HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
February 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2003

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 11, 2004

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
AND SUBSIDIARY

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Harleysville Savings Financial Corporation
Condensed Consolidated Statements of Financial Condition

	December 31, 2003 (Unaudited)
Assets	
Cash and amounts due from depository institutions	$ 1,620,164
Interest bearing deposits in other banks	756,929
Total cash and cash equivalents	2,377,093
Investment securities held to maturity (fair value - December 31, $84,988,000; September 30, $84,473,000)	84,020,063
Investment securities available-for-sale at fair value	3,278,903
Mortgage-backed securities held to maturity (fair value - December 31, $252,796,000; September 30, $225,994,000)	250,972,869
Mortgage-backed securities available-for-sale at fair value	7,744,164

Loans receivable (net of allowance for loan losses - December 31, $1,988,000; September 30, $1,991,000)	316,065,146
Accrued interest receivable	3,077,254
Federal Home Loan Bank stock - at cost	14,578,200
Office properties and equipment	4,830,610
Deferred income taxes	350,208
Prepaid expenses and other assets	9,039,597
TOTAL ASSETS	$ 696,334,107
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 391,871,761
Advances from Federal Home Loan Bank	258,083,573
Accrued interest payable	1,127,868
Advances from borrowers for taxes and insurance	2,727,845
Accounts payable and accrued expenses	777,131
Total liabilities	654,588,178
Commitments (Note 9)	
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. 2003, 2,316,490; Sept. 2003, 2,316,490	23,165
Paid-in capital in excess of par	7,516,160
Treasury stock, at cost (Dec. 2003, 39,699 shares; Sept. 2003, 49,651)	(822,456
Retained earnings - partially restricted	34,975,375
Accumulated other comprehensive income	53,685
Total stockholders' equity	41,745,929
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 696,334,107

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended December 31, 2003	2002
INTEREST INCOME:		
Interest on mortgage loans	$3,754,577	$4,476,742
Interest on mortgage-backed securities	2,502,995	2,385,908
Interest on consumer and other loans	827,367	921,644
Interest and dividends on tax-exempt investments	341,500	352,011
Interest and dividends on taxable investments	637,537	559,579
Total interest income	8,063,976	8,695,884

Interest Expense:		
Interest on deposits	2,301,002	2,945,542
Interest on borrowings	2,870,437	2,780,170
Total interest expense	5,171,439	5,725,712
Net Interest Income	2,892,537	2,970,172
Provision for loan losses	--	--
Net Interest Income after Provision for Loan Losses	2,892,537	2,970,172
Other Income:		
Gain on sales of loans	6,423	--
Gain on sales of securities	109,988	--
Other income	336,880	312,672
Total other income	453,291	312,672
Other Expenses:		
Salaries and employee benefits	875,130	850,192
Occupancy and equipment	348,451	387,593
Deposit insurance premiums	14,582	15,074
Other	508,328	437,525
Total other expenses	1,746,491	1,690,384
Income before Income Taxes	1,599,337	1,592,460
Income tax expense	391,000	412,300
Net Income	$1,208,337	$1,180,160
Basic Earnings Per Share	$ 0.53	$ 0.52
Diluted Earnings Per Share	$ 0.52	$ 0.51
Dividends Per Share	$ 0.20	$ 0.16

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

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	2003
Net Income	$1,208,337
Other Comprehensive Income	
Unrealized gain on securities net of tax expense - 2003, ($19,427); 2002, ($34,878)	37,711(1)
Total Comprehensive Income	$1,246,048

(1) Disclosure of reclassification amount, net of tax for the years ended:	2003
Net unrealized gain arising during the year	$ 110,303
Less: Reclassification adjustment for net gains included in net income	72,592
Net unrealized gain on securities	$ 37,711

See notes to unaudited condensed consolidated financial statements.

