
U.S. Government Agencies	$ 83,155	$ 211	$ (533)	$ 82,833
Tax Exempt Obligations	25,538	1,101	(167)	26,472
Total Investment Securities	$ 108,693	$ 1,312	$ (700)	$ 109,305

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:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	March 31, 2008			
Equity Securities	$ 1,501	$ 24	$ (339)	$ 1,186
Money Market Mutual Funds	8	--	--	8
Total Investment Securities	$ 1,509	$ 24	$ (339)	$ 1,194

At March 31, 2008 the Company had 3 equity securities with unrealized losses of $199,000 in this position for a time period greater than twelve months. The Company also had 2 equity securities with unrealized losses of $140,000 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.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	September 30, 2007			

Equity Securities	$ 1,501	$ 6	$ (173)	$ 1,334
Money Market Mutual Funds	576	--	--	576
Total Investment Securities	$ 2,077	$ 6	$ (173)	$ 1,910

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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:

	March 31,2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	$ 15,703	$ 39	$ (220)	$
FHLMC pass-through certificates	94,831	866	(63)	
FNMA pass-through certificates	112,027	868	(42)	
GNMA pass-through certificates	221	4	--	
Total Mortgage-Backed Securities	$ 222,782	$ 1,777	$ (325)	$

	September 30,2007			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
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)	$

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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:

(In thousands)	March 31,2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Va
FNMA pass-through certificates	$ 785	$ 12	$ --	$
Total Mortgage-Backed Securities	$ 785	$ 12	$ --	$

(In thousands)	September 30,2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Va
FNMA pass-through certificates	$ 785	$ 32	$ --	$
Total Mortgage-Backed Securities	$ 785	$ 32	$ --	$

6. LOANS RECEIVABLE

Loans receivable consist of the following:	(In thousands) March 31, 2008	September 30, 2007
Residential Mortgages	$ 322,237	$ 305,341
Commercial Mortgages	25,318	15,314
Construction	4,339	6,093
Savings Account	992	977
Home Equity	71,321	74,218
Automobile and other	933	904
Home Equity Line of Credit	22,161	21,386
Total	447,301	424,233
Undisbursed portion of loans in process	(4,622)	(2,795)
Deferred loan fees	(417)	(453)
Allowance for loan losses	(1,925)	(1,932)
Loans Receivable - net	$ 440,337	$ 419,053

The total amount of loans being serviced for the benefit of others was approximately $3.3 million and $3.6 million at March 31, 2008 and September 30, 2007, respectively.

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

	Six Months Ended March 31, 2008	Year Ended September 30, 2007
	(In thousands)	
Balance, beginning of period	$ 1,932	$ 1,956
Provision for loan losses	5	--
Amounts charged-off	(19)	(37)
Loan recoveries	7	13
Balance, end of period	$ 1,925	$ 1,932

7. DEPOSITS

Deposits are summarized as follows:

	(In thousands) March 31,2008	September 30,2007
Non-interest bearing checking	$ 11,775	$ 11,740
NOW accounts	14,958	13,711
Interest checking accounts	27,872	25,750
Money Market Demand accounts	48,208	51,827
Passbook and Club accounts	2,459	2,864
Certificate accounts	345,244	318,143
Total deposits	$ 450,516	$ 424,035

The aggregate amount of certificate accounts in denominations of more than $100,000 at March 31, 2008 and September 30, 2007 amounted to approximately $58.4 million and $53.6 million, respectively. Amounts in excess of $100,000 may not be federally insured.

8. COMMITMENTS

At March 31, 2008, the following commitments were outstanding:

	(In thousands)
Commitments to originate mortgage loans	$ 9,267
Unused line of credit loans	46,308
Loans in process	4,622
Total	$ 60,197

9. EARNINGS PER SHARE

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

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007	For th 200
Basic	3,730,759	3,864,189	3,726,
Diluted	3,746,480	3,891,445	3,743,

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:

(In thousands) Maturing Period	March 31, 2008 Amount	March 31, 2008 Weighted Interest Rate	September 30, 2007 Amount	September 30, 2007 Weighted Interest Rate
1 to 12 months	$ 37,623	4.36%	$ 69,227	5.07%
13 to 24 months	22,995	4.43%	20,043	4.37%
25 to 36 months	15,000	4.71%	17,410	4.50%
37 to 48 months	29,313	4.46%	23,595	4.99%
49 to 60 months	52,379	4.23%	58,334	4.48%
61 to 72 months	41,975	4.22%	20,000	4.63%
73 to 84 months	5,000	3.58%	20,000	4.26%
85 to 120 months	105,000	4.03%	70,000	4.50%
Total	$309,285	4.23%	$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 $8 million out of $75.0 million was used at March 31, 2008 and $31.5 million was used as of September 30, 2007, for general purposes. Included in the table above at March 31, 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 $545.6 million of which $259.2 million was used as of March 31, 2008. In addition, there are four long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totalin

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 March 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 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 Capit Adequacy Pur
	Amount	Ratio	Amount
As of March 31, 2008			
Tier 1 Capital (to assets)	$ 44,834	5.62%	$ 31,905
Tier 1 Capital (to risk weighted assets)	44,834	11.10%	16,155
Total Capital (to risk weighted assets)	46,759	11.58%	32,309
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

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.

