

HARLEYSVILLE SAVINGS FINANCIAL CORP

Form 10-Q

May 13, 2009

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

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 0-29709

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-3028464

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

271 Main Street, Harleysville, Pennsylvania 19438

(Address of principal executive offices)

(Zip Code)

(215) 256-8828

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

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

Common Stock, \$.01 Par Value, 3,603,409 shares outstanding as of May 11, 2009

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Exhibit 31.1

Exhibit 31.2

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Financial Condition

(In thousands, except share data)	March 31, 2009	September 30, 2008
Assets		
Cash and amounts due from depository institutions	\$ 2,255	\$ 2,217
Interest bearing deposits in other banks	12,498	7,157
Total cash and cash equivalents	14,753	9,374
Investment securities held to maturity (fair value - March 31, \$77,602; September 30, \$78,973)	76,457	79,254
Investment securities available-for-sale at fair value	1,014	854
Mortgage-backed securities held to maturity (fair value - March 31, \$198,111; September 30, \$211,814)	192,383	213,933
Mortgage-backed securities available-for-sale at fair value	796	758
Loans receivable (net of allowance for loan losses - March 31, \$2,193; September 30, \$1,988)	483,371	476,858
Accrued interest receivable	3,457	3,799
Federal Home Loan Bank stock at cost	16,096	16,574
Office properties and equipment, net	10,187	10,154
Prepaid expenses and other assets	15,218	14,117
TOTAL ASSETS	\$ 813,732	\$ 825,675
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	\$ 439,493	\$ 425,513
Short-term borrowings		21,800
Long-term debt	318,147	326,046
Accrued interest payable	1,557	1,686
Advances from borrowers for taxes and insurance	4,589	1,483
Accounts payable and accrued expenses	958	1,938
Total liabilities	764,744	778,466
Stockholders equity:		
Preferred Stock: \$.01 par value; 12,500,000 shares authorized; none issued		
Common stock: \$.01 par value; 25,000,000 shares authorized; 3,921,177 shares issued; outstanding March 31, 2009 3,603,409 shares September 30, 2008 3,567,934 shares	39	39
Additional Paid-in capital	7,998	7,993
Treasury stock, at cost (March 31, 2009, 317,768 shares; September 30, 2008, 353,243)	(4,531)	(5,017)
Retained earnings partially restricted	45,527	44,235
Accumulated other comprehensive loss	(45)	(41)

Total stockholders' equity	48,988	47,209
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 813,732	\$ 825,675

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Income

(In thousands, except per share data)	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2009	2008	2009	2008
INTEREST INCOME:				
Interest on mortgage loans	\$ 5,096	\$ 4,671	\$ 10,105	\$ 9,256
Interest on commercial loans	740	409	1,449	717
Interest on mortgage-backed securities	2,409	2,437	4,955	4,718
Interest on consumer and other loans	1,188	1,466	2,495	2,982
Interest on taxable investments	743	1,378	1,562	2,829
Interest on tax-exempt investments	325	348	656	699
Dividends on investment securities	3	13	8	22
Total interest income	10,504	10,722	21,230	21,223
Interest Expense:				
Interest on deposits	2,744	4,167	5,714	8,312
Interest on borrowings	3,403	3,352	6,974	6,839
Total interest expense	6,147	7,519	12,688	15,151
Net Interest Income	4,357	3,203	8,542	6,072
Provision for loan losses	100	5	200	5
Net Interest Income after Provision for Loan Losses	4,257	3,198	8,342	6,067
Other Income:				
Customer service fees	158	140	336	304
Impairment of equity securities	(449)		(449)	
Gain on sale of investments	20		20	
Loss on sale of investments	(11)	4	(11)	4
Income on bank-owned life insurance	121	121	243	252
Other income	184	202	355	406
Total other income	23	467	494	966
Other Expenses:				
Salaries and employee benefits	1,580	1,438	3,195	2,758
Occupancy and equipment	291	262	601	527
Deposit insurance premiums	239	12	257	25
Data processing	127	130	263	248