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
Balance at October 1, 2003	$ 23,165	$ 7,584,949	$ (1,028,772)	$ 34,220,40
Net Income				1,208,33
Dividends - $.20 per share				(453,36
Treasury stock delivered under Dividend Reinvestment Plan		39,015	114,705	
Treasury stock delivered under employee stock plan		(107,804)	91,611	
Unrealized holding gain on available -for- sale securities, net of tax				
Balance at December 31, 2003	$ 23,165	$ 7,516,160	$ (822,456)	$ 34,975,37

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended Dec	
	2003	
Operating Activities:		
Net Income	$ 1,208,337	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	127,976	
Increase in deferred income taxes	(19,427)	
Proceeds from the sale of loans held for sale	794,147	
Gain on sale of investments	(109,988)	
Gain on sale of loans	(6,423)	
Amortization of deferred loan fees	(194,102)	
Changes in assets and liabilities which (used) provided cash:		
(Decrease) increase in accounts payable and accrued expenses and income taxes payable	(26,528)	
Decrease in prepaid expenses and other assets	122,563	
Increase in accrued interest receivable	(275,914)	
Increase (decrease) increase in accrued interest payable	56,899	
Net cash provided by operating activities	1,677,540	
Investing Activities:		
Purchase of investment securities held to maturity	(3,989,750)	(
Proceeds from maturities of investment securities	3,296,553	
Purchase of FHLB stock	(796,100)	
Long-term loans originated or acquired	(40,278,825)	(
Purchase of mortgage-backed securities held to maturity	(52,610,249)	(
Purchase of mortgage-backed securities available for sale	(5,010,238)	(
Principal collected on long-term loans & mortgage-backed securities	51,947,602	1
Purchases of premises and equipment	(30,515)	
Net cash used in investing activities	(47,471,522)	(
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	7,260,515	
Net increase (decrease) in certificates of deposit	3,924,692	
Cash dividends	(453,368)	
Net increase (decrease) in FHLB advances	29,266,135	
Use of treasury stock	137,527	
Net increase in advances from borrowers for taxes & insurance	1,633,976	
Net cash provided by (used in) financing activities	41,769,477	
DECREASE IN CASH AND CASH EQUIVALENTS	(4,024,505)	(
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,401,598	

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,377,093	$
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 104,631	$
Interest expense	5,114,540	

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 30, 2003 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period.

Use of Estimates in Preparation of Financial Statements - The preparation of 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 statement and the reported amounts of income and expenses during the reporting period. The most significant of these estimates is the allowance for loan losses. Actual results could differ from those estimates.

Accounting for Stock Options - In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation --Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This Statement is effective for financial statements for fiscal years ending after December 15, 2002. The Company has elected to continue application of APB Opinion No. 25 and related interpretations for stock options and, accordingly no compensation expense has been recorded in the consolidated financial statements. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	For the Three Months Ended	
	December 31, 2003	December 31, 2002
Net income	$1,208,337	$1,180,160

Less: Stock based compensation expense	--	--
Proforma net income	$1,208,337	$1,180,160
Earnings per share:		
Basic - as reported	$ 0.53	$ 0.52
Basic - pro forma	0.53	0.52
Diluted - as reported	$ 0.52	$ 0.51
Diluted - pro forma	0.52	0.51

New Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except for the provision of this statement that relate to SFAS No.133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 and for hedging relationships designated after June 30, 2003. All provisions are to be applied prospectively except for the provision of this Statement that relate to SFAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003. These provisions are to be applied in accordance with their respective effective dates. The adoption of this Statement has not had a material impact on the Company's results of operations or financial condition for contracts entered into or modified after June 30, 2003.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of nonpublic entities. Currently, the Company has no financial instruments entered into or modified after May 31, 2003 that require application of this Statement. The adoption of this Statement has not had material impact on the Company's results of operations or financial condition.

In November 2002, the FASB issued FASB Interpretation ("FIN") 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 of Others, which is being superseded. The initial recognition and initial measurement provisions of this Interpretation are applicable 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.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. The Interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The FASB has published a revision to Interpretation 46 (FIN 46R) to clarify some of the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, and it's subsequent revision to exempt certain entities from its requirements. The Company is not a party to any variable interest entities covered by the 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, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 years through 5 years	$ 998,892		$ (5,892)
Due after 5 years through 10 years	22,798,847	$ 199,606	(41,453)
Due after 10 years through 15 years	34,912,910	75,800	(759,710)
Tax Exempt Obligations			
Due after 10 years through 15 years	3,643,328	251,098	(426)
Due after 15 years	21,666,086	1,249,309	(395)
Total Investment Securities	$84,020,063	$1,775,813	$(807,876)

