HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
August 12, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

o **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 þ No o

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 þ No o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ 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, 3,747,920 shares outstanding as of August 12, 2011.

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
Index

Table of Contents

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Financial Condition

(In thousands, except share data)	June 30, 2011	September 30, 2010
Assets		
Cash and amounts due from depository institutions	**$ 4,166**	$ 4,052
Interest bearing deposits	**18,825**	16,138
Total cash and cash equivalents	**22,991**	20,190
Investments and mortgage-backed securities:		
Available for sale (amortized cost June 30, $17,243; September 30, $21,401)	**17,293**	21,413
Held to maturity (fair value June 30, $267,243; September 30, $264,448)	**261,363**	256,088
Loans receivable (net of allowance for loan losses June 30, $2,652; September 30, $2,504)	**509,467**	510,093
Accrued interest receivable	**3,077**	3,210
Federal Home Loan Bank stock at cost	**13,800**	16,096
Foreclosed real estate	**324**	186
Office properties and equipment, net	**12,043**	12,158
Prepaid expenses and other assets	**17,221**	17,706
TOTAL ASSETS	**$ 857,579**	$ 857,140
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	**$ 531,102**	$ 528,100
Long-term debt	**261,900**	272,047
Accrued interest payable	**1,356**	1,407
Advances from borrowers for taxes and insurance	**5,643**	1,247
Accounts payable and accrued expenses	**1,027**	988
Total liabilities	**801,028**	803,789
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, 2011 3,747,920 shares September 30, 2010 3,687,409 shares	**39**	39
Additional paid-in capital	**8,286**	8,126
Treasury stock, at cost (June 30, 2011, 173,257 shares; September 30, 2010, 233,768 shares)	**(2,553)**	(3,383)
Retained earnings partially restricted	**50,746**	48,562
Accumulated other comprehensive income	**33**	7

Total stockholders equity		**56,551**		53,351
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$**	**857,579**	$	857,140

See notes to unaudited consolidated financial statements.

Table of Contents

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Income

(In thousands, except per share data)	For the Three Months Ended June 30, 2011	2010	For the Nine Months Ended June 30, 2011	2010
Interest Income:				
Interest on mortgage loans	**$ 4,724**	$ 5,043	**$ 14,215**	$ 15,118
Interest on commercial loans	**1,276**	1,108	**3,758**	3,023
Interest on mortgage-backed securities	**1,476**	1,657	**4,210**	5,335
Interest on consumer and other loans	**995**	1,080	**3,055**	3,307
Interest on other taxable investments	**807**	802	**2,342**	2,562
Interest on tax-exempt investments	**215**	260	**634**	804
Dividends on investment securities	**1**	1	**2**	2
Total interest income	**9,494**	9,951	**28,216**	30,151
Interest Expense:				
Interest on deposits	**1,866**	2,121	**5,778**	6,929
Interest on borrowings	**2,870**	3,169	**8,697**	9,655
Total interest expense	**4,736**	5,290	**14,475**	16,584
Net Interest Income	**4,758**	4,661	**13,741**	13,567
Provision for loan losses	**165**	150	**490**	450
Net Interest Income after Provision for Loan Losses	**4,593**	4,511	**13,251**	13,117
Other Income:				
Customer service fees	**137**	176	**402**	488
Income on bank-owned life insurance	**1,163**	122	**1,407**	365
Other income	**220**	210	**644**	615
Total other income	**1,520**	508	**2,453**	1,468
Other Expenses:				
Salaries and employee benefits	**1,905**	1,743	**5,529**	5,174
Occupancy and equipment	**326**	356	**1,039**	985
Deposit insurance premiums	**234**	229	**724**	682
Data processing	**199**	167	**529**	489
Other	**722**	710	**2,067**	2,175
Total other expenses	**3,386**	3,205	**9,888**	9,505

Income before Income Taxes		**2,727**		1,814		**5,816**		5,080
Income tax expense		**739**		500		**1,518**		1,392
Net Income	**$**	**1,988**	$	1,314	**$**	**4,298**	$	3,688
Basic Earnings Per Share	**$**	**0.53**	$	0.36	**$**	**1.16**	$	1.01
Diluted Earnings Per Share	**$**	**0.53**	$	0.36	**$**	**1.15**	$	1.01
Dividends Per Share	**$**	**0.19**	$	0.19	**$**	**0.57**	$	0.57

See notes to unaudited consolidated financial statements.

