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HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
February 10, 2003

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 December 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 0-29709

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

Pennsylvania

23-3028464

(State or other jurisdiction of
incorporation or organization)

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

271 Main Street, Harleysville, Pennsylvania 19438

(Address of principal executive offices)
(Zip Code)

(215) 256-8828

(Registrant's telephone number, including area code)

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

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

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

Common Stock, \$.01 Par Value, 2,316,490 as of February 7, 2003

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HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
AND SUBSIDIARY

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	December 31, 2002 -----
Assets	
Cash and amounts due from depository institutions	\$ 1,833,141

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Interest bearing deposits in other banks	16,125,644

Total cash and cash equivalents	17,958,785
Investment securities held to maturity (fair value - December 31, \$64,049,000; September 30, \$57,555,000)	62,392,507
Investment securities available-for-sale at fair value	6,084,192
Mortgage-backed securities held to maturity (fair value - December 31, \$187,362,000; September 30, \$168,529,000)	182,497,473
Mortgage-backed securities available-for-sale at fair value	28,070,855
Loans receivable (net of allowance for loan losses - December 31, \$2,032,000; September 30, \$2,035,000)	293,318,380
Accrued interest receivable	2,931,311
Federal Home Loan Bank stock - at cost	11,243,600
Office properties and equipment	5,083,882
Deferred income taxes	317,324
Prepaid expenses and other assets	8,570,990

TOTAL ASSETS	\$ 618,469,299
	=====
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	\$ 372,733,504
Advances from Federal Home Loan Bank	202,189,276
Accrued interest payable	1,032,177
Advances from borrowers for taxes and insurance	2,505,083
Accounts payable and accrued expenses	1,120,242

Total liabilities	579,580,282

Commitments	
Stockholders' equity:	
Preferred Stock: \$.01 par value; 7,500,000 shares authorized; none issued	
Common stock: \$.01 par value; 15,000,000 shares authorized; issued and outstanding, Dec. 2002, 2,316,490; Sept. 2002, 2,316,490	23,165
Paid-in capital in excess of par	7,540,790
Treasury stock, at cost (Dec. 2002, 46,630 shares; Sept. 2002, 55,912)	(734,971)
Retained earnings - partially restricted	31,942,515
Accumulated other comprehensive loss	117,518

Total stockholders' equity	38,889,017

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 618,469,299
	=====

See notes to unaudited condensed consolidated financial statements.

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	----- 2002 -----	2001 -----
INTEREST INCOME:		
Interest on mortgage loans	\$ 4,476,742	\$ 4,516,866
Interest on mortgage-backed securities	2,385,908	2,384,928
Interest on consumer and other loans	921,644	982,688
Interest and dividends on tax-exempt investments	352,011	338,864
Interest and dividends on taxable investments	559,579	714,802
	-----	-----
Total interest income	8,695,884	8,938,148
	-----	-----
Interest Expense:		
Interest on deposits	2,945,542	3,890,004
Interest on borrowings	2,780,170	2,555,812
	-----	-----
Total interest expense	5,725,712	6,445,816
	-----	-----
Net Interest Income	2,970,172	2,492,332
Provision for loan losses	-	-
	-----	-----
Net Interest Income after Provision for Loan Losses	2,970,172	2,492,332
	-----	-----
Other Income:		
Other income	312,672	268,413
	-----	-----
Total other income	312,672	268,413
	-----	-----
Other Expenses:		
Salaries and employee benefits	850,192	810,064
Occupancy and equipment	387,593	320,864
Deposit insurance premiums	15,074	15,628
Other	437,525	380,143
	-----	-----
Total other expenses	1,690,384	1,526,699
	-----	-----
Income before Income Taxes	1,592,460	1,234,046
Income tax expense	412,300	228,867
	-----	-----
Net Income	\$ 1,180,160	\$ 1,005,179
	=====	=====
Basic Earnings Per Share	\$ 0.52	\$ 0.45
	=====	=====
Diluted Earnings Per Share	\$ 0.51	\$ 0.44
	=====	=====
Dividends Per Share	\$ 0.16	\$ 0.13
	=====	=====

