HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
May 17, 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 March 31, 2004

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, 2,286,138 as of May 11, 2004

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	March 2004
Assets	
Cash and amounts due from depository institutions	$ 1,689
Interest bearing deposits in other banks	2,015
Total cash and cash equivalents	3,704
Investment securities held to maturity (fair value - March 31, $76,784,000; September 30, $84,473,000)	74,885
Investment securities available-for-sale at fair value	4,403
Mortgage-backed securities held to maturity (fair value - March 31, $256,437,000; September 30, $225,994,000)	253,145
Mortgage-backed securities available-for-sale at fair value	4,334
Loans receivable (net of allowance for loan losses - March 31, $1,984,000; September 30, $1,991,000)	321,774
Accrued interest receivable	2,931

Federal Home Loan Bank stock - at cost	14,416
Office properties and equipment	4,774
Deferred income taxes	350
Prepaid expenses and other assets	9,167
TOTAL ASSETS	$ 693,888
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 395,304
Advances from Federal Home Loan Bank	251,307
Accrued interest payable	1,047
Advances from borrowers for taxes and insurance	3,209
Accounts payable and accrued expenses	502
Total liabilities	651,370
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, Mar. 2003, 2,316,490; Sept. 2003, 2,316,490	23
Paid-in capital in excess of par	7,393
Treasury stock, at cost (Mar. 2004, 30,352 shares; Sept. 2003, 49,651 shares)	(706
Retained earnings - partially restricted	35,753
Accumulated other comprehensive income	53
Total stockholders' equity	42,518
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 693,888

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,		For t
	2004	2003	200
INTEREST INCOME:			
Interest on mortgage loans	$ 3,704,170	$ 4,170,228	$ 7,458
Interest on mortgage-backed securities	2,548,906	2,512,549	5,051
Interest on consumer and other loans	909,407	876,367	1,736
Interest and dividends on tax-exempt investments	358,455	113,404	708
Interest and dividends on taxable investments	583,882	718,588	1,213
Total interest income	8,104,820	8,391,136	16,168

Interest Expense:			
Interest on deposits	2,254,365	2,691,004	4,555
Interest on borrowings	2,750,211	2,738,027	5,620
Total interest expense	5,004,576	5,429,031	10,176
Net Interest Income	3,100,244	2,962,105	5,992
Provision for loan losses	--	--	
Net Interest Income after Provision for Loan Losses	3,100,244	2,962,105	5,992
Other Income:			
Gain on sales of securities	115,262	--	225
Gain on sale of loans	11,250	--	17
Other income	307,932	299,725	644
Total other income	434,444	299,725	887
Other Expenses:			
Salaries and employee benefits	1,016,720	916,149	1,891
Occupancy and equipment	391,238	377,237	739
Deposit insurance premiums	14,512	15,470	29
Other	465,910	429,554	974
Total other expenses	1,888,380	1,738,410	3,634
Income before Income Taxes	1,646,308	1,523,420	3,245
Income tax expense	411,000	379,285	802
Net Income	$ 1,235,308	$ 1,144,135	$ 2,443
Basic Earnings Per Share	$ 0.54	$ 0.50	$
Diluted Earnings Per Share	$ 0.53	$ 0.49	$
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

Three Month

	2004
Net Income	$ 1,235,308
Other Comprehensive Income	
Unrealized gain (loss) on securities net of tax expense (benefit)	42
Total Comprehensive Income	$ 1,235,350

	Six Months 2004
Net Income	$ 2,443,645
Other Comprehensive Income	
Unrealized gain (loss) on securities net of tax expense (benefit)	37,751(1)
Total Comprehensive Income	$ 2,481,396

(1) Disclosure of reclassification amount, net of tax for the years ended:	2004
Net unrealized gain arising during the year	$ 115,262
Less: Reclassification adjustment for net gains included in net income	77,511
Net unrealized gain on securities	$ 37,751