Table of Contents

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Comprehensive Income

	Three Months Ended June 30,			
(In thousands)		**2011**		2010
Net Income	**$**	**1,988**	$	1,314
Other Comprehensive Income				
Unrealized loss on securities available for sale, net of tax (benefit) expense 2011, $12; 2010, $19 and reclassifications		**(24)(1)**		(39)(1)
Total Comprehensive Income	**$**	**1,964**	$	1,275

Unaudited Consolidated Statements of Comprehensive Income

		2011		2010
(1) Disclosure of reclassification amount, net of tax for the three months ended:				
Net unrealized loss arising during the three months ended	**$**	**(36)**	$	(58)
Reclassification adjustment for net losses (gains) included in net income				
		(36)		**(58)**
Tax benefit (expense)		**12**		19
Net unrealized loss on securities available for sale	**$**	**(24)**	$	(39)

Unaudited Consolidated Statements of Comprehensive Income

	Nine Months Ended June 30,			
(In thousands)		**2011**		2010
Net Income	**$**	**4,298**	$	3,688
Other Comprehensive Income				
Unrealized gain on securities available for sale, net of tax (benefit) expense 2011, ($13); 2010, ($10) and reclassifications		**26(1)**		18(1)
Total Comprehensive Income	**$**	**4,324**	$	3,706

Unaudited Consolidated Statements of Comprehensive Income

		2011		2010
(1) Disclosure of reclassification amount, net of tax for the three months ended:				
Net unrealized gain arising during the three months ended	**$**	**39**	$	28

Reclassification adjustment for net losses (gains) included in net income		**39**		28
Tax expense		**(13)**		(10)
Net unrealized gain on securities available for sale	**$**	**26**	$	18

See notes to unaudited consolidated financial statements.

Table of Contents

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Stockholders Equity

(In thousands, except share and per share data)	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accumulated Other Comprehensive (Loss) / Income	Treasury Stock	Total Stockholders Equity
Balance at October 1, 2010	3,687,409	$ 39	$ 8,126	$ 48,562	$ 7	$ (3,383)	$ 53,351
Net income				4,298			4,298
Dividends $.57 per share				(2,114)			(2,114)
Stock option compensation			158				158
Treasury stock delivered under ESOP	10,000		10			137	147
Treasury stock delivered under reinvestment plan	30,709		39			421	460
Employee options exercised	19,802		(47)			272	225
Change in unrealized holding gain on available-for-sale securities, net of reclassification and tax					26		26
Balance at June 30, 2011	3,747,920	$ 39	$ 8,286	$ 50,746	$ 33	$ (2,553)	$ 56,551

Unaudited Consolidated Statements of Stockholders Equity

(In thousands, except share and per share data)	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accumulated Other Comprehensive (Loss) / Income	Treasury Stock	Total Stockholders 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

See notes to unaudited consolidated financial statements.

Table of Contents

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended June 30,	
(In thousands)	**2011**	2010
Operating Activities:		
Net Income	**$ 4,298**	$ 3,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**462**	416
Provision for loan losses	**490**	450
Loss on sale of foreclosed real estate		159
Amortization of deferred loan fees	**155**	62
Net (accretion) amortization of premiums and discounts	**(165)**	127
Increase in cash surrender value of bank owned life insurance	**(365)**	(365)
Gain on death benefit on bank owned life insurance policy	**(1,042)**	
Compensation charge on stock options	**158**	124
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in accounts payable and accrued expenses	**39**	(261)
Decrease in prepaid expenses and other assets	**(19)**	(1,139)
Increase in accrued interest receivable	**133**	352
Decrease in accrued interest payable	**(51)**	(131)
Net cash provided by operating activities	**4,093**	3,482
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	**(51,062)**	(14,986)
Purchase of investment securities held to maturity	**(49,232)**	(84,956)
Purchase of investment securities available-for-sale	**(59,083)**	(71,301)
Net redemption FHLB stock	**2,296**	
Proceeds from the redemption of investment securities available-for-sale	**63,229**	74,529
Proceeds from maturities of investment securities held to maturity	**63,049**	50,529
Proceeds from sale of foreclosed real estate		588
Purchase of bank owned life insurance	**(191)**	
Proceeds on bank owned life insurance	**2,102**	
Principal collected on mortgage-backed securities held to maturity	**32,135**	33,758
Principal collected on long term loans	**86,063**	85,411
Long term loans originated or acquired	**(86,220)**	(103,341)
Purchases of premises and equipment	**(347)**	(2,159)
Net cash provided by (used in) investing activities	**2,739**	(31,928)
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	**16,373**	71,307
Net decrease in certificates of deposit	**(13,371)**	(15,138)
Cash dividends	**(1,654)**	(1,647)
Repayment of long-term debt	**(10,147)**	(25,316)
Acquisition of treasury stock		(77)
Sale of treasury stock delivered under employee stock plans	**372**	243
Net increase in advances from borrowers for taxes and insurance	**4,396**	4,292

Net cash (used in) provided by financing activities		**(4,031)**		33,664
INCREASE IN CASH AND CASH EQUIVALENTS		**2,801**		5,218
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**20,190**		9,442
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$**	**22,991**	$	14,660
Supplemental Disclosure of Cash Flow Information				
Cash paid during the period for:				
Interest (credited and paid)	**$**	**14,526**	$	16,715
Income taxes		**1,370**		1,175
Foreclosed real estate acquired in settlement of loans		**138**		

See notes to consolidated financial statements.

page -5-

Table of Contents

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, a Pennsylvania limited liability Company that allows the Company to offer non deposit products, and HARL LLC, a limited liability Company 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, 2011 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2011 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, 2010.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant of these estimates is the allowance for loan losses, 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, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

Table of Contents

Recent Accounting Pronouncements 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. The adoption of this new guidance did not have an impact on our financial position or result 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. The adoption of this new guidance did not have an impact on our financial position or result of operations.