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Other	582	583	1,256	1,252
Total other expenses	2,819	2,425	5,572	4,810
Income before Income Taxes	1,461	1,240	3,264	2,223
Income tax expense	258	206	685	388
Net Income	\$ 1,203	\$ 1,034	\$ 2,579	\$ 1,835
Basic Earnings Per Share	\$ 0.33	\$ 0.28	\$ 0.72	\$ 0.49
Diluted Earnings Per Share	\$ 0.33	\$ 0.28	\$ 0.72	\$ 0.49
Dividends Per Share	\$ 0.18	\$ 0.17	\$ 0.36	\$ 0.34

See notes to unaudited consolidated financial statements.

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Tax (expense) benefit	\$	(6)	(168)
		2	57
Net unrealized loss on securities available for sale	\$	(4)	\$ (111)

See notes to unaudited consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statement of Stockholders Equity

	Common Stock Shares	Common Paid-in Capital	Additional Paid-in Capital	Retained Earnings- Partial (Loss)	Accumulated Other Comprehensive Income /	Treasur Stock	Total Stockholders Equity
(In thousands, except share and per share data)	Outstanding	Stock	Capital	Restricted	Income	Stock	Equity
Balance at October 1, 2008	3,567,934	\$ 39	\$ 7,993	\$ 44,235	\$ (41)	\$ (5,017)	\$ 47,209
Net income				2,579			2,579
Dividends \$.36 per share				(1,287)			(1,287)
Stock option compensation			70				70
Treasury stock delivered under employee stock plan	10,000		(17)			137	120
Treasury stock delivered under reinvestment plan	23,808		(41)			326	285
Employee options exercised	1,667		(7)			23	16
Change in unrealized holding loss on available-for-sale securities, net of tax					(4)		(4)

Balance at March 31, 2009 3,603,409 \$ 39 \$ 7,998 \$ 45,527 \$ (45) \$ (4,531) \$ 48,988

	Common Stock Shares	Common Paid-in Capital	Additional Paid-in Capital	Retained Earnings- Partial (Loss)	Accumulated Other Comprehensive Income /	Treasur Stock	Total Stockholders Equity
(In thousands, except share and per share data)	Outstanding	Stock	Capital	Restricted	Income	Stock	Equity
Balance at October 1, 2007	3,717,519	\$ 39	\$ 8,044	\$ 42,363	\$ (89)	\$ (3,316)	\$ 47,041
Net income				1,835			1,835
Dividends \$.34 per share				(1,265)			(1,265)
Stock option compensation			54				54
Treasury stock purchased	(205,358)					(2,557)	(2,557)
Treasury stock delivered under employee stock plan	8,000		(26)			133	107
Treasury stock delivered under reinvestment plan	20,779		(71)			345	274
Employee options exercised	2,250		(19)			38	19
Change in unrealized holding loss on available-for-sale securities, net of tax					(111)		(111)

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Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

(In thousands)	Six Months Ended March 31,	
	2009	2008
Operating Activities:		
Net Income	\$ 2,579	\$ 1,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	224	257
Provision for loan losses	200	5
Gain on sales of securities	(20)	(4)
Loss on sales of securities	11	
Loss on impairment of securities	449	
Amortization of deferred loan fees	25	12
Net amortization of premiums and discounts	63	17
Increase in cash surrender value	(243)	(252)
Compensation charge on stock options	70	54
Changes in assets and liabilities which provided (used) cash:		
Decrease in accounts payable and accrued expenses	(980)	(296)
Increase in prepaid expenses and other assets	(858)	(104)
Decrease in accrued interest receivable	342	166
Decrease in accrued interest payable	(129)	(74)
Net cash provided by operating activities	1,733	1,616
Investing Activities:		
Purchase of mortgage-backed securities held to maturity		(48,147)
Purchase of investment securities held to maturity		(18,086)
Purchase of investment securities available-for-sale	(651)	
Net redemption of FHLB stock	478	44
Proceeds from the sale of investment securities available-for-sale		568
Proceeds from maturities of investment securities held to maturity	1,365	29,948
Principal collected on mortgage-backed securities	22,928	19,388
Principal collected on long-term loans	64,116	42,899
Long-term loans originated or acquired	(70,854)	(65,394)
Purchases of premises and equipment	(257)	(311)
Net cash provided by (used in) investing activities	17,125	(39,091)
Financing Activities:		
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	8,941	(620)
Net increase in certificates of deposit	5,039	27,101
Cash dividends	(1,002)	(1,265)
Net decrease in short-term borrowings	(21,800)	(23,500)
Proceeds from long-term debt	24,500	63,000