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 that are collateral dependent; (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 that are Collateral Dependent: We establish an allowance for certain impaired loans for the amounts by which the collateral value or observable market price are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. At March 31,2008 and December 31, 2007, no loans were considered impaired.

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

General Valuation Allowance on the Remainder of the Loan Portfolio - We establish another general allowance for loans that are not classified to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectibility of the loan portfolio. The allowance may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures,

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changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

Changes in Financial Position for the Six-Month Period Ended March 31, 2008

Total assets at March 31, 2008 were $811.9 million, an increase of $38.3 million for the six-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 $21.3 million. There was also an increase in investments due to purchases less maturities of approximately $18.1 million.

Asset growth was primarily funded by deposit growth during the six -month period ended March 31, 2008, total deposits increased by $26.5 million to $450.5 million. Advances from borrowers for taxes and insurance also increased by $3.2 million due to the timing of property tax payments. There was also an increase in advances of $10.7 million.

Comparisons of Results of Operations for the Three and Six Month Period Ended March 31, 2008 with the Three Month and Six Month Period Ended March 31, 2007

Net Interest Income

Net interest income was $3.2 million for the three-month period ended March 31, 2008 compared to $2.94 million for the comparable period in 2007. The increase in the net interest income for the three -month period ended March 31, 2008 when compared to the same period in 2007 can be attributed to the increase in the difference between the average interest earning assets in relation to the average interest earning liabilities in comparable periods. This increase was partially offset by the decrease in interest rate spread from 1.4% in 2007 to 1.39% in 2008. The increase in the net interest income for the six-month period ended March 31, 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 1.63% in 2008. Net interest income was $6.1 million for the six-month period ended March 31, 2008 compared to $5.7 million for the comparable period in 2007.

Non-Interest Income

Non-interest income decreased to $467,000 for the three-month period ended March 31, 2008 from $546,000 for the comparable period in 2007. The decrease is primarily due to the fact that the prior period includes a gain on sale of investments of $160,000. Non-interest income increased to $966,000 for the six-month period ended March 31, 2008 from $938,000 for the comparable period in 2007. The increase is primarily due to the fact that the Company had additional income related to commercial loan fees and customers transaction accounts.

Non-Interest Expenses

For the three-month period ended March 31, 2008, non-interest expenses increased by $111,000 or 4.8% to $2.4 million compared to $2.3 million for the same period in 2007. For the six month period ended March 31, 2008, non-interest expenses increased by $236,000 or 5.2% to $4.8 million compared to $4.6 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 six month periods ended March 31, 2008 and 2007 were 1.21%,1.22% and 1.23%, 1.21%, respectively.

Income Taxes

The Company made provisions for income taxes of $205,503 and $387,503 for the three-month and six-month period ended March 31, 2008, respectively, compared to $268,500 and $449,500 for the comparable period 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 March 31, 2008, the Company had $60.2 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 $545.6 million at March 31, 2008 of which $259.2 million was outstanding at March 31, 2008.

The Bank's net income for the six months ended March 31, 2008 is $1.8 million compared to $1.7 million for the comparable period in 2007. In spite of a profitable six 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 $2,556,707.10 in the aggregate. The Bank's stockholders' equity of $45.4 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 March 31, 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	$ 65,056	$ 52,194	$ 21,858
Commercial loans	9,867	2,935	1,252
Mortgage-backed securities	74,483	76,037	21,918
Consumer and other loans	44,625	26,318	7,339
Investment securities and other investments	69,713	42,573	8,509
Total interest-earning assets	263,744	200,057	60,876
Interest-bearing liabilities:			
Passbook and Club accounts	--	--	--
NOW and checking accounts	--	--	--
Consumer Money Market Deposit accounts	12,311	--	--
Business Money Market Deposit accounts	4,565	--	--
Certificate accounts	303,990	29,730	11,524
Borrowed money	45,299	48,729	72,460
Total interest-bearing liabilities	366,165	78,459	83,984
Repricing GAP during the period	$(102,421)	$ 121,598	$ (23,108)
Cumulative GAP	$(102,421)	$ 19,177	$ (3,931)
Ratio of GAP during the period to total assets	-12.62%	14.98%	-2.85%
Ratio of cumulative GAP to total assets	-12.62%	2.36%	-0.48%

Item 4. Controls and Procedures

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

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

Part II OTHER INFORMATION

Item 1. 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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Numb Shares that May Purchased Under t or Programs
January 1 - 31, 2008				66,3
February 1 - 29, 2008				66,3
March 1 - 31, 2008	205,358(2)	12.45	--	66,3
Total	205,358	$ 12.45	--	66,3

(1) On June 20, 2007, the Company announced its current program to repurchase up to 5.0% of the outstanding shares of Common Stock of the Company, or 196,000 shares. The program commenced immediately following the completion of the 2003 program. The program does not have an expiration date and all shares are purchased in the open market.

(2) Shares were purchased in a private transaction outside of the Company's current repurchase program.

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

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: May 12, 2008 By: /s/ Ronald B. Geib

Ronald B. Geib
Chief Executive Officer

Date: May 12, 2008 By: /s/ Brendan J. McGill

Brendan J. McGill
Senior Vice President
Treasurer and Chief Financial Officer