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.

Table of Contents

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. The adoption of this standard did not have an impact on our financial position or 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 has provided the required credit quality disclosures as of the end of the reporting periods December 31, 2010 and June 30, 2011 and disclosures about the activity for the six months ended June 30, 2011.

ASU 2011 01 (*Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20).* The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The delay was intended to allow FASB time to complete its deliberations on what constitutes a troubled debt restructuring. FASB issued this new standard as discussed in the following paragraph. The effective date of the new disclosures about troubled debt restructurings for public entities is coordinated with the adoption of this new standard.

In April 2011, the FASB issued Accounting Standard Update (ASU) No. 2011-02, Receivables (Topic 310): (*A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring)*, to clarify the accounting principles applied to loan modifications. ASU No. 2011-02 was issued to address the recording of an impairment loss in FASB ASC 310, *Receivables*. ASU No. 2011-02 adds text to the scope guidance Section 310-40-15 that is meant to help determine when a lender has granted a concession on their terms of a loan. The added material also provides criteria that should be used to help determine when the loan restructuring delays a payment by a length of time that is considered insignificant and when the borrower is having financial problems. For public companies the effective date is for fiscal quarters and years that start June 15, 2011, or later with the retrospective application to the beginning of the fiscal year for loans that are restructured during the year in which the changes are adopted. The Company is in the process of evaluating the effect of adoption of this update will have on its financial condition or statement of operations.

Table of Contents

In April 2011, the FASB issued Accounting Standard Update (ASU) 2011-03 (*Reconsideration of Effective Control for Repurchase Agreements*). The FASB has issued this Update to clarify the accounting principles applied to repurchase agreements, as set forth by FASB ASC Topic 860, Transfers and Servicing. This update, entitled Reconsideration of Effective Control for Repurchase Agreements, amends one of three criteria used to determine whether or not a transfer of assets may be treated as a sale by the transferor. Under Topic 860, the transferor may not maintain effective control over the transferred assets in order to qualify as a sale. This Update eliminates the criteria under which the transferor must retain collateral sufficient to repurchase or redeem the collateral on substantially agreed upon terms as a method of maintaining effective control. This Update is effective for both public and nonpublic entities for interim and annual reporting periods beginning on or after December 31, 2011, and requires prospective application to transactions or modifications of transactions which occur on or after the effective date. Early adoption is not permitted. The Company is in the process of evaluating the adoption of this update will have on their financial condition or statement of operations.

In May 2011, the FASB issued Accounting Standard Update (ASU) 2011-04 (*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*). This update amends FASB ASC Topic 820, Fair Value Measurements, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The Update clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity s stockholder s equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The Update also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The Update also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this Update is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the Update is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company is in the process of evaluating the adoption of this update will have on their financial condition or statement of operations.

In June 2011, The FASB issued Accounting Standard Update (ASU) 2011-05 (*Presentation of Comprehensive Income*). The provisions of this update amend FASB ASC Topic 220, *Comprehensive Income*, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The Update prohibits the presentation of the components of comprehensive income in the statement of stockholder s equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate, but consecutive, statements of net income and other comprehensive income. Under previous GAAP, all 3 presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this Update are effective for fiscal years and interim periods beginning after December 31, 2011 for public entities. For nonpublic entities, the provisions are effective for fiscal years ending after December 31, 2012, and for interim and annual periods thereafter. The Company is in the process of evaluating the adoption of this update will have on their financial condition or statement of operations.

Table of Contents

2. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of the Company s securities gross unrealized gains and losses, as of June 30, 2011 and September 30, 2010 are as follows:

Available for sale securities:

	June 30, 2011			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity securities	**$ 355**	**$ 65**	**$ (57)**	**$ 363**
Collateralized mortgage obligations	**785**	**42**		**827**
U.S. Government money market funds	**16,103**			**16,103**
Total Available for Sale Securities	**$ 17,243**	**$ 107**	**$ (57)**	**$ 17,293**

	September 30, 2010			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 355	$ 42	$ (54)	$ 343
Collateralized mortgage obligations	785	24		809
U.S. Government money market funds	20,261			20,261
Total Available for Sale Securities	$ 21,401	$ 66	$ (54)	$ 21,413

Held to maturity securities:

	June 30, 2011			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE s)	**$ 125,374**	**$ 6,595**	**$ (42)**	**$ 131,927**
Collateralized mortgage obligations	**24,468**	**199**	**(15)**	**24,652**
Municipal bonds	**18,129**	**593**	**(68)**	**18,654**
U.S. Government Agencies	**93,392**	**109**	**(1,491)**	**92,010**
Total Held to Maturity Securities	**$ 261,363**	**$ 7,496**	**$ (1,616)**	**$ 267,243**