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

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retain Earnin Partial Restric
Balance at October 1, 2003	$ 23,165	$ 7,584,949	$ (1,028,772)	$ 34,220
Net Income				2,443
Dividends - $.20 per share				(910
Treasury stock purchased			(251,580)	
Treasury stock delivered under Dividend Reinvestment Plan		85,458	183,284	
Treasury stock delivered under				

employee stock plan		(276,517)	390,947	
Unrealized holding gain on available - for-sale securities, net of tax				
Balance at March 31, 2004	$ 23,165	$ 7,393,890	$ (706,121)	$ 35,753

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended Mar	
	2004	
Operating Activities:		
Net Income	$ 2,443,645	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	184,341	
Amortization of deferred loan fees	(302,358)	
Gain on sale of loans	17,673	
Proceeds from the sale of loans held for sale	1,166,114	
Gain on sale of securities	225,250	
Changes in assets and liabilities which provided (used) cash:		
Decrease in accounts payable and accrued expenses	(301,039)	
Decrease (increase) in deferred income taxes	47,126	
(Increase) decrease in prepaid expenses and other assets	(5,492)	
Increase in accrued interest receivable	(130,558)	
(Decrease) increase in accrued interest payable	(23,968)	
Net cash provided by operating activities	3,320,734	
Investing Activities:		
Purchase of investment securities held to maturity	(3,989,750)	(1
Proceeds from maturities of investment securities held to maturity	12,431,453	1
Purchase of investment securities available for sale	(2,374,949)	
Proceeds from sale of investment securities available for sale	1,250,537	
Purchase of FHLB stock	(634,800)	(
Long-term loans originated or acquired	(66,742,376)	(7
Purchase of mortgage-backed securities available for sale	(5,010,238)	(2
Purchase of mortgage-backed securities held to maturity	(74,968,993)	(15
Principal collected on long-term loans & mortgage-backed securities	95,508,353	19
Purchases of premises and equipment	(30,515)	
Net cash used in investing activities	(44,561,278)	(7
Financing Activities:		
Net increase in demand deposits, NOW accounts		

and savings accounts	6,649,081	1
Net increase (decrease) in certificates of deposit	7,968,365	(
Cash dividends	(910,667)	
Net increase in FHLB advances	22,489,745	2
Use of treasury stock	383,172	
Purchase of treasury stock	(251,580)	
Net proceeds from issuance of stock	--	
Net increase in advances from borrowers for taxes & insurance	2,215,771	
Net cash provided by financing activities	38,543,887	3
DECREASE IN CASH AND CASH EQUIVALENTS	(2,696,657)	(3
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,401,598	3
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,704,941	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 659,262	$
Interest expense	10,199,983	1

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
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 six months ended March 31, 2004 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. The financial information should be read in conjunction with the annual report on form 10-K.

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. Harleysville Savings Financial Corp. (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		For the Six
	March 31, 2004	March 31, 2003	March 31, 2004
Net income	$ 1,235,308	$ 2,324,295	$ 2,443,645
Less: Stock based compensation expense	37,773	30,531	37,773
Proforma net income	$ 1,197,535	$ 2,293,764	$ 2,405,872
Earnings per share:			
Basic - as reported	$ 0.54	$ 0.50	$ 1.07
Basic - pro forma	0.52	0.49	1.06
Diluted - as reported	$ 0.53	$ 0.49	$ 1.05
Diluted - pro forma	0.51	0.48	1.03

Treasury Stock - The Company records treasury stock purchases at cost. The excess of cost over par value is allocated to capital in excess of par value based on the per share amount of capital in excess of par value for all shares, with the difference charged to retained earnings.

In March 2004 the Company repurchased 8,400 shares of common stock at $29.95 per share for its treasury at a cost of $251,580.

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 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 its subsequent revision to exempt certain entities from its requirements. The Company is not a party to any variable interest entities covered by this Interpretation.

In March 2004, the FASB's Emerging Issues Task Force ("EITF") reached a consensus regarding EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires certain disclosures for equity investments accounted for under the cost method. Disclosures about unrealized losses that have not been recognized as other-than-temporary impairments that were required under an earlier EITF 03-1 consensus remain in effect. The EITF 03-1 guidance for determining other-than-temporary impairment is effective for the company's quarter ending September 30, 2004, and the disclosures for the cost method investments are effective for the company's fiscal year ending December 31, 2004.