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
 Unaudited Condensed Consolidated Statement of Comprehensive Income

	Three Months December
	----- 2002 -----
Net Income	\$ 1,180,160
Other Comprehensive Income (Loss)	
Unrealized gain (loss) on securities net of tax (benefit) expense	67,704

Total Comprehensive Income	\$ 1,247,864 =====

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

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retained Earnings- Partially Restricted	A
	-----	-----	-----	-----	-----
Balance at October 1, 2002	\$ 23,165	\$ 7,551,849	\$ (881,227)	\$ 31,124,031	\$
	=====	=====	=====	=====	=====
Net Income				1,180,160	
Issuance of Common Stock:	-	-			
Dividends - \$.16 per share				(361,676)	
Treasury stock delivered under Dividend Reinvestment Plan		19,327	64,399		
Treasury stock delivered under employee stock plan		(30,386)	81,857		

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Unrealized holding gain on available-for-sale securities, net of tax

Balance at December 31, 2002	\$ 23,165	\$ 7,540,790	\$ (734,971)	\$ 31,942,515	\$
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See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended December	
	2002	2001
Operating Activities:		
Net Income	\$ 1,180,160	\$ 1,000,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	35,573	12,000
Increase in deferred income taxes	(117,012)	(1,000)
Proceeds from the sale of loans held for sale	146,000	(1,000)
Gain on sale of loans	702	(1,000)
Amortization of deferred loan fees	(151,250)	(6,000)
Changes in assets and liabilities which (used) provided cash:		
Increase (decrease) in accounts payable and accrued expenses and income taxes payable	197,720	(26,000)
Decrease (increase) in prepaid expenses and other assets	561,433	(43,000)
(Increase) decrease in accrued interest receivable	(94,863)	63,000
(Decrease) increase in accrued interest payable	(9,715)	11,000
Net cash provided by operating activities	1,748,748	1,100,000
Investing Activities:		
Purchase of investment securities held to maturity	(10,227,013)	(13,150,000)
Proceeds from maturities of investment securities	3,499,905	25,900,000
Purchase of investment securities available for sale	-	(4,620,000)
Purchase of FHLB stock	(747,100)	(22,000)
Long-term loans originated or acquired	(42,149,251)	(33,750,000)
Purchase of mortgage-backed securities held to maturity	(67,391,860)	(17,980,000)
Purchase of mortgage-backed securities available for sale	(14,511,075)	(2,990,000)
Principal collected on long-term loans & mortgage-backed securities	114,770,974	34,870,000
Purchases of premises and equipment	(106,424)	(5,000)
Net cash used in investing activities	(16,861,844)	(12,030,000)
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	4,686,572	8,040,000
Net decrease in certificates of deposit	(3,900,046)	(5,970,000)
Cash dividends	(361,676)	(280,000)

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Net (decrease) increase in FHLB advances	(5,313,070)	11,42
Delivery of treasury stock	135,197	
Purchase of treasury stock	-	(7
Net proceeds from issuance of stock	-	2
Net increase in advances from borrowers for taxes & insurance	1,522,000	1,58
	-----	-----
Net cash (used in) provided by financing activities	(3,231,023)	14,73
	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,344,119)	3,81
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,302,904	8,94
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 17,958,785	\$12,76
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes	\$ 48,201	\$ 27
Interest expense	5,735,427	6,56

See notes to unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited 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 have been included. The results of operations for the three months ended December 31, 2002 are not necessarily indicative of the results which may be expected for the entire fiscal year.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued, it also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation also incorporates, without change, the guidance in FASB interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company currently has no guarantees that would be required to be recognized, measured or disclosed under this interpretation.