	September 30, 2010			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE s)	$ 110,732	$ 6,755	$	$ 117,487
Collateralized mortgage obligations	20,087	193	(37)	20,243

Municipal bonds	16,462	773	(47)	17,188
U.S. Government Agencies	108,807	768	(45)	109,530
Total Held to Maturity Securities	$ 256,088	$ 8,489	$ (129)	$ 264,448

Table of Contents

A summary of securities with unrealized losses, aggregated by category, at June 30, 2011 is as follows:

	Less than 12 Months		12 Months or Longer		Total	
(In Thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Total Fair Value**	**Total Unrealized Losses**
Collateralized mortgage obligations	**$ 7,407**	**$ (15)**	**$**	**$**	**$ 7,407**	**$ (15)**
Municipal bonds	**469**	**(1)**	**1,472**	**(67)**	**1,941**	**(68)**
U.S. Government Agencies and GSE s	**76,004**	**(1,533)**			**76,004**	**(1,533)**
Subtotal debt securities	**83,880**	**(1,549)**	**1,472**	**(67)**	**85,352**	**(1,616)**
Equity securities	**24**		**155**	**(57)**	**179**	**(57)**
Total temporarily impaired securities	**$ 83,904**	**$ (1,549)**	**$ 1,627**	**$ (124)**	**$ 85,532**	**$ (1,673)**

At June 30, 2011, debt securities in a gross unrealized loss position consisted of 30 securities that at such date had an aggregate depreciation of 1.86% from the Company s amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until maturity and the Company does not believe it will be required to sell such securities prior to the recovery of the amortized cost basis. Management does not believe any individual unrealized loss as of June 30, 2011 represents an other-than-temporary impairment.

As of June 30, 2011, there were three equity securities in an unrealized loss position. Management evaluated the length of time and the extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may effect the future earnings potential. The Company has the ability and intent to hold these securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss of June 30, 2011 represents an other-than-temporary impairment.

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

	Less than 12 Months		12 Months or Longer		Total	
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
Collateralized mortgage obligations	$ 8,262	$ (4)	$ 1,530	$ (33)	$ 9,792	$ (37)
Municipal bonds	378		1,494	(47)	1,872	(47)
U.S. Government Agencies and GSE s	6,955	(45)			6,955	(45)
Subtotal debt securities	15,595	(49)	3,024	(80)	18,619	(129)
Equity Securities	55	(3)	160	(51)	215	(54)

Total temporarily impaired securities	$	15,650	$	(52)	$	3,184	$	(131)	$	18,834	$	(183)

Table of Contents

The following table sets forth the stated maturities of the investment and mortgage-backed securities at June 30, 2011. Money market funds and equity securities are not included in the table based on lack of maturity.

	June 30, 2011	
(In Thousands)	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	$ 785	$ 827
Due after one year through five years		
Due after five years through ten years		
Due after ten years		
Total	$ 785	$ 827
Held to maturity:		
Due in one year or less	$ 125,767	$ 124,927
Due after one year through five years	92,938	98,119
Due after five years through ten years	41,821	43,256
Due after ten years	837	941
Total	$ 261,363	$ 267,243

Certain of the Company s investment securities, totaling $15.5 million and $10.3 million at June 30, 2011 and September 30, 2010, respectively, were pledged as collateral to secure deposit sweep accounts and public deposits as required or permitted by law. Other securities, totaling $60 million and $60.6 million at June 30, 2011 and September 30, 2010, respectively, were pledged for long-term advances of $50 million as described in Note 8.

3. LOANS RECEIVABLE

Loans receivable consists of the following:

(In Thousands)	June 30, 2011	September 30, 2010
Residential Mortgages	**$ 336,426**	$ 339,874
Construction	**6,883**	4,752
Home Equity	**85,276**	90,511
Commercial Mortgages	**82,909**	75,450
Commercial Business Loans	**7,274**	4,327
Consumer Non-Real Estate	**1,218**	1,980
Total	**519,986**	516,894
Undisbursed portion of loans in process	**(6,883)**	(3,426)
Deferred loan fees	**(984)**	(871)
Allowance for loan losses	**(2,652)**	(2,504)
Loans Receivable net	**$ 509,467**	$ 510,093

The total amount of loans being serviced for the benefit of others was approximately $1.72 million and $1.76 million at June 30, 2011 and September 30, 2010, respectively.

The loans receivable portfolio is segmented into consumer and commercial loans. Consumer loans consist of the following classes: residential mortgage loans, construction loans, home equity loans and other consumer loans. Commercial loans consist of the following classes: commercial mortgages and commercial business loans. For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management s estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. 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.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Other consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company s policy to establish specific reserves for losses on delinquent consumer loans and commercial loans when it determines that losses are probable.

An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company s impaired loans are measured based on the estimated fair value of the loan s collateral. Interest payments on impaired loans and non-accrual loans are applied to principal unless the ability to collect the principal amount is fully secured, in which case interest is recognized on the cash basis.