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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:

	March 31, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 years through 5 years	$ 998,952	$ 3,048	
Due after 5 years through 10 years	15,651,243	184,757	
Due after 10 years through 15 years	32,906,385	218,769	$ (144,154)
Tax Exempt Obligations			
Due after 10 years through 15 years	4,260,580	296,420	--
Due after 15 years	21,068,003	1,339,997	--
Total Investment Securities	$ 74,885,163	$ 2,042,991	$ (144,154)

A summary of investment with unrealized losses, aggregated by category, at March 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government agencies	$10,821,270	$ (144,154)	$ --	$ --
Tax exempt obligations	--	0	--	--
Total	$10,821,270	$ (144,154)	$ --	$ --

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

	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 March 31, 2004, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	March 31, 2004		
	Amortized	Gross Unrealized	Gross Unrealized

	Cost	Gains	Losses
Equities	$ 1,090,581	$ 74,449	$ --
ARM Mutual Funds	3,238,285	--	--
Total Investment Securities	$ 4,328,866	$ 74,449	$ --

	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:

	March 31, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
Collateralized mortgage obligations	$ 17,485,936	$ 86,892	$ (22,828)
FHLMC pass-through certificates	89,907,637	1,255,083	(41,720)
FNMA pass-through certificates	130,460,115	1,510,598	(309,713)
GNMA pass-through certificates	15,291,677	813,323	
Total Mortgage-backed Securities	$ 253,145,365	$ 3,665,896	$ (374,261)

A summary of mortgage-backed securities held to maturity with unrealized losses, aggregated by category, at March 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities held to maturity	$ 70,687,981	$ (374,261)	$ --	$ --
Total	$ 70,687,981	$ (374,261)	$ --	$ --

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

	September 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
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)
GNMA pass-through certificates	22,421,288	1,093,712	
Total Mortgage-backed Securities	$ 223,591,665	$ 3,029,595	$ (627,260)

The Company has the positive intent and the ability to hold these securities to maturity. At March 31, 2004, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	March 31, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
FNMA pass-through certificates	$ 4,327,188	$ 7,815	$ (861)
Total Mortgage-backed Securities	$ 4,327,188	$ 7,815	$ (861)

A summary of mortgage-backed securities available for sale with unrealized losses, aggregated by category, at March 31, 2004 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losse
Mortgage-backed securities available for sale	$ 1,535,425	$ (861)	$ --	$ --
Total	$ 1,535,425	$ (861)	$ --	$ --

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

	September 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
FNMA pass-through certificates	$ 6,681,291	$ 4,865	$ (30,585)
Total Mortgage-backed Securities	$ 6,681,291	$ 4,865	$ (30,585)

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2004	September 30, 2003
Residential Mortgages	$ 244,604,528	$ 237,184,337
Commercial Mortgages	1,768,339	1,015,228
Construction	7,577,723	10,027,955
Education	--	471
Savings Account	838,809	733,048
Home Equity	42,773,880	29,725,909
Automobile and other	622,944	578,193
Line of Credit	31,641,582	29,420,476
Total	329,827,805	308,685,617
Undisbursed portion of loans in process	(4,921,239)	(7,828,925)
Deferred loan fees	(1,147,908)	(1,519,616)
Allowance for loan losses	(1,983,980)	(1,990,672)
Loans receivable - net	$ 321,774,678	$ 297,346,404

The total amount of loans being serviced for the benefit of others was approximately $3.4 million and $2.6 million at March 31, 2004 and September 30, 2003, respectively.