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2. INVESTMENT SECURITIES HELD TO MATURITY

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

December 31, 2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses

U.S. Government agencies			
Due after 1 years through 5 years	\$ 8,008,714	\$ 24,286	\$ -
Due after 5 years through 10 years	9,000,000	98,000	-
Due after 10 years through 15 years	19,708,139	293,861	-
Tax Exempt Obligations			
Due after 10 years through 15 years	2,789,970	102,030	-
Due after 15 years	22,885,684	1,138,316	-
	-----	-----	-----
Total Investment Securities	\$ 62,392,507	\$ 1,656,493	\$ -
	=====	=====	=====

September 30, 2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses

U.S. Government agencies			
Due after 1 years through 5 years	\$ 7,026,952	\$ 26,048	
Due after 5 years through 10 years	2,000,000	75,000	
Due after 10 years through 15 years	21,757,858	415,571	\$ (117,429)
Tax Exempt Obligations			
Due after 10 years through 15 years	3,235,924	124,076	
Due after 15 years	21,644,665	1,406,010	(39,675)
	-----	-----	-----
Total Investment Securities	\$ 55,665,399	\$ 2,046,705	\$ (157,104)
	=====	=====	=====

The Company has the positive intent and the ability to hold these securities to maturity. At December 31, 2002, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

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3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

December 31, 2002				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Appro Fair
Equities	\$ 243,450	\$ 28,588	\$ -	\$ 2
ARM Mutual Funds	5,812,154	-	-	5,8
Total Investment Securities	\$ 6,055,604	\$ 28,588	\$ -	\$ 6,0

September 30, 2002				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Appro Fair
ARM Mutual Funds	\$11,999,611	\$ -	\$ -	\$11,9
Total Investment Securities	\$11,999,611	\$ -	\$ -	\$11,9

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

December 31, 2002				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	\$34,115,043	\$ 147,142	\$ (2,185)	\$34,2
FHLMC pass-through certificates	49,678,792	1,270,208	-	50,9
FNMA pass-through certificates	52,602,744	1,379,256	-	53,9
GNMA pass-through certificates	46,100,894	2,070,106	-	48,1
Total Mortgage-backed Securities	\$182,497,473	\$ 4,866,712	\$ (2,185)	\$187,3

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September 30, 2002

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	\$ 45,143,747	\$ 255,218	\$ (5,965)	\$ 45,3
FHLMC pass-through certificates	33,697,029	1,166,921	(4,950)	34,8
FNMA pass-through certificates	29,674,733	1,062,267	-	30,7
GNMA pass-through certificates	55,299,461	2,240,539	-	57,5
Total Mortgage-backed Securities	\$163,814,970	\$ 4,724,945	\$ (10,915)	\$168,5

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

December 31, 2002

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Appro Fair
FNMA pass-through certificates	\$ 6,720,934	\$ 6,907	\$ (6,923)	\$ 6,7
FHLMC pass-through certificates	21,200,451	149,521	(35)	21,3
Total Mortgage-backed Securities	\$ 27,921,385	\$ 156,428	\$ (6,958)	\$ 28,0

September 30, 2002

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Approx Fair
FNMA pass-through certificates	\$ 22,322,686	\$ 69,129	\$ -	\$ 22,3
GNMA pass-through certificates	7,116,778	6,347	-	7,1
Total Mortgage-backed Securities	\$ 29,439,464	\$ 75,476	\$ -	\$ 29,5

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6. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2002	September 30, 2002
	-----	-----
Residential Mortgages	\$ 231,534,541	\$ 235,359,382
Commercial Mortgages	489,134	495,647
Construction	8,114,465	8,607,450
Education	329,272	334,271
Savings Account	539,592	478,969
Home Equity	38,734,514	41,451,058
Automobile and other	731,591	725,883
Line of Credit	22,550,678	18,529,734
	-----	-----
Total	303,023,787	305,982,394
Undisbursed portion of loans in process	(5,663,369)	(6,502,564)
Deferred loan fees	(2,010,457)	(2,091,264)
Allowance for loan losses	(2,031,581)	(2,034,832)
	-----	-----
Loans receivable - net	\$ 293,318,380	\$ 295,353,734
	=====	=====

The total amount of loans being serviced for the benefit of others was approximately \$3.1 million and \$3.5 million at December 31, 2002 and September 30, 2002, respectively.