Repayment of long-term debt	(32,399)	(28,824)
Acquisition of treasury stock		(2,557)
Treasury stock delivered under employee stock plans	136	400
Net increase in advances from borrowers for taxes and insurance	3,106	3,167
Net cash (used in) provided by financing activities	(13,479)	36,902
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,379	(573)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,374	8,317
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 14,753	\$ 7,744

Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:		
Interest (credited and paid)	\$ 12,817	\$ 15,225
Income taxes	1,203	433

See notes to consolidated financial statements.

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Harleysville Savings Financial Corporation
Notes to Unaudited Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The unaudited condensed consolidated financial statements include the accounts of Harleysville Savings Financial Corporation (the Company) and its subsidiary. Harleysville Savings Bank (the Bank) is the wholly owned subsidiary of the Company. The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiaries, HSB Inc, a Delaware corporation which was formed in order to hold certain assets, Freedom Financial LLC that allows the Company to offer non deposit products and HARL LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and six months ended March 31, 2009 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2009 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, 2008.

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.

Recent Accounting Pronouncements In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company October 1, 2008. The adoption of SFAS No. 159 did not have an impact on our consolidated financial statements

In September 2006, the Emerging Issues Task Force (EITF) of FASB issued EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer

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(who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The adoption of this new accounting standard did not have an impact to our consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-10 did not have an impact on the Company's consolidated financial position and results of operations.

In December of 2007, FASB issued statement No. 141 (R) Business Combinations. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The new pronouncement will impact the Company's accounting for business combinations completed beginning October 1, 2009.

In December 2007, FASB issued statement No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. The Company believes that this new pronouncement will have an immaterial impact on the Company's financial statements in future periods.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (Statement 161). Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

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In September 2008, the FASB issued FSP 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP 133-1 and FIN 45-4). FSP 133-1 and FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

In December 2008, the FASB issued FSP SFAS 140-4 and FASB Interpretation (FIN) 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP SFAS 140-4 and FIN 46(R)-8). FSP SFAS 140-4 and FIN 46(R)-8 amends FASB SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46(R), Consolidation of Variable Interest Entities, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE. The disclosures required by FSP SFAS 140-4 and FIN 46(R)-8 are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. FSP SFAS 140-4 and FIN 46(R) is effective for reporting periods (annual or interim) ending after December 15, 2008. This new pronouncement will not have an impact on the Company's consolidated financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment of Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20,

Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively.

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Retrospective application to a prior interim or annual reporting period is not permitted. This new pronouncement did not have an impact on the Company's consolidated financial statements.

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (IASB). Under the proposed roadmap, the Company may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FASB Statement 157, *Fair Value Measurements*, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 157-4 must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

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In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 115-2 and FAS 124-2 must also early adopt FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting FSP FAS 107-1 and APB 28-1 must also early adopt FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* and FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

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

(In thousands)	March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies	\$ 51,816	\$ 652	\$ (19)	\$ 52,449
Tax Exempt Obligations	24,641	868	(356)	25,153
Total Investment Securities	\$ 76,457	\$ 1,520	\$ (375)	\$ 77,602

(In thousands)	September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies	\$ 54,315	\$ 147	\$ (385)	\$ 54,077
Tax Exempt Obligations	24,939	592	(635)	24,896
Total Investment Securities	\$ 79,254	\$ 739	\$ (1,020)	\$ 78,973

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

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

(In thousands)	Amortized Cost	March 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Equity Securities	\$ 452	\$	\$ (79)	\$ 373
Money Market Mutual Funds	641			641
Total Investment Securities	\$ 1,093	\$	\$ (79)	\$ 1,014

During the three month period ended March 31, 2009, the Company recognized an impairment charge of \$449,000 on the equity securities of four financial institutions. In addition, 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 as of March 31, 2009 represents an other-than-temporary impairment.