For residential mortgage loans, home equity loans and commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial business loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

Table of Contents

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company s allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company s internal risk rating system as of June 30, 2011 and December 31, 2010:

	June 30, 2011				
(In Thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential Mortgages	**$ 333,420**	**$**	**$ 2,740**	**$ 266**	**$ 336,426**
Construction	**6,883**				**6,883**
Home Equity	**85,122**		**89**	**65**	**85,276**
Commercial Mortgages	**78,586**	**4,196**		**127**	**82,909**
Commercial Business Loans	**7,174**	**100**			**7,274**
Consumer Non-Real Estate	**1,218**				**1,218**
Total	**$ 512,403**	**$ 4,296**	**$ 2,829**	**$ 458**	**$ 519,986**

	December 31, 2010				
(In Thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Residential Mortgages	$ 330,283	$	$ 1,974	$ 641	$ 332,898
Construction	5,420				5,420
Home Equity	88,759		103	65	88,927
Commercial Mortgages	76,096	2,214		312	78,622
Commercial Business Loans	6,498	100			6,598
Consumer Non-Real Estate	1,194			6	1,200
Total	$ 508,250	$ 2,314	$ 2,077	$ 1,024	$ 513,665

Table of Contents

The following table summarizes information in regards to impaired loans by loan portfolio class as of June 30, 2011 and December 31, 2010 and for the three-months then ended:

	June 30, 2011				
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	$ 1,564	$ 1,564	$	$ 1,131	$ 21
Construction					
Home Equity	65	65		65	
Commercial Mortgages	127	232		228	
Commercial Business Loans					
Consumer Non-Real Estate					
With an allowance recorded:					
Residential Mortgages	$ 1,442	$ 1,545	$ (196)	$ 1,587	$ 22
Construction					
Home Equity	89	89	(89)	98	1
Commercial Mortgages					
Commercial Business Loans					
Consumer Non-Real Estate				4	
Total:					
Residential Mortgages	$ 3,006	$ 3,109	$ (196)	$ 2,718	$ 43
Construction					
Home Equity	154	154	(89)	163	1
Commercial Mortgages	127	232		228	
Commercial Business Loans					
Consumer Non-Real Estate				4	

Table of Contents

(In Thousands)	December 31, 2010 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	$ 1,047	$ 1,047	$	$ 1,050	$ 10
Construction					
Home Equity	65	65		65	
Commercial Mortgages					
Commercial Business Loans					
Consumer Non-Real Estate					
With an allowance recorded:					
Residential Mortgages	$ 1,568	$ 1,568	$ (269)	$ 1,568	$ 2
Construction					
Home Equity	103	103	(103)	104	
Commercial Mortgages	312	312	(127)	312	
Commercial Business Loans					
Consumer Non-Real Estate	6	6	(6)	6	
Total:					
Residential Mortgages	$ 2,615	$ 2,615	$ (269)	$ 2,618	$ 12
Construction					
Home Equity	168	168	(103)	169	
Commercial Mortgages	312	312	(127)	312	
Commercial Business Loans					
Consumer Non-Real Estate	6	6	(6)	6	

Table of Contents

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of June 30, 2011 and December 31, 2010:

June 30, 2011

(In Thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
Residential Mortgages	**$ 5,762**	**$ 2,907**	**$ 8,669**	**$ 327,757**	**$ 336,426**	**$**
Construction				**6,883**	**6,883**	
Home Equity	**676**	**111**	**787**	**84,489**	**85,276**	
Commercial Mortgages	**1,991**	**127**	**2,118**	**80,791**	**82,909**	
Commercial Business Loans				**7,274**	**7,274**	
Consumer Non-Real Estate	**25**		**25**	**1,193**	**1,218**	
Total	**$ 8,454**	**$ 3,145**	**$ 11,599**	**$ 508,387**	**$ 519,986**	**$**

December 31, 2010

(In Thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
Residential Mortgages	$ 2,691	$ 2,447	$ 5,138	$ 327,760	$ 332,898	$ 380
Construction				5,420	5,420	
Home Equity	57	12	69	88,858	88,927	12
Commercial Mortgages		312	312	78,310	78,622	
Commercial Business Loans				6,598	6,598	
Consumer Non-Real Estate	31	6	37	1,163	1,200	
Total	$ 2,779	$ 2,777	$ 5,556	$ 508,109	$ 513,665	$ 392

Table of Contents

The following table provides the activity in the allowance for loan losses by loan class for three and six-months ended June 30, 2011 and the balance in the allowance for loan losses at June 30, 2011 disaggregated on the basis of the Company s impairment method by loan class along with the balance of loans receivable by class disaggregated on the basis of the Company s impairment methodology.