September 30, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 years through 5 years	$ 3,000,000	$ 4,000	
Due after 5 years through 10 years	15,881,650	190,972	$ (31,622)
Due after 10 years through 15 years	39,154,746	180,293	(713,039)
Tax Exempt Obligations			
Due after 10 years through 15 years	3,636,130	270,870	
Due after 15 years	21,654,340	1,244,660	
Total Investment Securities	$83,326,866	$1,890,795	$(744,661)

The Company has the positive intent and the ability to hold these securities to maturity. At December 31, 2003, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen. The Company reviewed the unrealized loss position, and factors related to such losses and has concluded there is no other than temporary impairment.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	December 31, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Equities	$ 951,014	$ 85,234	$ (1,629)
ARM Mutual Funds	2,244,284	--	--
Total Investment Securities	$ 3,195,298	$ 85,234	$ (1,629)

	September 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Equities	$ 1,061,228	$ 56,533	$ (6,611)
Mutual Funds	3,811,651		
Total Investment Securities	$ 4,872,879	$ 56,533	$ (6,611)

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, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	A F
Collateralized mortgage obligations	$ 23,893,236	$ 49,467	$(108,703)	$
FHLMC pass-through certificates	84,418,147	710,289	(178,436)	

FNMA pass-through certificates	124,548,741	952,838	(557,579)	1
GNMA pass-through certificates	18,112,745	955,609	(354)	
Total Mortgage-backed Securities	$250,972,869	$2,668,203	$(845,072)	$2

September 30, 2003

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	A F
Collateralized mortgage obligations	$ 28,584,778	$ 51,196	$(158,974)	$
FHLMC pass-through certificates	55,503,939	711,406	(121,345)	
FNMA pass-through certificates	117,081,660	1,173,281	(346,941)	1
GNMA pass-through certificates	22,421,288	1,093,712	--	
Total Mortgage-backed Securities	$223,591,665	$3,029,595	$(627,260)	$2

The Company has the positive intent and the ability to hold these securities to maturity. At December 31, 2003, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen. The Company reviewed the unrealized loss position, and factors related to such losses and has concluded there is no other than temporary impairment.

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, 2003

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	A F
FNMA pass-through certificates	$ 7,746,429	$ 376	$ (2,641)	$
Total Mortgage-backed Securities	$ 7,746,429	$ 376	$ (2,641)	$

September 30, 2003

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	A F
FNMA pass-through certificates	$ 6,681,291	$ 4,865	$ (30,585)	$
Total Mortgage-backed Securities	$ 6,681,291	$ 4,865	$ (30,585)	$

The Company reviewed the unrealized loss position, and factors related to such losses and has concluded there is no other than temporary impairment.

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31, 2003	September 30, 2003
Residential Mortgages	$ 243,940,987	$ 237,184,337
Commercial Mortgages	951,596	1,015,228
Construction	9,383,526	10,027,955
Education		471
Savings Account	706,804	733,048
Home Equity	39,124,823	29,725,909
Automobile and other	538,389	578,193
Line of Credit	30,934,768	29,420,476
Total	325,580,893	308,685,617
Undisbursed portion of loans in process	(6,240,271)	(7,828,925)
Deferred loan fees	(1,287,829)	(1,519,616)
Allowance for loan losses	(1,987,647)	(1,990,672)
Loans receivable - net	$ 316,065,146	$ 297,346,404

The total amount of loans being serviced for the benefit of others was approximately $3.2 million and $2.6 million at December 31, 2003 and September 30, 2003, respectively.

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

	Three Months Ended December 31,	
	2003	2002
Balance, beginning of period	$ 1,990,672	$ 2,034,832
Amounts charged-off	(3,088)	(3,251)
Loan recoveries	63	--
Balance, end of period	$ 1,987,647	$ 2,031,581

7. OFFICE PROPERTIES AND EQUIPMENT

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

	December 31, 2003	September 30, 2003
Land and buildings	$ 5,349,486	$ 5,404,864
Furniture, fixtures and equipment	3,679,834	3,658,034
Branch office in construction	64,094	
Automobiles	24,896	24,896
Total	9,118,310	9,087,794
Less accumulated depreciation	(4,287,700)	(4,159,723)

Net	$ 4,830,610	$ 4,928,071

8. DEPOSITS

Deposits are summarized as follows:

	December 31, 2003	September 30, 2003
NOW accounts	$ 19,994,735	$ 17,340,055
Checking accounts	10,998,137	10,047,306
Money Market Demand accounts	100,804,517	96,969,856
Passbook and Club accounts	3,847,697	4,027,354
Certificate accounts	256,226,675	252,301,983
Total deposits	$ 391,871,761	$ 380,686,554

The aggregate amount of certificate accounts in denominations of more than $100,000 at December 31, 2003 amounted to approximately $23.7 million.

