

HARLEYSVILLE SAVINGS FINANCIAL CORP

Form 10-Q

August 13, 2010

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**UNITED STATES
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, 2010

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)

N/A

(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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, 3,674,187 shares outstanding as of August 13, 2010

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Financial Condition

(In thousands, except share data)	June 30, 2010	September 30, 2009
Assets		
Cash and amounts due from depository institutions	\$ 3,646	\$ 3,222
Interest bearing deposits	11,014	6,220
Total cash and cash equivalents	14,660	9,442
Investment securities held to maturity (fair value June 30, \$141,123; September 30, \$106,174)	139,728	105,194
Investment securities available-for-sale at fair value	3,516	6,728
Mortgage-backed securities held to maturity (fair value June 30, \$150,851; September 30, \$169,210)	143,424	162,430
Mortgage-backed securities available-for-sale at fair value	787	785
Loans receivable (net of allowance for loan losses June 30, \$2,437; September 30, \$2,094)	515,809	498,391
Accrued interest receivable	3,367	3,719
Federal Home Loan Bank stock at cost	16,096	16,096
Foreclosed real estate		747
Office properties and equipment, net	12,229	10,486
Prepaid expenses and other assets	17,493	15,989
TOTAL ASSETS	\$ 867,109	\$ 830,007
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	\$ 522,770	\$ 466,601
Long-term debt	283,730	309,046
Accrued interest payable	1,475	1,606
Advances from borrowers for taxes and insurance	5,737	1,445
Accounts payable and accrued expenses	909	1,170
Total liabilities	814,621	779,868
Commitments and contingencies		
Stockholders equity:		
Preferred Stock: \$.01 par value; 7,500,000 shares authorized; none issued		
Common stock: \$.01 par value; 15,000,000 shares authorized; 3,921,177 shares issued; outstanding June 30, 2010 3,674,187 shares September 30, 2009 3,627,696 shares	39	39
Additional paid-in capital	8,085	8,002
	(3,565)	(4,202)

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Treasury stock, at cost (June 30, 2010, 246,990 shares; September 30, 2009, 293,481 shares)

Retained earnings partially restricted	47,940	46,329
Accumulated other comprehensive income (loss)	(11)	(29)
Total stockholders equity	52,488	50,139
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 867,109	\$ 830,007

See notes to unaudited consolidated financial statements.

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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 Months Ended June 30,	
	2010	2009	2010	2009
Interest Income:				
Interest on mortgage loans	\$ 5,043	\$ 4,961	\$ 15,118	\$ 15,066
Interest on commercial loans	1,108	774	3,023	2,223
Interest on mortgage-backed securities	1,657	2,209	5,335	7,163
Interest on consumer and other loans	1,080	1,144	3,307	3,639
Interest on other taxable investments	802	572	2,562	2,134
Interest on tax-exempt investments	260	312	804	968
Dividends on investment securities	1	1	2	10
Total interest income	9,951	9,973	30,151	31,203
Interest Expense:				
Interest on deposits	2,121	2,642	6,929	8,356
Interest on borrowings	3,169	3,486	9,655	10,460
Total interest expense	5,290	6,128	16,584	18,816
Net Interest Income	4,661	3,845	13,567	12,387
Provision for loan losses	150	90	450	290
Net Interest Income after Provision for Loan Losses	4,511	3,755	13,117	12,097
Other Income:				
Customer service fees	176	161	488	497
Impairment of equity securities				(449)
Gain on sale of investments				(11)
Loss on sale of investments				20
Income on bank-owned life insurance	122	121	365	364
Other income	210	178	615	534
Total other income	508	460	1,468	955
Other Expenses:				
Salaries and employee benefits	1,743	1,523	5,174	4,719
Occupancy and equipment	356	299	985	900
Deposit insurance premiums	229	604	682	861
Data processing	167	146	489	409