(In thousands)	Amortized Cost	September 30, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Equity Securities	\$ 877	\$ 46	\$ (81)	\$ 842
Money Market Mutual Funds	12			12
Total Investment Securities	\$ 889	\$ 46	\$ (81)	\$ 854

Table of Contents**4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY**

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

(In thousands)	March 31, 2009			Approximate Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 13,344	\$ 54	\$ (560)	\$ 12,838
FHLMC pass-through certificates	78,578	2,673	(1)	81,250
FNMA pass-through certificates	100,461	3,563	(1)	104,023
Total Mortgage-Backed Securities	\$ 192,383	\$ 6,290	\$ (562)	\$ 198,111

(In thousands)	September 30, 2008			Approximate Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 14,708	\$ 8	\$ (624)	\$ 14,092
FHLMC pass-through certificates	88,594	283	(826)	88,051
FNMA pass-through certificates	110,431	99	(1,061)	109,469
GNMA pass-through certificates	200	2		202
Total Mortgage-Backed Securities	\$ 213,933	\$ 392	\$ (2,511)	\$ 211,814

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

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

(In thousands)	Amortized Cost	March 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
FNMA pass-through certificates	\$ 785	\$ 11	\$	\$ 796
Total Mortgage-Backed Securities	\$ 785	\$ 11	\$	\$ 796

(In thousands)	Amortized Cost	September 30, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
FNMA pass-through certificates	\$ 785	\$	\$ (27)	\$ 758
Total Mortgage-Backed Securities	\$ 785	\$	\$ (27)	\$ 758

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	(In thousands)	
	March 31, 2009	September 30, 2008
Residential Mortgages	\$ 341,527	\$ 337,316
Commercial Mortgages	49,974	44,407
Construction	5,604	8,346
Savings Account	1,075	955
Home Equity	58,156	66,280
Automobile and other	1,047	1,000
Home Equity Line of Credit	31,504	26,103
Total	488,887	484,407
Undisbursed portion of loans in process	(2,773)	(5,109)
Deferred loan fees	(550)	(452)
Allowance for loan losses	(2,193)	(1,988)
Loans Receivable net	\$ 483,371	\$ 476,858

The total amount of loans being serviced for the benefit of others was approximately \$2,883,000 and \$2,918,000 at March 31, 2009 and September 30, 2008, respectively.

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

	Three Months Ended		Six Months Ended	
	March 31, 2009	March 31,2008	March 31, 2009	March 31,2008
	(In thousands)		(In thousands)	
Balance, beginning of period	\$ 2,097	\$ 1,924	\$ 1,988	\$ 1,933
Provision for loan losses	100	5	200	5
Recoveries	2	2	17	7
Charge offs	(6)	(6)	(12)	(20)
Balance, end of period	\$ 2,193	\$ 1,925	\$ 2,193	\$ 1,925

7. Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. 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 or restricted stock as of March 31, 2009.

Table of Contents**8. DEPOSITS**

Deposits are summarized as follows:

	(In thousands)	
	March 31,	September 30, 2008
	2009	
Non-interest bearing checking accounts	\$ 11,921	\$ 10,963
NOW accounts	16,773	14,315
Interest bearing checking accounts	30,929	27,888
Money market demand accounts	54,546	52,005
Passbook and club accounts	2,584	2,641
Certificate of deposit accounts	322,740	317,701
 Total deposits	 \$ 439,493	 \$ 425,513

The aggregate amount of certificate accounts in denominations of more than \$100,000 at March 31, 2009 and September 30, 2008 amounted to approximately \$57.3 million and \$53.4 million, respectively.