Allowance for Loan Loss:

	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Three-Months ended June 30, 2011:								
Beginning Balance, March 31, 2011	**$ 992**	**$ 9**	**$ 500**	**$ 960**	**$ 117**	**$ 10**	**$ 207**	**$ 2,795**
Charge-offs	**(199)**			**(105)**		**(6)**		**(310)**
Recoveries						**2**		**2**
Provisions	**87**	**1**	**(59)**	**43**	**27**	**(1)**	**67**	**165**
Ending balance, June 30, 2011	**$ 880**	**$ 10**	**$ 441**	**$ 898**	**$ 144**	**$ 5**	**$ 274**	**$ 2,652**

page -19-

Table of Contents

	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Six Months ended June 30, 2011:								
Beginning Balance, December 31, 2010	$ 947	$ 8	$ 457	$ 983	$ 130	$ 10	$ 104	$ 2,639
Charge-offs	(214)			(105)		(11)		(330)
Recoveries						4		4
Provisions	147	2	(16)	20	14	2	170	339
Ending balance, June 30, 2011	$ 880	$ 10	$ 441	$ 898	$ 144	$ 5	$ 274	$ 2,652
Ending balance: Individually evaluated for impairment	$ 196	$	$ 89	$	$	$	$	$ 285
Ending balance: Collectively evaluated for impairment	$ 684	$ 10	$ 352	$ 898	$ 144	$ 5	$ 274	$ 2,367
Loans: Ending balance:	$ 336,426	$ 6,883	$ 85,276	$ 82,909	$ 7,274	$ 1,218	$	$ 519,986
Ending balance: Individually evaluated for impairment	$ 3,006	$	$ 154	$ 127	$	$	$	$ 3,287
Ending balance: Collectively evaluated for impairment	$ 333,420	$ 6,883	$ 85,122	$ 82,782	$ 7,274	$ 1,218	$	$ 516,699

page -20-

Table of Contents

The following table presents nonaccrual loans by classes of the loan portfolio as of June 30, 2011 and December 31, 2010:

	(In Thousands) June 30, 2011	December 31, 2010
Residential Mortgages	**$ 3,049**	$ 2,392
Construction		
Home Equity	**111**	
Commercial Mortgages	**127**	312
Commercial Business Loans		
Consumer Non-Real Estate		6
Total	**$ 3,287**	$ 2,710

4. 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. During 2010 and 2011, the FHLB allowed certain redemptions.

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, 2011.

5. DEPOSITS

Deposits are summarized as follows:

	(In Thousands) June 30, 2011	September 30, 2010
Non-interest bearing checking accounts	**$ 20,080**	$ 17,015
Now accounts	**31,802**	21,320
Interest bearing checking accounts	**37,747**	32,577
Money market deposit accounts	**133,268**	136,079
Passbook and club accounts	**4,206**	3,739
Certificate of deposits	**303,999**	317,370
Total Deposits	**$ 531,102**	$ 528,100

The aggregate amount of certificate accounts in denominations of $100,000 or more at June 30, 2011 and September 30, 2010 amounted to approximately $63.3 million and $59.2 million, respectively.

6. COMMITMENTS
At June 30, 2011, the following commitments were outstanding:

	(In thousands)
Letters of credit	$ **405**
Commitments to originate loans	**25,446**
Unused portion of home equity lines of credits	**55,719**
Unused portion of commercial lines of credits	**9,088**
Undisbursed portion of construction loans in process	**3,186**
Total	$ **93,844**

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, 2011 for guarantees under standby letters of credit issued is not material.

7. 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,**	
	2011	2010	**2011**	2010
Basic	**3,737,439**	3,667,319	**3,717,906**	3,651,495
Diluted	**3,771,917**	3,700,510	**3,752,059**	3,671,977

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 230,820 stock options that were anti-dilutive for the three- months and nine-months ended June 30, 2011, respectively. There were 192,083 and 194,583 stock options that were anti-dilutive for the three and nine-months periods ended June 30, 2010, respectively.

8. LONG-TERM DEBT

Advances consists of the following:

	June 30, 2011		September 30, 2010	
	(In thousands)			
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	**$ 52,366**	**4.59%**	$ 15,923	4.37%
13 to 24 months	**29,571**	**3.80%**	54,440	4.50%
25 to 36 months	**42,858**	**4.27%**	35,022	4.03%
37 to 48 months	**2,834**	**3.58%**	28,729	4.10%
49 to 60 months	**20,000**	**4.13%**	18,356	3.83%
61 to 72 months	**30,000**	**4.86%**	10,000	4.71%
73 to 84 months	**69,271**	**4.38%**	45,000	4.52%
85 to 120 months	**15,000**	**3.93%**	64,577	4.38%
Total	**$ 261,900**	**4.34%**	$ 272,047	4.33%

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, 2011 and September 30, 2010, respectively. Included in the table above at June 30, 2011 and September 30, 2010 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 $332.9 million of which $211.9 million was used as of June 30, 2011. In addition, there are four long-term advances from other financial institutions totaling $50 million that are secured by investment and mortgage-backed securities.

9. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and 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, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

Table of Contents

As of June 30, 2011, the most recent notification from the Federal Deposit Insurance Corporation categorized the Company and 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 at June 30, 2011 and September 30, 2011 are also presented in the table below. The Company s capital ratios are not significantly different than the Bank s disclosed below.