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

	Three Months Ended December 31,	
	2002	2001
	-----	-----
Balance, beginning of period	\$ 2,034,832	\$ 2,036,188
Provision for loan losses	-	-
Amounts (charged-off) recovered	(3,251)	100
	-----	-----
Balance, end of period	\$ 2,031,581	\$ 2,036,288
	=====	=====

7. OFFICE PROPERTIES AND EQUIPMENT

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

	December 31, 2002	September 30, 2002
	-----	-----
Land and buildings	\$ 5,334,062	\$ 5,190,758
Furniture, fixtures and equipment	3,482,117	3,406,672
Automobiles	24,896	81,059
	-----	-----
Total	8,841,075	8,678,489
Less accumulated depreciation	(3,757,193)	(3,665,458)
	-----	-----
Net	\$ 5,083,882	\$ 5,013,031
	=====	=====

8. DEPOSITS

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Deposits are summarized as follows:

	December 31, 2002	September 30, 2002
	-----	-----
NOW accounts	\$ 15,896,636	\$ 14,051,771
Checking accounts	8,801,427	8,572,256
Money Market Demand accounts	86,080,893	83,464,010
Passbook and Club accounts	3,322,991	3,327,338
Certificate accounts	258,631,557	262,531,603
	-----	-----
Total deposits	\$372,733,504	\$371,946,978
	=====	=====

The aggregate amount of certificate accounts in denominations of more than \$100,000 at December 31, 2002 amounted to approximately \$21.1 million.

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9. COMMITMENTS

At December 31, 2002, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	\$ 7,552,693
Origination of adjustable-rate mortgage loans	307,300
Unused line of credit loans	24,067,899
Loans in process	5,663,369

Total	\$37,591,261
	=====

10. DIVIDEND

On January 22, 2003, the Board of Directors declared a cash dividend of \$.16 per share payable on February 19, 2003 to the stockholders' of record at the close of business on February 5, 2003.

11. EARNINGS PER SHARE

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

	For the Three Months Ended December 31,	
	-----	-----
	2002	2001
	-----	-----
Basic	2,263,380	2,233,025
Diluted	2,309,409	2,270,338

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.

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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.

Changes in Financial Position for the Three Month Period Ended December 31, 2002

Total assets at December 31, 2002 were \$618.5 million, a decrease of \$1.8 million or .29% for the three month period. This decrease was primarily the result of a decrease in cash and cash equivalents, investment securities available for sale, mortgage-backed securities available for sale and loans receivable of approximately \$18.3 million, \$5.9 million, \$1.4 million and \$2.0 million respectively. The decrease was partially offset by an increase in mortgage-backed held to maturity securities, investment securities held to maturity and Federal Home Loan Bank stock of \$18.7 million, \$6.7 million and \$747,000, respectively.

During the three-month period ended December 31, 2002, total deposits increased by \$787,000 to \$372.7 million. Advances from borrowers for taxes and insurance also increased by \$1.5 million. This is a seasonal increase as the majority of taxes the Company escrows for are disbursed in the month of August. There was also a decrease in advances from Federal Home Loan Bank of \$5.3 million, which was repaid with normal cash flows from loans and mortgage-backed securities.

Comparisons of Results of Operations for the Three Month Period Ended December

31, 2002 with the Three Month Period Ended December 31, 2001.

Net Interest Income

The increase in the net interest income for the three month period ended December 31, 2002 when compared to the same period in 2001 can be attributed to the increase in interest-earning assets and the decrease in interest expense on deposits. The interest rate spread increased to 1.77% for the three month period ended December 31, 2002 from 1.59% for the comparable period ended December 31, 2001.