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

	Six Months Ended March 31,	
	March 31, 2004	September 30, 2003

Balance, beginning of period	$ 1,990,672	$ 2,034,832
Amounts charged-off	(6,818)	(44,160)
Loan recoveries	126	--
Balance, end of period	$ 1,983,980	$ 1,990,672

7. OFFICE PROPERTIES AND EQUIPMENT

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

	March 31, 2004	September 30, 2003
Land and buildings	$ 5,370,261	$ 5,404,864
Furniture, fixtures and equipment	2,945,936	3,658,034
Branch office in construction	80,155	--
Automobiles	24,896	24,896
Total	8,421,248	9,087,794
Less accumulated depreciation	(3,647,003)	(4,159,723)
Net	$ 4,774,245	$ 4,928,071

8. DEPOSITS

Deposits are summarized as follows:

	March 31, 2004	September 30, 2003
NOW accounts	$ 20,095,437	$ 17,340,055
Checking accounts	10,669,695	10,047,306
Money Market Demand accounts	100,386,891	96,969,856
Passbook and Club accounts	3,881,629	4,027,354
Certificate accounts	260,270,348	252,301,983
Total deposits	$ 395,304,000	$ 380,686,554

The aggregate amount of certificate accounts in denominations of more than $100,000 at March 31, 2004 amounted to approximately $25.9 million.

9. COMMITMENTS

At March 31, 2004, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 7,925,453
Origination of adjustable-rate mortgage loans	1,172,000

Unused line of credit loans	34,336,006
Loans in process	4,921,239
Total	$48,354,698

10. DIVIDEND

On April 21, 2004, the Board of Directors declared a cash dividend of $.20 per share payable on May 26, 2004 to the stockholders' of record at the close of business on May 12, 2004.

11. EARNINGS PER SHARE

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2004	2003	2004	2003
Basic	2,287,906	2,276,057	2,278,586	2,269,718
Diluted	2,338,517	2,327,309	2,333,244	2,318,359

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:

	March 31, 2004		September 30, 2003	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 28,101,163	1.55%	$ 23,896,414	2.79%
13 to 24 months	21,682,075	5.58%	26,555,770	5.39%
25 to 36 months	19,314,876	4.23%	11,477,325	3.82%
37 to 48 months	15,569,164	5.46%	10,786,600	4.66%
49 to 60 months	69,639,905	4.31%	59,101,329	5.07%
61 to 72 months	5,000,000	5.60%	10,000,000	5.55%
73 to 84 months	30,000,000	5.67%	--	0.00%
85 to 120 months	62,000,000	4.47%	87,000,000	4.94%
Total	$251,307,183	4.40%	$228,817,438	4.76%

13. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (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 March 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2004, 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 Cap Adequacy P
	Amount	Ratio	Amount
As of March 31, 2004			
Tier 1 Capital (to assets)	$ 42,420,000	6.11%	$27,773,000
Tier 1 Capital (to risk weighted assets)	42,420,000	13.86%	12,247,000
Total Capital (to risk weighted assets)	44,438,000	14.51%	24,493,000
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.

The Company's primary 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 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 unaudited 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 Six Month Period Ended March 31, 2004

Total assets at March 31, 2004 were $693.9 million, an increase of $40.6 million or 6.21% for the six month period. This increase was primarily the result of an increase in mortgage-backed securities held to maturity and in loans receivable of approximately $29.6 million and $24.4 million, respectively. The remainder was due to an increase in Federal Home Loan Bank stock of approximately $635,000. This growth is one of the ways the Company manages its capital based on its business plan. These increases were partially offset by decreases in investment securities held to maturity, cash and cash equivalents, mortgage backed securities available for sale, investment securities available for sale of approximately $8.4 million, $2.7 million, $2.3 million and $519,000, respectively.

During the six-month period ended March 31, 2004, total deposits increased by $14.6 million to $395.3 million. Advances from borrowers for taxes and insurance also increased by $2.1 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 an increase in advances from Federal Home Loan Bank of $22.5 million, which was used to fund the purchase of mortgage-backed securities maturity and originate residential loans. Accrued interest payable decreased $24,000 and accounts payable and accrued expenses decreased by $301,000.

Comparisons of Results of Operations for the Three and Six Month Period Ended March 31, 2004 with the Three and Six Month Period Ended March 31, 2003.