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Other	710	541	2,175	1,798
Total other expenses	3,205	3,113	9,505	8,687
Income before Income Taxes	1,814	1,102	5,080	4,365
Income tax expense	500	246	1,392	930
Net Income	\$ 1,314	\$ 856	\$ 3,688	\$ 3,435
Basic Earnings Per Share	\$ 0.36	\$ 0.24	\$ 1.01	\$ 0.96
Diluted Earnings Per Share	\$ 0.36	\$ 0.24	\$ 1.01	\$ 0.95
Dividends Per Share	\$ 0.19	\$ 0.18	\$ 0.57	\$ 0.54

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended June 30,	
	2010	2009
Net Income	\$ 1,314	\$ 856
Other Comprehensive Income		
Unrealized (loss) gain on securities available for sale, net of tax (benefit) expense 2010, \$19; 2009, \$3 and reclassifications	(39)(1)	6(1)
Total Comprehensive Income	\$ 1,275	\$ 862
	2010	2009
(1) Disclosure of reclassification amount, net of tax for the three months ended:		
Net unrealized (loss) gain arising during the three months ended	\$ (58)	\$ 9
Reclassification adjustment for net losses (gains) included in net income		
	(58)	9
Tax benefit (expense)	19	(3)
Net unrealized (loss) gain on securities available for sale	\$ (39)	\$ 6
	2010	2009
(1) Disclosure of reclassification amount, net of tax for the six months ended:		
Net unrealized gain (loss) arising during the nine months ended	\$ 28	\$ (437)
Reclassification adjustment for net losses included in net income		440

Tax expense		28		3
		(10)		(1)
Net unrealized gain on securities available for sale		\$ 18	\$	2

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Paid-in Capital	Additional Paid-in Capital	Retained Earnings- Partial	Accumulated Other Comprehensive (Loss) /	Treasury Stock	Total Stockholders' Equity
(In thousands, except share and per share data)	Outstanding	Stock	Capital	Restricted	Income	Stock	Equity
Balance at October 1, 2009	3,627,696	\$ 39	\$ 8,002	\$ 46,329	\$ (29)	\$ (4,202)	\$ 50,139
Net income				3,688			3,688
Dividends \$.57 per share				(2,077)			(2,077)
Stock option compensation			124				124
Treasury Stock Purchase	(5,659)					(77)	(77)
Treasury stock delivered under ESOP	10,000					137	137
Treasury stock delivered under reinvestment plan	31,200		3			427	430
Employee options exercised	10,950		(44)			150	106
Change in unrealized holding loss on available-for-sale securities, net of reclassification and tax					18		18
Balance at June 30, 2010	3,674,187	\$ 39	\$ 8,085	\$ 47,940	\$ (11)	\$ (3,565)	\$ 52,488

	Common Stock Shares	Common Paid-in Capital	Additional Paid-in Capital	Retained Earnings- Partial	Accumulated Other Comprehensive (Loss) /	Treasury Stock	Total Stockholders' Equity
(In thousands, except share and per share data)	Outstanding	Stock	Capital	Restricted	Income	Stock	Equity
Balance at October 1, 2008	3,567,934	\$ 39	\$ 7,993	\$ 44,235	\$ (41)	\$ (5,017)	\$ 47,209
Net income				3,435			3,435
Dividends \$.54 per share				(1,936)			(1,936)
Stock option compensation			102				102
Treasury stock delivered under ESOP	10,000		(17)			137	120
Treasury stock delivered under reinvestment plan	34,885		(47)			478	431
Employee options exercised	2,084		(9)			29	20
Change in unrealized holding loss on available-for-sale securities, net of reclassification and tax					2		2

Balance at June 30, 2009 3,614,903 \$ 39 \$ 8,022 \$ 45,734 \$ (39) \$ (4,373) \$ 49,383