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9. COMMITMENTS

At December 31, 2003, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 6,571,500
Origination of adjustable-rate mortgage loans	1,337,500
Unused line of credit loans	33,664,069
Loans in process	6,240,271
Total	$47,813,340

10. DIVIDEND

On January 28, 2004, the Board of Directors declared a cash dividend of $.20 per share payable on February 25, 2004 to the stockholders' of record at the close of business on February 11, 2004.

11. EARNINGS PER SHARE

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

	For the Three Months Ended December 31,	
	2003	2002
Basic	2,269,265	2,263,380
Diluted	2,327,971	2,309,409

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.

12. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank consists of the following:

	December 31, 2003		September 30, 2003	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 42,830,567	1.81%	$ 23,896,414	2.79%
13 to 24 months	24,951,921	5.32%	26,555,770	5.39%
25 to 36 months	23,365,168	3.88%	11,477,325	3.82%
37 to 48 months	2,500,000	4.32%	10,786,600	4.66%
49 to 60 months	72,435,917	4.82%	59,101,329	5.07%
61 to 72 months	5,000,000	5.60%	10,000,000	5.55%
73 to 84 months	15,000,000	6.08%	--	0.00%
85 to 120 months	72,000,000	4.70%	87,000,000	4.94%
Total	$258,083,573	4.34%	$228,817,438	4.76%

The advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit of which $20.5 million out of $30.0 was used at December 31, 2003.and none was used as of September 30, 2002. Included in the table above at December 31, 2003 and September 30, 2002 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.

13. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal Banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of December 31, 2003, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2003, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purpo
	Amount	Ratio	Amount
As of December 31, 2003			
Tier 1 Capital (to assets)	$41,597,000	6.05%	$27,498,000
Tier 1 Capital (to risk weighted assets)	41,597,000	13.73%	12,115,000
Total Capital (to risk weighted assets)	43,623,000	14.40%	24,230,000
As of September 30, 2003			
Tier 1 Capital (to assets)	$40,630,000	6.20%	$26,193,000
Tier 1 Capital (to risk weighted assets)	40,630,000	14.37%	11,313,000
Total Capital (to risk weighted assets)	42,644,000	15.08%	22,626,000

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.

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

Changes in Financial Position for the Three Month Period Ended December 31, 2003

Total assets at December 31, 2003 were $696.3 million, an increase of $43.1 million or 6.6% for the three month period. This increase was primarily the result of an increase in mortgage-backed securities held to maturity, loan receivables, mortgage-backed securities available for sale, Federal Home Loan Bank stock, investment securities held to maturity of $27.4 million, $18.7 million, $1.1 million, $796,000 and $693,000 respectively. This growth is one of the ways the Company manages it's capital based on its business plan. The increase was partially offset by decrease cash and cash equivalents, investment securities available for sale and other assets of $4.0 million, $1.6 million and $123,000 respectively.

During the three-month period ended December 31, 2003, total deposits increased by $11.2 million to $391.9 million. Advances from borrowers for taxes and insurance also increased by $1.6 million. There was also an increase in advances from Federal Home Loan Bank of $29.3 million, which was used for the origination of loans and the purchase of mortgage-backed securities. This growth is a result of current market conditions and the execution of our business plan.

Comparisons of Results of Operations for the Three Month Period Ended December 31, 2003 with the Three Month Period Ended December 31, 2002

Net Interest Income

The decrease in the net interest income for the three month period ended December 31, 2003 when compared to the same period in 2002 can be attributed to the decrease in interest rate spread from 1.77% in 2002 to 1.57% in 2003. The decrease in the interest rate spread was partially offset by an increase in the interest earning assets of $65.9 million.