	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At June 30, 2011						
Tier 1 Capital (to assets)	**$ 56,458**	**6.60%**	**$ 34,197**	**4.00%**	**$ 42,746**	**5.00%**
Tier 1 Capital (to risk weighted assets)	**56,458**	**12.00%**	**18,856**	**4.00%**	**28,239**	**6.00%**
Total Capital (to risk weighted assets)	**59,114**	**12.56%**	**37.651**	**8.00%**	**47,064**	**10.00%**
At September 30, 2010						
Tier 1 Capital (to assets)	$ 53,330	6.19%	$ 34,440	4.00%	$ 43,050	5.00%
Tier 1 Capital (to risk weighted assets)	55,330	11.35%	18,799	4.00%	28,199	6.00%
Total Capital (to risk weighted assets)	55,834	11.88%	37,599	8.00%	46,999	10.00%

10. FAIR VALUE 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 accounting guidance, 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 assumptions 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, 2011 and September 30, 2010 are as follows:

Description	**June 30, 2011**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
(In Thousands)				
Equity securities	**$ 363**	**$ 363**	$	$
U.S. Government money market funds	**16,103**	**16,103**		
Collateralized mortgage obligations	**827**		**827**	
Total available for sale securities	**$ 17,293**	**$ 16,466**	**$ 827**	**$**

Description	September 30, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Equity securities	$ 343	$ 343	$	$
U.S. Government money market funds	20,261	20,261		
Collateralized mortgage obligations	809		809	
Total available for sale securities	$ 21,413	$ 20,604	$ 809	$

There were no transfers in and out of Level 1 and Level 2 fair value measurements for the quarter ended June 30, 2011.

Table of Contents

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2011 and September 30, 2010 are as follows:

Description (In Thousands)	**June 30, 2011**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
Impaired Loans	**$ 1,246**	**$**	**$**	**$ 1,246**

Description (In Thousands)	September 30, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	$ 186	$	$	$ 186

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 for cash and cash equivalents 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.

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 loan s 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.

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.

Table of Contents

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, 2011 and September 30, 2010.

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

Table of Contents

The carrying amounts and estimated fair values of financial instruments as of June 30, 2011 and September 30, 2010 are as follows.

	June 30, 2011		September 30, 2010	
(In Thousands)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	**$ 22,991**	**$ 22,991**	$ 20,190	$ 20,190
Securities held to maturity	**261,363**	**267,243**	256,088	264,448
Securities available-for-sale	**17,293**	**17,293**	21,413	21,413
Loans receivable net	**509,467**	**527,490**	510,093	530,294
Federal Home Loan Bank stock	**13,800**	**13,800**	16,096	16,096
Accrued interest receivable	**3,077**	**3,077**	3,210	3,210
Liabilities:				
Checking, passbook, club and NOW deposit accounts	**93,835**	**93,835**	74,651	74,651
Money Market deposit accounts	**133,268**	**133,268**	136,079	136,079
Certificate of deposit accounts	**303,999**	**312,376**	317,370	325,881
Borrowings	**261,900**	**283,826**	272,047	291,857
Accrued interest payable	**1,356**	**1,356**	1,407	1,407

Off balance sheet financial instruments

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 and have not been considered in the estimate.

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 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, other-than-temporary security impairment and deferred income taxes.

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.

Table of Contents

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.

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.

Deferred Tax Assets

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.

Changes in Financial Position for the Nine-Month Period Ended June 30, 2011

Total assets at June 30, 2011 were $857.6 million, an increase of $439,000 for the nine-month period then ended. The increase was primarily due to an increase in cash and investments held to maturity of $8.1 million. The increase in assets was partially offset by a decrease in loans receivable of approximately $626,000, investments available for sale of $4.1 million and repurchase of Federal Home Loan Bank Stock of $2.3 million.

There was a growth in deposits during the nine-month period ended June 30, 2011. Total deposits increased $3.0 million to $531.1 million. Advances from borrowers for taxes and insurance also increased by $4.4 million due to the timing of property tax payments. The increase was primarily offset by a decrease in borrowings of $10.1 million due to normal repayments for the period.

Comparisons of Results of Operations for the Three-Month and Nine-Month Period Ended June 30, 2011 with the Three-Month and Nine-Month Period Ended June 30, 2010

Net Income

Net income for the three-month period ended June 30, 2011 was $2.0 million compared to $1.3 million for the comparable period in 2010. Basic and diluted earnings per share for the three-month period ending June 30, 2011 was $0.53. There was a onetime Bank Owned Life Insurance (BOLI), net death benefit claim, of $927,000 (net of $115,000 state income taxes), or $.24 per diluted share due to the death of an officer in the current quarter. Net income for the nine-month period ended June 30, 2011 was $4.3 million compared to $3.7 million for the comparable period in 2010. Basic and diluted earnings per share for the nine-month period ended June 30, 2011 was $1.16 and $1.15 compared to $1.01 for basic and diluted earnings per share for the comparable period in 2010.