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended June 30,	
	2010	2009
Operating Activities:		
Net Income	\$ 3,688	\$ 3,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	416	347
Provision for loan losses	450	290
Realized net gains on securities		(9)
Loss on impairment of equity securities		449
Loss on sale of foreclosed real estate	159	
Amortization of deferred loan fees	62	47
Net amortization of premiums and discounts	127	107
Increase in cash surrender value of bank owned life insurance	(365)	(364)
Compensation charge on stock options	124	102
Changes in assets and liabilities which provided (used) cash:		
Decrease in accounts payable and accrued expenses	(261)	(453)
Increase in prepaid expenses and other assets	(1,139)	(1,063)
Decrease in accrued interest receivable	352	458
Decrease in accrued interest payable	(131)	(71)
Net cash provided by operating activities	3,482	3,275
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	(14,986)	
Purchase of investment securities held to maturity	(84,956)	(25,000)
Purchase of investment securities available-for-sale	(71,301)	(55,050)
Net purchase of FHLB stock		478
Proceeds from the redemption of investment securities available-for-sale	74,529	35,572
Proceeds from maturities of investment securities held to maturity	50,529	1,365
Proceeds from sale of foreclosed real estate	588	
Principal collected on mortgage-backed securities	33,758	64,112
Principal collected on loans receivable	85,411	101,726
Loans originated or acquired	(103,341)	(108,870)
Purchases of premises and equipment	(2,159)	(317)
Net cash (used in) provided by investing activities	(31,928)	14,016
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	71,307	17,606
Net (decrease) increase in certificates of deposit	(15,138)	7,878
Cash dividends	(1,647)	(1,505)
Net decrease in short-term borrowings		(21,800)
Proceeds from long-term debt		24,500
Repayment of long-term debt	(25,316)	(34,458)
Acquisition of treasury stock	(77)	
Treasury stock delivered under employee stock plans	243	140

Net increase in advances from borrowers for taxes and insurance	4,292	4,100
Net cash provided by (used in) financing activities	33,664	(3,539)
INCREASE IN CASH AND CASH EQUIVALENTS	5,218	13,752
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,442	9,374
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 14,660	\$ 23,126

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:

Interest	\$ 16,715	\$ 12,887
Income taxes	1,175	1,203
Non-cash transfer of loans to real estate owned		567

See notes to consolidated financial statements.

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Harleysville Savings Financial Corporation
Notes to Unaudited Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The unaudited 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, 2010 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2010 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, 2009.

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 are the allowance for loan losses, the determination of other-than-temporary impairment on securities and the valuation of deferred tax assets. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior period's financial statements have been reclassified to conform with the current year's classifications. The reclassifications had no effect on net income.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2010 through the date of issuance of these financial statements for items that should potentially be recognized or disclosed in these financial statements.

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New Accounting Standards

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-16, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets*. This Update amends the Accounting Standards (Codification) for the issuance of FASB Statement No. 166, *Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140*. The amendments in this Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company is continuing to evaluate the impact that the adoption of this new guidance will have on our financial position and results of operations.

In October 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This Update amends the Codification for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. The amendments in this Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This Update is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. We do not expect the adoption of this new guidance to have an impact on our financial position or result of operations.

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The FASB has issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and

In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and

A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*.

The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP.

All of the amendments in the ASU were effective upon issuance (February 24, 2010). The adoption of this new guidance did not have an impact on our financial position or result of operations.

ASU 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*, codifies the consensus reached in EITF Issue No. 09-I, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. The amendments to the Codification provide that modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU 2010-18 does not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40.

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ASU 2010-18 is effective prospectively for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. Upon initial adoption of ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Company is continuing to evaluate the impact that the adoption of this new guidance will have on our financial position and results of operations.

ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods *ending* on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods *beginning* on or after December 15, 2010. For nonpublic companies, the amendments are effective for annual reporting periods ending on or after December 15, 2011. The Company is continuing to evaluate the impact that the adoption of this new guidance will have on our financial position and results of operations.

Table of Contents**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, by maturities, is as follows:

(In Thousands)	June 30, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government Agencies				
Due 1 year or less	\$ 14,978	\$ 9	\$	\$ 14,987
Due after 1 year through 5 years	13,000	173		13,173
Due after 5 years through 10 years	25,000	203		25,203
Due after 10 years through 15 years	64,991	348	(3)	65,336
Due after 15 years	2,432	160		2,592
Tax Exempt Municipal Obligations				
Due after 5 years through 10 years	4,563	111		4,674
Due after 10 years through 15 years	12,752	521	(19)	13,254
Due after 15 years	2,012		(108)	1,904
Total Investment Securities	\$ 139,728	\$ 1,525	\$ (130)	\$ 141,123