Total interest income was $8.1 million for the three month period ended December 31, 2003 compared to $8.7 million for the comparable period in 2002. 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 4.84% for the three month period ended December 31, 2003 from 5.79% for the comparable period in 2002.

Total interest expense decreased to $5.2 million for the three month period ended December 31, 2003 from $5.7 million for the comparable period in 2002. This decrease was the result of a decrease in the average cost on interest-bearing liabilities to 3.27% for the three month period ended December 31, 2003 from 4.02% for the comparable period ended December 31, 2002. This decrease is the result of a lower level of interest paid on deposits for the three month period ended December 31, 2003 when compared to the same period ended December 31, 2002. This was partially offset by an increase in the average interest-bearing liabilities to $632.4 million for the three month period ended December 31, 2003 from $570.0 million for the comparable period ended December

31, 2002.

Other Income

Other income increased to $453,000 for the three month period ended December 31, 2003 from $313,000 for the comparable period in 2002. The increase is due to an increase in fee generating services, related to the origination of mortgages, offered by the Company and the sale of loans and investments available for sale.

Other Expenses

For the three month period ended December 31, 2003, other expenses increased by $56,000 or 3.32% 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 12.6% growth in the assets of the Company. The annualized ratio of expenses to average assets for the three month period ended December 31, 2003 and 2002 was 1.02% and 1.09%, respectively.

Income Taxes

The Company made provisions for income taxes of $391,000 for the three-month period ended December 31, 2003 compared to $412,000 for the comparable period in 2002. The primary reason for the decrease in the percentage of tax expense in 2003 was the decrease in amount of taxable income resulting from a increase in the percentage of tax-exempt securities to total assets.

Liquidity and Capital Recourses

As of December 31, 2003, the Company had $47.8 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 amount of certificate accounts, which are scheduled to mature during the 12 months ending December 31, 2004, is $122.8 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company. 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 $478.8 million at December 31, 2003 of which $258.1 million was outstanding at December 31, 2003.

The Bank's net income for the quarter ended December 31, 2003 of $1,293,000 increased the Bank's stockholders' equity to $41.8 million or 6.1% 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 increase the interest rate sensitivity by shortening the repricing intervals and the maturities of the Company's interest-earning assets. Although management of the Company believes that the steps taken have reduced the Company's overall vulnerability to increases in interest rates, the Company remains vulnerable to material and prolonged increases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets.

The authority and responsibility for interest rate management is vested in the Company's Board of Directors. The Chief Executive Officer implements the Board of Directors' policies during the day-to-day operations of the Company. Each month, the Chief 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, 2003, 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 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.

	1 Year or less	1 to 3 Years	3 to 5 Years
Interest-earning assets			

Mortgage loans	$ 53,853	$ 70,541	$ 43,538	$
Mortgage-backed securities	71,031	67,570	69,367	
Consumer and other loans	48,948	15,943	5,434	
Investment securities and other investments	23,947	1,317	3,397	
Total interest-earning assets	197,779	155,371	121,736	
Interest-bearing liabilities				
Passbook and Club accounts	--	--	--	
NOW and checking accounts	--	--	--	
Money Market Deposit accounts	27,941	--	--	
Choice Savings	5,070			
Certificate accounts	122,796	86,238	47,193	
Borrowed money	62,733	51,829	51,518	
Total interest-bearing liabilities	218,540	138,067	98,711	
Repricing GAP during the period	$ (20,761)	$ 17,304	$ 23,025	$
Cumulative GAP	$ (20,761)	$ (3,457)	$ 19,568	$
Ratio of GAP during the period to total assets	-3.02%	2.52%	3.35%	
Ratio of cumulative GAP to total assets	-3.02%	-0.50%	2.85%	

Item 4. Controls and Procedures

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

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

Part II OTHER INFORMATION

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

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

28, 2004

(c) There were 2,271,261 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 1,940,951 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
Sanford L. Alderfer	1,939,645	737
Mark R. Cummins	1,939,951	431
Ronald B. Geib	1,938,686	1,696

Name of each director whose term of office continued:

David J. Friesen
George W. Meschter
Paul W. Barndt
Philip A. Clemens
Edward J. Molnar

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, 2004

FOR	AGAINST	ABSTAIN
1,937,469	1,563	1,350

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