Net Interest Income

Net interest income was $4.8 million for the three-month period ended June 30, 2011 compared to $4.7 million for the comparable period in 2010. Net interest income increased to $13.7 million for the nine-month period ended June 30, 2011 compared to $13.6 million for the comparable period in 2010. The increase occurred for both the three- month and nine-month period ended June 30, 2011 due to a reduction in interest expense that was partially offset by a decrease in interest income. Our average interest rate spread for the three and nine-month periods ended June 30, 2010 and 2011 were 2.07%, 2.03%, 2.11% and 2.03%. Our increase in average balance on interest-bearing liabilities was more than offset by our increase in average balance on interest-bearing assets.

Non-Interest Income

Non-interest income increased to $1.5 million for the three-month period ended June 30, 2011 from $508,000 for the comparable period in 2010. Non-interest income increased to $2.5 million for the nine-month period ended June 30, 2011 from $1.5 million for the comparable period in 2010. The increases are primarily due to a onetime Bank Owned Life Insurance (BOLI) benefit of $1.0 million. This increase was offset by a decrease in income on non-deposit products.

Non-Interest Expenses

For the three-month period ended June 30, 2011, non-interest expenses increased by $181,000 or 5.65% to $3.4 million compared to $3.2 million for the same period in 2010. For the nine-month period ended June 30, 2011, non-interest expenses increased by $383,000 or 4.04% to $9.9 million compared to $9.5 million for the same period in 2010. Salary and employee benefits increased $162,000 to $1.9 million and $355,000 to $5.5 million for the three and nine-month period ended June 30, 2011. These increases are primarily due to salary increases and additional employee benefits expense. Occupancy and equipment decreased $30,000 for three-months ended June 30th 2011 compared to the same period in 2010. This is due to additional furniture and fixture expenses in the three-months ended in 2010 related to the opening of our Souderton Branch. An increase of $54,000 for the nine-month period ended June 30th 2011 was due to building maintenance, office depreciation, and taxes related to the opening of our Souderton Branch. FDIC insurance expense increased to $234,000 and $724,000 for the three and nine-month period ended June 30, 2011 compared to $229,000 and $682,000 for the same periods in 2010 due to an increase in deposits. Other expenses increased by $12,000 and decreased by $108,000 for the three and nine-month period ended June 30, 2011. The decrease was primarily due to prior year s advertising expense relating to the Souderton Branch opening. The annualized ratio of non-interest expenses to average assets for the three and nine-month periods ended June 30, 2011 and 2010 were 1.54%, 1.58% and 1.50%, 1.50%, respectively.

Table of Contents

Income Taxes

The Company made provisions for income taxes of $739,000 and $1.5 million for the three-month and nine-month period ended June 30, 2011, compared to $500,000 and $1.4 million for the comparable periods in 2010. 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. The 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.

The Company (or 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, 2011, the Company had $94.0 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 $332.9 million at June 30, 2011 of which $211.9 was outstanding at June 30, 2011.

The Bank s net income for the nine-months ended June 30, 2011 was $4.3 million compared to $3.7 million for the comparable period 2010. This increased the Bank s stockholder s equity to $56.5 million or 6.59% 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.

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.

Table of Contents

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, 2011, 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.

(In thousands)	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Mortgage loans	$ 56,907	$ 58,490	$ 46,155	$ 174,874	$ 336,426
Commercial loans	41,745	9,343	25,705	13,390	90,183
Mortgage-backed securities	59,405	46,547	22,806	21,911	150,669
Consumer and other loans	66,925	10,193	4,783	11,476	93,377
Investment securities and other investments	71,263	19,022	47,842	22,486	160,613
Total interest-earning assets	296,245	143,595	147,291	244,137	831,268
Interest-bearing liabilities:					
Passbook and Club accounts	399			3,807	4,206
NOW and checking accounts	6,955			62,594	69,549
Consumer Money Market Deposit accounts	51,252			57,900	109,152
Business Money Market Deposit accounts	18,087			6,029	24,116
Certificate accounts	160,424	104,133	39,442		303,999
Borrowed money	58,135	70,219	21,575	111,971	261,900
Total interest-bearing liabilities	295,252	174,352	61,017	242,301	772,922
Repricing GAP during the period	$ 993	$ (30,757)	$ 86,274	$ 1,836	$ 58,346
Cumulative GAP	$ 993	$ (29,764)	$ 56,510	$ 58,346	
Ratio of GAP during the period to total assets	0.12%	-3.59%	10.06%	0.21%	
Ratio of cumulative GAP to total assets	0.12%	-3.47%	6.59%	6.80%	

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

The Company is involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management that these matters will not materially affect the Company s consolidated financial position or results of operations.

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.

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

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

The following Exhibits are being furnished* as part of this report:

No.	**Description**
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

* These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed file for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

Table of Contents

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 12, 2011	By:	*/s/ Ronald B. Geib* *Ronald B. Geib* *Chief Executive Officer*
Date: August 12, 2011	By:	*/s/ Brendan J. McGill* *Brendan J. McGill* *Executive Vice President* *Chief Operating and Financial Officer*

page -37-