(In Thousands)	September 30, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government Agencies				
Due 1 year or less	\$ 5,000	\$ 98	\$	\$ 5,098
Due after 1 year through 5 years	8,000	34		8,034
Due after 5 years through 10 years	10,996	4	(80)	10,920
Due after 10 years through 15 years	56,175	299	(278)	56,196
Due after 15 years	2,431	178		2,609
Tax Exempt Municipal Obligations				
Due after 5 years through 10 years	3,898	170		4,068
Due after 10 years through 15 years	16,303	708	(3)	17,008
Due after 15 years	2,391		(150)	2,241
Total Investment Securities	\$ 105,194	\$ 1,491	\$ (511)	\$ 106,174

A summary of investments with unrealized losses, aggregated by category, at June 30, 2010 is as follows:

(In Thousands)	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
US Government agencies	\$ 4,997	\$ (3)	\$	\$	\$ 4,997	\$ (3)
Tax exempt municipal obligations			3,268	(127)	3,268	(127)

Total **\$ 4,997** **\$** **(3)** **\$ 3,268** **\$** **(127)** **\$ 8,265** **\$** **(130)**

At June 30, 2010, investment securities in a gross unrealized loss position consisted of 6 securities that at such date had an aggregate depreciation of 1.54% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company does not have the intent to sell these securities prior to recovery and the Company does not believe it will be required to sell such securities prior to recovery. Management does not believe any individual unrealized loss as of June 30, 2010 represents an other-than-temporary impairment.

A summary of investments with unrealized losses, aggregated by category, at September 30, 2009 is as follows:

(In Thousands)	Less than 12 Months Fair Value	Unrealized Losses	12 Months or Longer Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
US Government agencies	\$ 29,637	\$ (358)	\$	\$	\$ 29,637	\$ (358)
Tax exempt municipal obligations	1,000	(3)	3,036	(150)	4,036	(153)
Total	\$ 30,637	\$ (361)	\$ 3,036	\$ (150)	\$ 33,673	\$ (511)

Table of Contents**3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE**

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

(In Thousands)	Amortized Cost	June 30, 2010		Fair Value
		Gross Unrealized Gain	Gross Unrealized Losses	
Equity Securities of Financial Institutions	\$ 355	\$ 45	\$ (63)	\$ 337
Money Market Mutual Funds	3,179			3,179
Total Investment Securities	\$ 3,534	\$ 45	\$ (63)	\$ 3,516

(In Thousands)	Amortized Cost	September 30, 2009		Fair Value
		Gross Unrealized Gain	Gross Unrealized Losses	
Equity Securities of Financial Institutions	\$ 355	\$ 48	\$ (92)	\$ 311
Money Market Mutual Funds	6,417			6,417
Total Investment Securities	\$ 6,772	\$ 48	\$ (92)	\$ 6,728

A summary of investments with unrealized losses, aggregated by category, at June 30, 2010 is as follows:

(In Thousands)	Less than 12 Months		12 Months or Longer		Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Equity Securities of Financial Institutions	\$ 54	\$ (3)	\$ 152	\$ (60)	\$ 206	\$ (63)

As of June 30, 2010 there were four equity securities in an unrealized loss position. Management evaluated the length of time and the extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential. The Company has the intent and ability to hold these securities until recovery. Management does not believe any individual unrealized loss as of June 30, 2010 represents an other-than-temporary impairment.

A summary of investments with unrealized losses, aggregated by category, at September 30, 2009 is as follows:

(In Thousands)	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Equity Securities of Financial Institutions	\$ 104	\$ (43)	\$ 74	\$ (49)	\$ 178	\$ (92)

Table of Contents**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:

(In Thousands)	Amortized Cost	June 30, 2010		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 22,509	\$ 162	\$ (330)	\$ 22,341
FHLMC pass-through certificates	50,468	3,267		53,735
FNMA pass-through certificates	68,902	4,290		73,192
GNMA pass-through certificates	1,545	38		1,583
Total residential mortgage-backed securities	\$ 143,424	\$ 7,757	\$ (330)	\$ 150,851