9. COMMITMENTS

At March 31, 2009, the following commitments were outstanding:

	(In thousands)
Letters of credit	\$ 588
Commitments to originate loans	14,916
Unused portion of home equity lines of credits	44,333
Unused portion of commercial lines of credits	3,600
Undisbursed portion of construction loans in process	2,251
 Total	 \$ 65,688

Table of Contents**10. EARNINGS PER SHARE**

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2009	2008	2009	2008
Basic	3,592,286	3,730,759	3,582,760	3,726,061
Diluted	3,600,292	3,746,480	3,592,571	3,743,211

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.

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Advances consists of the following:

	March 31, 2009		September 30, 2008	
	(In thousands)			
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	\$ 21,230	4.48%	\$ 35,855	3.18%
13 to 24 months	20,000	4.52%	31,405	4.36%
25 to 36 months	33,152	4.40%	17,739	4.33%
37 to 48 months	49,339	4.26%	57,090	4.48%
49 to 60 months	54,905	4.04%	39,282	3.97%
61 to 72 months	4,360	3.58%	26,444	4.05%
73 to 84 months	15,000	3.89%	19,683	3.81%
85 to 120 months	120,161	4.39%	120,348	4.25%
Total	\$ 318,147	4.29%	\$ 347,846	4.12%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank (FHLB) stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which \$0 out of \$75.0 million was used at March 31, 2009 and \$21.8 million was used as of September 30, 2008, for general purposes. Included in the table above at March 31, 2009 and September 30, 2008 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 \$513.3 million of which \$268.1 million was used as of March 31, 2009. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling \$50 million.

12. REGULATORY CAPITAL REQUIREMENTS

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

weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of March 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject. As of March 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are also presented in the table. The Company's capital ratios are not significantly different than the Bank's ratios disclosed below.

	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In thousands)						
As of March 31, 2009						
Tier 1 Capital (to assets)	\$ 48,978	5.98%	\$ 32,799	4.00%	\$ 40,985	5.00%
Tier 1 Capital (to risk weighted assets)	48,978	11.39%	17,200	4.00%	25,800	6.00%
Total Capital (to risk weighted assets)	51,170	11.90%	34,400	8.00%	43,000	10.00%
As of September 30, 2008						
Tier 1 Capital (to assets)	\$ 47,191	5.69%	\$ 33,167	4.00%	\$ 41,459	5.00%
Tier 1 Capital (to risk weighted assets)	47,191	10.97%	17,203	4.00%	25,804	6.00%
Total Capital (to risk weighted assets)	49,179	11.44%	34,406	8.00%	43,007	10.00%

Table of Contents**13. FAIR VALUES OF FINANCIAL INSTRUMENTS**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company adopted SFAS 157 effective for its fiscal year beginning October 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active (FSP 157-3), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our December 31, 2008 financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the consolidated financial statements.

The primary effect of SFAS 157 on the Company was to expand the required disclosures pertaining to the methods used to determine fair values.

SFAS 157 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 SFAS 157 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 March 31, 2009 are as follows:

Description	March 31, 2009	(Level 1)	(Level 2)	(Level 3)
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Investment securities available for sale	\$ 1,014	\$ 1,014	\$	\$
Mortgage-backed securities available for sale	796		796	
	\$ 1,810	\$ 1,014	\$ 796	\$

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2009 are as follows:

**Fair Value Measurements Using
Significant**

Description	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loan	\$ 1,494	\$	\$	\$ 1,494

The following valuation techniques were used to measure fair value of assets in the tables above:

Available for sale securities The fair value of securities available for sale (carried at the fair value) 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. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

Impaired loans are those that are accounted for under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (SFAS 114), in 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. The fair value consists of the loan balances of \$1,868 million less their specific valuation allowances of \$374,000 as determined under SFAS 114.