Net Interest Income

The increase in the net interest income for the three and six month periods ended March 31, 2004 when compared to the same periods in 2003 can be attributed to the increase in the average balance of interest-earning assets to $676.2 million and $670.5 million from $617.4 million and $610.3 million, respectively. These increases were partially offset by a smaller increase in the average balance of interest-bearing liabilities to $639.5 million and $635.1 million for the three and six month periods ended March 31, 2004, respectively, when compared to $584.3 million, and $578.5 million the same periods in 2003.

Total interest income was $8.1 million for the three-month period ended March 31, 2004 compared to $8.4 million for the comparable period in 2003. For the six month period ended March 31, 2004, total interest income was $16.2 million compared to $17.1 million for the comparable period in 2003. The decrease is the result of the decreased average yield for the interest-earning assets to 4.79% and 4.82% for the three and six-month period ended March 31, 2004, respectively, from 5.44% and 5.60% for the comparable periods in 2003.

Total interest expense decreased to $5.0 million for the three-month period ended March 31, 2004 from $5.4 million for the comparable period in 2003. For the six-month period ended March 31, 2004, total interest expense decreased to $10.2 million from $11.2 million for the comparable period in 2003. These decreases occurred as a result of a decrease in the average rate paid on interest-bearing liabilities to 3.13% and 3.20% for the three and six month periods ended March 31, 2004, respectively, from 3.72% and 3.86% for the comparable period ended March 31, 2003.

Other Income

Other income increased to $434,000 for the three-month period ended March 31, 2004 from $300,000 for the comparable period in 2003. For the six-month period ended March 31, 2004, other income increased to $888,000 from $612,000 for the comparable period in 2003. The three and six-month 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

During the quarter ended March 31, 2004, other expenses increased by $150,000 or 8.6% to $1.9 million when compared to the same period in 2003. For the six month period ended March 31, 2004, other expenses increased by $206,000 or 6.0% compared to the comparable period in 2003. Management believes these are normal increases in the cost of operations after considering the effects of inflation and the impact of the 6.2% growth in the assets of the Company when compared to the same periods in 2003. The annualized ratio of expenses to average assets for the three and six month periods ended March 31, 2004 was 1.09% and 1.8% respectively.

Income Taxes

The Company made provisions for income taxes of $411,000 and $802,000 for the three and six-month periods ended March 31, 2004, respectively, compared to $379,000 and $792,000 for the comparable periods in 2003. These provisions are based on the levels of taxable income.

Liquidity and Capital Recourses

As of March 31, 2004, the Company had $48.4 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 March 31, 2005, is $118.4 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 $529.7 million at March 31, 2004 of which $251.3 million was outstanding at March 31, 2004.

The Bank's net income for the six months ended March 31, 2004 of $2,444,000 increased the Bank's stockholders' equity to $42.5 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 March 31, 2004, 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
Interest-earning assets			
Mortgage loans	$ 49,805	$ 67,501	$ 44,040
Mortgage-backed securities	50,100	57,548	45,325
Consumer and other loans	51,049	17,253	5,914
Investment securities and other investments	26,274	2,356	3,709
Total interest-earning assets	177,228	144,658	98,988
Interest-bearing liabilities			
Passbook and Club accounts	--	--	--
NOW and checking accounts	--	--	--
Money Market Deposit accounts	28,601	--	--
Choice Savings	5,062		
Certificate accounts	118,395	95,223	46,652
Borrowed money	50,789	50,747	52,772
Total interest-bearing liabilities	202,847	145,970	99,424
Repricing GAP during the period	$ (25,619)	$ (1,312)	$ (436)
Cumulative GAP	$ (25,619)	$ (26,931)	$ (27,367)

Ratio of GAP during the period to total assets	-3.73%	-0.19%	-0.06%
Ratio of cumulative GAP to total assets	-3.73%	-3.92%	-3.98%

Item 4. Controls and Procedures

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

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

Part II OTHER INFORMATION

Item 1,2,3,4 and 5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

None