(In Thousands)	Amortized Cost	September 30, 2009		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 11,681	\$ 54	\$ (271)	\$ 11,464
FHLMC pass-through certificates	65,005	3,270		68,275
FNMA pass-through certificates	85,744	3,728	(1)	89,471
Total residential mortgage-backed securities	\$ 162,430	\$ 7,052	\$ (272)	\$ 169,210

A summary of securities with unrealized losses, aggregated by category, at June 30, 2010 is as follows:

(In Thousands)	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Collateralized Mortgage Obligations held to maturity	\$ 13,263	\$ (250)	\$ 1,607	\$ (80)	\$ 14,870	\$ (330)

At June 30, 2010, collateralized mortgage obligations in a gross unrealized loss for less than twelve months consisted of 6 securities that at such date had an aggregate depreciation of 1.85% from the Company's amortized cost basis. At June 30, 2010, collateralized mortgage obligations in a gross unrealized loss position for twelve months or longer consisted of one security that at such date had an aggregate depreciation of 4.76% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer. The Company does not have the intent to sell these securities prior to recovery and the Company does not believe it will be required to sell such securities prior to recovery. Management does not believe any individual unrealized loss as of June 30, 2010 represents an other-than-temporary impairment.

A summary of securities with unrealized losses, aggregated by category, at September 30, 2009 is as follows:

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(In Thousands)	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Collateralized Mortgage Obligations held to maturity	\$ 2,264	\$ (49)	\$ 6,576	\$ (223)	\$ 8,840	\$ (272)

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Table of Contents**5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE**

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

(In thousands)	June 30, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
FNMA pass-through certificates	\$ 785	\$ 2	\$	\$ 787
Total Residential Mortgage-Backed Securities	\$ 785	\$ 2	\$	\$ 787

(In thousands)	September 30, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
FNMA pass-through certificates	\$ 785	\$	\$	\$ 785
Total Residential Mortgage-Backed Securities	\$ 785	\$	\$	\$ 785

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	(In thousands)	
	June 30, 2010	September 30, 2009
Residential Mortgages	\$ 349,639	\$ 346,202
Construction	4,269	2,912
Home Equity	89,633	92,434
Commercial Mortgages	58,304	48,958
Commercial Business Loans	17,239	10,389
Consumer Non-Real Estate	1,993	2,242
Total	521,077	503,137
Undisbursed portion of loans in process	(1,989)	(1,873)
Deferred loan fees	(842)	(779)
Allowance for loan losses	(2,437)	(2,094)
Loans Receivable net	\$ 515,809	\$ 498,391

The total amount of loans being serviced for the benefit of others was approximately \$1,936,000 and \$2,550,000 at June 30, 2010 and September 30, 2009, respectively.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Balance, beginning of period	\$ 2,330	\$ 2,193	\$ 2,094	\$ 1,988
Provision for loan losses	150	90	450	290
Recoveries	1	9	8	26
Charge offs	(44)	(20)	(115)	(32)
Balance, end of period	\$ 2,437	\$ 2,272	\$ 2,437	\$ 2,272

7. Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of June 30, 2010.

Table of Contents**8. DEPOSITS**

Deposits are summarized as follows:

	(In thousands)	
	June 30, 2010	September 30, 2009
Non-interest bearing checking accounts	\$ 15,706	\$ 12,364
NOW accounts	26,699	16,818
Interest bearing checking accounts	31,624	29,282
Money market demand accounts	132,645	77,432
Passbook and club accounts	3,469	2,940
Certificate of deposit accounts	312,627	327,765
Total deposits	\$ 522,770	\$ 466,601

The aggregate amount of certificate accounts in denominations of more than \$100,000 at June 30, 2010 and September 30, 2009 amounted to approximately \$58.0 million and \$60.1 million, respectively.

9. COMMITMENTS

At June 30, 2010, the following commitments were outstanding:

	(In thousands)
Letters of credit	\$ 466
Commitments to originate loans	13,383
Unused portion of home equity lines of credits	52,883
Unused portion of commercial lines of credits	5,398
Undisbursed portion of construction loans in process	1,776
Total	\$ 73,906

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2010 for guarantees under standby letters of credit issued is not material.