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

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

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

Critical Accounting Policies and Judgments

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

Allowance for Loan Losses

Analysis and Determination of the Allowance for Loan Losses - The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. The Company evaluates the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of three key elements: (1) specific allowances for certain impaired loans; (2) a general valuation allowance on certain identified problem loans; and (3) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

Specific Allowance Required for Certain Impaired Loans: We establish an allowance for certain impaired loans for the amounts by which the collateral value, present value of future cash flows or observable market price are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement.

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

General Valuation Allowance on the Remainder of the Loan Portfolio - We establish another general allowance for loans that are not classified to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss

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

Table of Contents**Other-than-Temporary Impairment of Investment Securities**

Securities are evaluated periodically to determine whether a decline in their value is other-than-temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other-than-temporary. The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced, and a corresponding charge to earnings is recognized. The Company recorded an other-than-temporary impairment charge of \$449,000 in the second quarter ended March 31, 2009 related to several equity securities held by the Company.

Changes in Financial Position for the Six-Month Period Ended March 31, 2009

Total assets at March 31, 2009 were \$813.7 million, a decrease of \$12.0 million for the six-month period then ended. The decrease was primarily due to the sales and maturities of investments and mortgage-backed securities which total approximately \$18.8 million. The decrease in assets was partially offset by the retail growth in mortgage and commercial loans, resulting in an overall increase in loans receivable of approximately \$6.5 million.

The proceeds from the sales and maturities of investments were used to pay down borrowings. During the six-month period ended March 31, 2009, the total borrowings decreased by \$29.7 million to \$318.1 million. The decrease in borrowings was partially offset by an increase in deposits of \$14.0 million. Advances from borrowers for taxes and insurance increased by \$3.1 million due to the timing of property tax payments.

Comparisons of Results of Operations for the Three Month and Six Month Period Ended March 31, 2009 with the Three Month and Six Month Period Ended March 31, 2008**Net Interest Income**

Net interest income was \$4.4 million for the three-month period ended March 31, 2009 compared to \$3.2 million for the comparable period in 2008. The increase in the net interest income for the three-month period ended March 31, 2009 when compared to the same period in 2008 can be attributed to the increase in interest rate spread from 1.39% in 2008 to 1.97% in 2009, and the difference between the average interest earning assets in relation to the average interest bearing liabilities in comparable periods. The increase in the net interest income for the six-month period ended March 31, 2009 when compared to the same period in 2008 can be attributed to the increase in interest rate spread from 1.63% in 2008 to 2.02% in 2009. Net interest income was \$8.5 million for the six-month period ended March 31, 2009 compared to \$6.1 million for the comparable period in 2008.

Non-Interest Income

Non-interest income decreased to \$23,000 for the three-month period ended March 31, 2009 from \$467,000 for the comparable period in 2008. The decrease is primarily due to an impairment write-down of four equity securities resulting in a loss of \$449,000. Non-interest income decreased to \$494,000 for the six-month period ended March 31, 2009 from \$966,000 for the comparable period in 2008.

Non-Interest Expenses

For the three-month period ended March 31, 2009, non-interest expenses increased by \$394,000 or 16.2% to \$2.8 million compared to \$2.4 million for the same period in 2008. For the six month period ended March 31, 2009, non-interest expenses increased by \$762,000 or 15.8% to \$5.6 million compared to \$4.8 million for the same period in 2008. These period costs are primarily due to normal salary increases and increases in the cost of healthcare costs. Management believes that these are reasonable increases in the cost of operations after considering the impact of additional expenses related to the Company's new commercial loan department business banking and additional FDIC premiums. The annualized ratio of non-interest expenses to average assets for the three and six month periods ended March 31, 2009 and 2008 were 1.37%, 1.35% and 1.21%, 1.22%, respectively.

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On October 16, 2008, the Federal Deposit Insurance Corporation published a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the Federal Deposit Insurance Corporation proposes to change both its risk-based assessment system and its base assessment rates. Assessment rates would increase by seven basis points across the range of risk weightings of depository institutions. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, including CDARS, increasing premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over \$10 billion in assets, while providing a reduction for their unsecured debt. These premium increases began in January 2009 and increased our non-interest expenses by \$227,000 in the quarter ended March 31, 2009 as FDIC premium expense increased to \$239,000 from \$12,000.