Total interest income was \$8.7 million for the three month period ended December 31, 2002 compared to \$8.9 million for the comparable period in 2001. The increase in the average balance of interest-earning assets was offset by a decrease in the average yield for the interest-earning assets to 5.79% for the three month period ended December 31, 2002 from 6.52% for the comparable period in 2001.

Total interest expense decreased to \$5.7 million for the three month period ended December 31, 2002 from \$6.4 million for the comparable period in 2001. This decrease was the result of a decrease in the average cost on interest-bearing liabilities to 4.02% for the three month period ended December

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31, 2002 from 4.93% for the comparable period ended December 31, 2001. This decrease is the result of a lower level of interest paid on deposits for the three month period ended December 31, 2002 when compared to the same period ended December 31, 2001. This was partially offset by an increase in the average interest-bearing liabilities to \$570.0 million for the three month period ended December 31, 2002 from \$522.6 million for the comparable period ended December 31, 2001.

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Other Income

Other income increased to \$313,000 for the three month period ended December 31, 2002 from \$268,000 for the comparable period in 2001. The increase is due to an increase in fee generating services offered by the Company.

Other Expenses

For the three month period ended December 31, 2002, other expenses increased by \$164,000 or 10.72% to \$1.7 million. Management believes these are reasonable increases in the cost of operations after considering the effects of inflation, the impact of the 8% growth in the assets of the Company. The annualized ratio of expenses to average assets for the three month period ended December 31, 2002 and 2001 was 1.10% and 1.08%, respectively.

Income Taxes

The Company made provisions for income taxes of \$412,000 for the three-month period ended December 31, 2002 compared to \$229,000 for the comparable period in 2001. The primary reason for the increase in the percentage of tax expense in 2002 was the increase in amount of taxable income resulting from a decrease in the percentage of tax-exempt securities to total assets.

Liquidity and Capital Resources

The Bank's net income for the quarter ended December 31, 2002 of \$1,180,000 increased stockholders' equity to \$38.7 million or 6.3% of total assets. This amount is well in excess of the Bank's minimum regulatory capital requirements as illustrated below:

	(in thousands)			
	Leveraged		Risk-based	
	-----		-----	
Actual regulatory capital	\$38,748	6.3%	\$40,793	14.6%
Minimum required regulatory capital	24,728	4.0%	21,299	8.0%
	-----	----	-----	----
Excess capital	\$14,020	2.3%	\$19,494	6.6%

The liquidity of the Company's operations, measured by the ratio of the cash and securities balances to total assets, equaled 48.02% at December 31, 2002 compared to 47.93% at September 30, 2002.

As of December 31, 2002, the Company had \$37.6 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded

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within the next six months by means of normal cash flows and net new deposits. In addition, the amount of certificate accounts, which are scheduled to mature during the 12 months ending December 31, 2003, is \$121.3 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company.

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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 or decreases in interest rates. The principal determinant of the exposure of Harleysville Savings' 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. Harleysville Savings' asset and liability management policies seek to increase the interest rate sensitivity by shortening the repricing intervals and the maturities of the Company's interest-earning assets. Although management of the Company believes that the steps taken have reduced the Company's overall vulnerability to increases and decreases in interest rates, the Company remains vulnerable to material and prolonged increases and decreases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets and interest rate sensitive assets exceed interest rate sensitive liabilities, respectively.

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

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2002, 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 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.

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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 Harleysville Savings' 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.

The following table does not necessarily indicate the impact of general interest rate movements on Harleysville Savings' 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.