Table of Contents**10. 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,	
	2010	2009	2010	2009
Basic	3,667,319	3,608,620	3,651,495	3,591,380
Diluted	3,700,510	3,622,751	3,671,977	3,602,169

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. There were 192,083 and 194,583 stock options that were anti-dilutive for the three and nine month periods ended June 30, 2010, respectively. There were 192,083 and 226,386 stock options that were anti-dilutive for the three and nine month periods ended June 30, 2009, respectively.

11. LONG-TERM DEBT

Advances consists of the following:

Maturing Period	June 30, 2010		September 30, 2009	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
				(In thousands)
1 to 12 months	\$ 15,000	4.71%	\$ 30,358	4.37%
13 to 24 months	53,635	4.57%	16,849	4.34%
25 to 36 months	32,877	3.79%	55,793	4.49%
37 to 48 months	44,014	4.25%	37,189	4.00%
49 to 60 months	3,527	3.58%	29,856	4.07%
61 to 72 months	20,000	4.13%	19,031	3.82%
73 to 84 months	30,000	4.86%	10,000	4.71%
85 to 120 months	84,677	4.27%	109,970	4.42%
Total	\$ 283,730	4.34%	\$ 309,046	4.31%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which \$0 out of \$75.0 million was used at June 30, 2010 and September 30, 2009, respectively. Included in the table above at June 30, 2010 and September 30, 2009 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 \$465 million of which \$233.7 was used as of June 30, 2010. In addition, there are four long-term advances from other financial institutions totaling \$50 million that are secured by investment and mortgage-backed securities.

12. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Companies consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures

of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2010, 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. The Company's capital ratios are not significantly different than the Bank's ratios disclosed below.

	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
As of June 30, 2010						
Tier 1 Capital (to assets)	\$ 52,487	6.13%	\$ 34,234	4.00%	\$ 42,792	5.00%
Tier 1 Capital (to risk weighted assets)	52,487	11.21%	18,726	4.00%	28,089	6.00%
Total Capital (to risk weighted assets)	54,924	11.73%	37,452	8.00%	46,815	10.00%
As of September 30, 2009						
Tier 1 Capital (to assets)	\$ 50,149	6.06%	\$ 33,103	4.00%	\$ 41,459	5.00%
Tier 1 Capital (to risk weighted assets)	50,149	11.26%	17,809	4.00%	26,714	6.00%
Total Capital (to risk weighted assets)	52,242	11.73%	35,618	8.00%	44,523	10.00%

Table of Contents**13. FAIR VALUES MEASUREMENTS AND DISCLOSURES**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Company, effective October 1, 2008, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2010 and September 30, 2009 are as follows:

Description	June 30, 2010	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Investment securities available for sale	\$ 3,516	\$ 3,516	\$	\$
Mortgage-backed securities available for sale	787		787	
	\$ 4,303	\$ 3,516	\$ 787	\$

Description	June 30, 2010	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets	Significant Other	Significant
Investment securities available for sale	\$ 3,516	\$ 3,516	\$	\$
Mortgage-backed securities available for sale	787		787	
	\$ 4,303	\$ 3,516	\$ 787	\$

Description	September 30, 2009	for Identical Assets	Observable Inputs	Unobservable Inputs
Investment securities available for sale	\$ 6,728	\$ 6,728	\$	\$
Mortgage-backed securities available for sale	785		785	
	\$ 7,513	\$ 6,728	\$ 785	\$

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2010 are as follows:

Description	June 30, 2010	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	\$ 186	\$	\$	\$ 186

The Company has no financial assets measured at fair value on a non-recurring basis at September 30, 2009.

The following valuation techniques were used to measure fair value of the Company's financial instruments in the tables above and below:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Table of Contents**Loans Receivable (Carried at Cost)**

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Impaired loans are those loans which the Company has measured impairment generally based on the fair value of the loans collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of 312,000 less their specific valuation allowances of \$126,000.

Federal Home Loan Bank Stock (Carried at Cost)

The carrying amount of this restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of a aggregated expected monthly maturities on time deposits.