Income Taxes

The Company made provisions for income taxes of \$258,000 and \$684,500 for the three-month period and six-month period ended March 31, 2009, respectively, compared to \$205,503 and \$387,503 for the comparable periods in 2008. These provisions are based on the levels of pre-tax income, adjusted primarily for tax-exempt interest income on investments.

Liquidity and Capital Recourses

For a financial institution, liquidity is a measure of the ability to fund customers' needs for loans and deposit withdrawals. Harleysville Savings Bank regularly evaluates economic conditions in order to maintain a strong liquidity position. One of the most significant factors considered by management when evaluating liquidity requirements is the stability of the Bank's core deposit base. In addition to cash, the Bank maintains a portfolio of short-term investments to meet its liquidity requirements. Harleysville Savings also relies upon cash flow from operations and other financing activities, generally short-term and long-term debt. Liquidity is also provided by investing activities including the repayment and maturity of loans and investment securities as well as the management of asset sales when considered necessary. The Bank also has access to and sufficient assets to secure lines of credit and other borrowings in amounts adequate to fund any unexpected cash requirements.

As of March 31, 2009, the Company had \$65.7 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 \$513.3 million at March 31, 2009 of which \$268.1 million was outstanding at March 31, 2009.

The Bank's net income for the six months ended March 31, 2009 is \$2.6 million compared to \$1.8 million for the comparable period in 2008. This increased the Bank's stockholder's equity to \$49 million or 6.02% 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.

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The CFO also meets weekly with the Company's other senior officers to review and establish policies and strategies designed to regulate the Company's flow of funds and coordinate the sources, uses and pricing of such funds. The first priority in structuring and pricing the Company's assets and liabilities is to maintain an acceptable interest rate spread while reducing the effects of changes in interest rates and maintaining the quality of the Company's assets.

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of March 31, 2009, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

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

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

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Mortgage loans	\$ 60,474	\$ 56,793	\$ 45,177	\$ 179,083	\$ 341,527
Commercial loans	20,444	5,609	10,081	13,840	49,974
Mortgage-backed securities	63,960	65,897	32,288	31,034	193,179
Consumer and other loans	50,124	21,712	10,173	15,377	97,386
Investment securities and other investments	84,294	14,254	4,020	3,497	106,065
Total interest-earning assets	279,296	164,265	101,739	242,831	788,131
Interest-bearing liabilities:					
Passbook and Club accounts				2,584	2,584
NOW and checking accounts				47,702	47,702
Consumer Money Market Deposit accounts	12,206			33,506	45,712
Business Money Market Deposit accounts	6,626			2,208	8,834
Certificate accounts	214,921	71,366	36,453		322,740
Borrowed money	27,749	63,171	93,369	133,858	318,147
Total interest-bearing liabilities	261,502	134,537	129,822	219,858	745,719

Repricing GAP during the period	\$ 17,794	\$ 29,728	\$ (28,083)	\$ 22,973	\$ 42,412
Cumulative GAP	\$ 17,794	\$ 47,522	\$ 19,439	\$ 42,412	
Ratio of GAP during the period to total assets	2.19%	3.65%	-3.45%	2.82%	
Ratio of cumulative GAP to total assets	2.19%	5.84%	2.39%	5.21%	

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Item 4. Controls and Procedures

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

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

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Part II OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part 1, Item 1A, Risk Factors" of the Company's Form 10-K for the year ended September 30, 2008. Please refer to that section for disclosures regarding the risk and uncertainties related to the Company's business.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

No.

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.0 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HARLEYSVILLE SAVINGS FINANCIAL
CORPORATION**

Date: May 14, 2009

By: */s/ Ronald B. Geib
Ronald B. Geib
Chief Executive Officer*

Date: May 14, 2009

By: */s/ Brendan J. McGill
Brendan J. McGill
Senior Vice President Treasurer and
Chief Financial Officer*

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Exhibit Index

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

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