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	1 Year or less -----	1 to 3 Years -----	3 to 5 Years -----	Ove r 5 Years -----
Interest-earning assets				
Mortgage loans	\$ 32,619	\$ 38,404	\$ 27,840	\$ 12,840
Mortgage-backed securities	79,341	24,933	21,259	8,064
Consumer and other loans	37,256	14,238	8,064	
Investment securities and other investments	53,719	21,175	-	3,064
	-----	-----	-----	-----
Total interest-earning assets	202,935	98,750	57,163	25,000
	-----	-----	-----	-----
Interest-bearing liabilities				
Passbook and Club accounts	-	-	-	-
NOW accounts	-	-	-	2,000
Money Market Deposit accounts	-	-	-	3,000
Choice Savings	31,171			2,000
Certificate accounts	121,309	80,661	56,662	
Borrowed money	20,061	37,838	20,084	12,000
	-----	-----	-----	-----
Total interest-bearing liabilities	172,541	118,499	76,746	20,000
	-----	-----	-----	-----
Repricing GAP during the period	\$ 30,394	\$ (19,749)	\$ (19,583)	\$ 4,000
	=====	=====	=====	=====
Cumulative GAP	\$ 30,394	\$ 10,645	\$ (8,938)	\$ 3,000
	=====	=====	=====	=====

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Ratio of GAP during the period to total assets	4.99%	-3.24%	-3.21%	
	=====	=====	=====	=====
Ratio of cumulative GAP to total assets	4.99%	1.75%	-1.47%	
	=====	=====	=====	=====

Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and based on their evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange commission's rules and forms. Disclosure controls and procedure include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Critical Accounting Policies and Judgments

The Company's condensed consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1, Summary of Significant Accounting Policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial

position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations.

Allowance for Loan Losses - The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). The Bank's periodic evaluation of the allowance is based on known and inherent risks in the portfolio, past loan loss experience, current economic conditions, trends within the Company's market area and other relevant factors. The first step in determining the allowance for loan losses is recognizing a specific allowance on individual impaired loans. Special mention, nonaccrual, substandard and doubtful residential and other consumer loans are considered for impairment. An allowance is recognized for loan losses in the remainder of the loan portfolio based on known and inherent risk characteristics in the portfolio, past loss experience and prevailing market conditions. Because evaluating losses involves a high degree of management judgment, a margin is included for the imprecision inherent in making these estimates. While management believes that the allowance is adequate to absorb estimated credit losses in its existing loan portfolio,

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future adjustments may be necessary in circumstances that differ substantially from the assumptions used in evaluating the adequacy of the allowance for loan losses.

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Part II OTHER INFORMATION

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

(a) The annual meeting of Stockholders was held on January 22, 2003

(c) There were 2,264,654 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 1,858,932 shares were represented at the meeting by the holders thereof, which constituted a quorum. The items voted upon at the Annual Meeting and the vote for each proposal were as follows:

1. Election of directors for a three-year term:

	FOR	WITHHELD
David J. Friesen	1,851,928	7,004
George W. Meschter	1,852,805	6,127

Name of each director whose term of office continued:

Sanford L. Alderfer
Mark R. Cummins
Paul W. Barndt
Philip A. Clemens
Edward J. Molnar
Ronald B. Geib

2. Proposal to ratify the appointment by the board of Deloitte & Touche, LLP as the Company's independent auditors for the year ending September 30, 2003

FOR	AGAINST	ABSTAIN
---	-----	-----
1,857,604	-	1,328

Each of the proposals were adopted by the stockholders of the Company.

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

Item 6. Exhibits and Reports on Form 8-K

None

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Signatures

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of Harleysville Savings Financial Corporation hereby certifies that the Registrant's Form 10-Q for the three months ended December 31, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Edward J. Molnar

Edward J. Molnar
Chief Executive Officer

Date: February 6, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of Harleysville Savings Financial Corporation hereby certifies that the Registrant's Form 10-Q for the three months ended December 31, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Brenden J. McGill

Brendan J. McGill
Chief Financial Officer

Date: February 6, 2003

SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Edward J. Molnar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Savings Financial Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly

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report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 6, 2003

/s/ Edward J. Molnar

Edward J. Molnar
Chief Executive Officer

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brendan J. McGill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Savings Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

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the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 6, 2003

/s/ Brenden J. McGill

Brendan J. McGill
Chief Financial Officer