Borrowings (Carried at Cost)

Fair values of borrowings are estimated using discounted cash flow analysis, based on quoted prices for new advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these off-balance sheet financial instruments are not considered material as of June 30, 2010 and September 30, 2009.

The estimated fair value amounts have been determined by the Company using available market information appropriate valuation methodologies. However, considerable judgement is necessarily required to interpret the data to develop the estimates.

The carrying amounts and estimated fair values of financial instruments are as follows.

(In Thousands)	June 30, 2010		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	\$ 14,660	\$ 14,660	\$ 9,442	\$ 9,442
Investment securities held to maturity	139,728	141,123	105,194	106,174
Investment securities available-for-sale	3,516	3,516	6,728	6,728
Mortgage-backed securities held to maturity	143,424	150,851	162,430	169,210
Mortgage-backed securities available-for-sale	785	787	785	785
Loans receivable net	515,809	540,410	498,391	512,512
Federal Home Loan Bank Stock	16,096	16,096	16,096	16,096

Accrued interest receivable	3,367	3,367	3,719	3,719
Liabilities:				
Checking, Passbook, Club and NOW accounts	77,498	77,498	61,404	61,404
Money Market Demand accounts	132,645	132,645	77,432	77,432
Certificate of deposit accounts	312,627	317,799	327,765	332,733
Borrowings	283,730	307,217	309,046	331,330
Accrued interest payable	1,475	1,475	1,606	1,606

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Table of Contents**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 quarterly to ensure their relevance in the current economic environment.

Table of Contents**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.

Changes in Financial Position for the Nine-Month Period Ended June 30, 2010

Total assets at June 30, 2010 were \$867.1 million, an increase of \$37.1 million for the nine-month period then ended. The increase was primarily due to an increase in loans receivable of approximately \$17.4 million, an increase in cash and investments of approximately \$36.5 million and an increase of prepaid and other assets of approximately \$1.5 million. Also, there has been an increase in office property for the nine-month period ended June 30, 2010 of \$1.7 million due to the opening of a new branch. These increases were offset by a decrease in mortgage-backed securities totaling \$19.0 million, due to pay downs. The increase in prepaids and other assets was due to a \$2.6 million prepayment balance of FDIC premiums at June 30, 2010.

Asset growth was primarily funded by growth in deposits during the nine-month period ended June 30, 2010. Total deposits increased by \$56.1 million to \$522.8 million. Advances from borrowers for taxes and insurance also increased by \$4.3 million due to the timing of property tax payments. The increase was partially offset by a decrease in borrowings of \$25.3 million due to normal repayments for the period.

Comparisons of Results of Operations for the Three Month and Nine Month Period Ended June 30, 2010 with the Three Month and Nine Month Period Ended June 30, 2009**Net Interest Income**

Net interest income was \$4.7 million for the three-month period ended June 30, 2010 compared to \$3.8 million for the comparable period in 2009. The increase in the net interest income for the three-month period ended June 30, 2010 when compared to the same period in 2009 can be attributed to the increase in interest rate spread from 1.72% in 2009 to 2.07% in 2010, and 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, 2010 when compared to the same period in 2009 can attributed to the increase in interest rate spread from 1.85% in 2009 to 2.03% in 2010. Net interest income was \$13.6 million for the nine-month period ended June 30, 2010 compared to \$12.4 million for the comparable period in 2009.

Non-Interest Income

Non-interest income increased to \$508,000 for the three-month period ended June 30, 2010 from \$460,000 for the comparable period in 2009. Non-interest income increased to \$1.5 million for the nine-month period ended June 30, 2010 from \$955,000 for the comparable period in 2009. The increase in the nine month period is primarily due to an impairment write-down of four equity securities resulting in a loss of \$449,000 in 2009. There were no write-downs in 2010.

Non-Interest Expenses

For the three-month period ended June 30, 2010, non-interest expenses increased by \$92,000 or 3.0% to \$3.2 million compared to \$3.1 million for the same period in 2009. For the nine month period ended June 30, 2010, non-interest expenses increased by \$818,000 or 9.42% to \$9.5 million compared to \$8.7 million for the same period in 2009. These increased costs are primarily due to the increase in normal salary and health care costs increases and expenses related to the opening of the new branch in February, 2010. Management believes that these are reasonable increases in the cost of operations after considering the impact of additional expenses related to the Company's commercial loan department, business banking and opening a new branch. FDIC insurance expense decreased to \$229,000 for the three-month period ended June 30, 2010 from \$604,000 for the comparable period in 2009 because there was a special assessments imposed by the FDIC in 2010. FDIC insurance expense decreased to \$682,000 for the nine-month period ended June 30, 2010 from \$861,000 for the comparable period in 2009. The annualized ratio of non-interest expenses to average assets for the three and nine month periods ended June 30, 2010 and 2009 were 1.50%, 1.50% and 1.52%, 1.41%, respectively.

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On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The Bank's special assessment totaling \$460,000 was collected on September 30, 2009. Instead of imposing additional special assessments, the FDIC required all banks to prepay their estimated risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 on December 30, 2009. The Bank pre-paid \$3,100,000 which is included in other assets and will be amortized over 36 months.

Income Taxes

The Company made provisions for income taxes of \$500,000 and \$1.4 million for the three-month and nine-month period ended June 30, 2010 respectively, compared to \$246,000 and \$930,000 for the comparable periods in 2009. These provisions are based on the levels of pre-tax income, adjusted primarily for tax-exempt interest income on investments.

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Liquidity and Capital Recourses

For a financial institution, liquidity is a measure of the ability to fund customers' needs for loans and deposit withdrawals. Harleystville 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. Harleystville 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, 2010, the Company had \$73.9 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 \$465.0 million at June 30, 2010 of which \$233.7 was outstanding at June 30, 2010.

The Bank's net income for the nine months ended June 30, 2010 is \$3.7 million compared to \$3.4 million for the comparable period in 2009. This increased the Bank's stockholder's equity to \$52.5 million or 6.08% of total assets. This amount is well in excess of the Bank's minimum regulatory capital requirement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases in interest rates. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing or maturity of the Company's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. If the maturities of such assets and liabilities were perfectly matched, and if the interest rates borne by its assets and liabilities were equally flexible and moved concurrently, neither of which is the case, the impact on net interest income of rapid increases or decreases in interest rates would be minimized. The Company's asset and liability management policies seek to decrease 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.

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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, 2010, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

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

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

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Mortgage loans	\$ 52,984	\$ 58,837	\$ 47,049	\$ 190,769	\$ 349,639
Commercial loans	31,631	8,345	20,903	14,664	75,543
Mortgage-backed securities	56,799	44,581	21,844	20,987	144,211
Consumer and other loans	62,555	15,287	7,030	11,023	95,895
Investment securities and other investments	93,880	47,460	23,266	5,748	170,354
Total interest-earning assets	297,849	174,510	120,092	243,191	835,642
Interest-bearing liabilities:					
Passbook and Club accounts				3,469	3,469
NOW and checking accounts				58,323	58,323
Consumer Money Market Deposit accounts	46,522			55,009	101,531
Business Money Market Deposit accounts	23,335			7,779	31,114
Certificate accounts	131,514	117,011	64,102		312,627
Borrowed money	21,829	86,697	42,733	132,471	283,730

Total interest-bearing liabilities	223,200	203,708	106,835	257,051	790,794
Repricing GAP during the period	\$ 74,649	\$ (29,198)	\$ 13,257	\$ (13,860)	\$ 44,848
Cumulative GAP	\$ 74,649	\$ 45,451	\$ 58,708	\$ 44,848	
Ratio of GAP during the period to total assets	8.61%	-3.37%	1.53%	-1.60%	
Ratio of cumulative GAP to total assets	8.61%	5.24%	6.77%	5.17%	

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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

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved)

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 Operating and Finance Officer

32.0 Section 1350 Certification of Chief Executive Officer and Chief Operating and Finance 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, 2010

By: /s/ Ronald B. Geib

*Ronald B. Geib
Chief Executive Officer*

Date: August 13, 2010

By: /s/ Brendan J. McGill

*Brendan J. McGill
Executive Vice President
Treasurer and Chief Financial
Officer*

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