

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
February 15, 2005

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, 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, 2,314,743 as of February 14, 2005

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION AND SUBSIDIARY

Index

Part I FINANCIAL INFORMATION

Item 1. Financial Statements

Unaudited Condensed Consolidated Statements of Financial Condition as of
December 31, 2004 and September 30, 2004

Unaudited Condensed Consolidated Statements of Income for the Three
Months Ended December 31, 2004 and 2003

Unaudited Condensed Consolidated Statement of Comprehensive Income
for the Three Months Ended December 31, 2004 and 2003

Unaudited Condensed Consolidated Statement of Stockholders' Equity
for the Three Months Ended December 31, 2004

Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months
Ended December 31, 2004 and 2003

Notes to Unaudited Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Control and Procedures

Part II OTHER INFORMATION

Item 1. - 6.

Signatures

Harleysville Savings Financial Corporation Condensed Consolidated Statements of Financial Condition

| | December 31, 2004 | Se |
|--|----------------------|-----|
| | ----- (Unaudited) | --- |
| Assets | | |
| Cash and amounts due from depository institutions | \$ 1,469,279 | \$ |
| Interest bearing deposits in other banks | 3,525,579 | |
| | ----- | --- |
| Total cash and cash equivalents | 4,994,858 | |
| Investment securities held to maturity (fair value - | | |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | |
|--|----------------|-------|
| December 31, \$72,018,000; September 30, \$69,439,000) | 71,009,105 | |
| Investment securities available-for-sale at fair value | 3,686,802 | |
| Mortgage-backed securities held to maturity (fair value - | | |
| December 31, \$267,083,000; September 30, \$262,560,000) | 266,453,322 | |
| Mortgage-backed securities available-for-sale at fair value | 2,550,961 | |
| Loans receivable (net of allowance for loan losses - | | |
| December 31, \$1,974,000; September 30, \$1,977,000) | 341,109,930 | |
| Accrued interest receivable | 2,994,933 | |
| Federal Home Loan Bank stock - at cost | 15,339,700 | |
| Office properties and equipment, net | 5,934,367 | |
| Deferred income taxes | 355,630 | |
| Prepaid expenses and other assets | 12,527,220 | |
| | ----- | ----- |
| TOTAL ASSETS | \$ 726,956,828 | \$ |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits | \$ 408,766,398 | \$ |
| Advances from Federal Home Loan Bank | 268,222,373 | |
| Accrued interest payable | 1,183,093 | |
| Advances from borrowers for taxes and insurance | 2,798,921 | |
| Accounts payable and accrued expenses | 783,528 | |
| | ----- | ----- |
| Total liabilities | 681,754,313 | |
| | ----- | ----- |
| 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, Dec. 2004 and Sept. 2004, 2,316,490 | | |
| and outstanding Dec. 2004, 2,303,793; Sept. 2004, 2,299,127 | 23,165 | |
| Paid-in capital in excess of par | 7,445,274 | |
| Treasury stock, at cost (Dec. 2004, 12,697 shares; Sept. 2004, 17,363) | (302,905) | |
| Retained earnings - partially restricted | 37,993,820 | |
| Accumulated other comprehensive income | 43,161 | |
| | ----- | ----- |
| Total stockholders' equity | 45,202,515 | |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 726,956,828 | \$ |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements.

page -1-

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

For the Three Months Ended
December 31,

| | |
|-------|-------|
| ----- | ----- |
| 2004 | 2003 |
| ---- | ---- |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | |
|--|-------------|-------------|
| Interest Income: | | |
| Interest on mortgage loans | \$3,807,587 | \$3,754,577 |
| Interest on mortgage-backed securities | 2,846,287 | 2,502,995 |
| Interest on consumer and other loans | 1,055,729 | 827,367 |
| Interest and dividends on tax-exempt investments | 336,580 | 341,500 |
| Interest and dividends on taxable investments | 539,820 | 637,537 |
| | ----- | ----- |
| Total interest income | 8,586,003 | 8,063,976 |
| | ----- | ----- |
| Interest Expense: | | |
| Interest on deposits | 2,395,751 | 2,301,002 |
| Interest on borrowings | 2,954,901 | 2,870,437 |
| | ----- | ----- |
| Total interest expense | 5,350,652 | 5,171,439 |
| | ----- | ----- |
| Net Interest Income | 3,235,351 | 2,892,537 |
| Provision for Loan Losses | -- | -- |
| | ----- | ----- |
| Net Interest Income after Provision for Loan Losses | 3,235,351 | 2,892,537 |
| | ----- | ----- |
| Non-Interest Income: | | |
| Gain on sales of loans | -- | 6,423 |
| Gain on sales of securities | 63,743 | 109,988 |
| Other income | 342,744 | 336,880 |
| | ----- | ----- |
| Total other income | 406,487 | 453,291 |
| | ----- | ----- |
| Non-Interest Expenses: | | |
| Salaries and employee benefits | 1,016,619 | 875,130 |
| Occupancy and equipment | 369,511 | 348,451 |
| Deposit insurance premiums | 14,670 | 14,582 |
| Other | 558,143 | 508,328 |
| | ----- | ----- |
| Total other expenses | 1,958,943 | 1,746,491 |
| | ----- | ----- |
| Income before Income Taxes | 1,682,895 | 1,599,337 |
| Income tax expense | 427,400 | 391,000 |
| | ----- | ----- |
| Net Income | \$1,255,495 | \$1,208,337 |
| | ===== | ===== |
| Basic Earnings Per Share | \$ 0.55 | \$ 0.53 |
| | ===== | ===== |
| Diluted Earnings Per Share | \$ 0.54 | \$ 0.52 |
| | ===== | ===== |
| Dividends Per Share | \$ 0.22 | \$ 0.20 |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements.

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Harleysville Savings Financial Corporation
 Unaudited Condensed Consolidated Statement of Comprehensive Income

| | Three Month December |
|--|-------------------------|
| | ----- 2004 ----- |
| Net Income | \$1,255,495 |
| Other Comprehensive Income | |
| Unrealized gain on securities net of tax expense - 2004, (\$3,653); 2003, (\$19,427) | 10,037 (1) ----- |
| Total Comprehensive Income | \$1,265,532 ===== |
| | 2004 ----- |
| (1) Disclosure of reclassification amount, net of tax for the years ended: | |
| Net unrealized gain arising during the year | \$ 52,107 |
| Less: Reclassification adjustment for net gains included in net income Net of tax expense -2004, \$21,673; 2003, \$37,396 | 42,070 ----- |
| Net unrealized gain on securities | \$ 10,037 ===== |

See notes to unaudited condensed consolidated financial statements.

page -3-

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, 2004 | \$ 23,165 | \$ 7,426,853 | \$ (414,430) | \$ 37,244,200 |
| Net Income | | | | 1,255,495 |
| Dividends - \$.22 per share | | | | (505,875) |
| Treasury stock delivered under Dividend Reinvestment Plan | | 19,028 | 104,354 | |
| Treasury stock delivered under employee stock plan | | (607) | 7,171 | |
| Unrealized holding gain on available -for- sale securities, net of tax | | | | |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | | | |
|------------------------------|-----------|--------------|--------------|---------------|
| Balance at December 31, 2004 | \$ 23,165 | \$ 7,445,274 | \$ (302,905) | \$ 37,993,820 |
| | ===== | ===== | ===== | ===== |

See notes to unaudited condensed consolidated financial statements.

page -3-

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

| | Three Months Ended December 31 | |
|--|--------------------------------|--------------|
| | 2004 | 2003 |
| | ---- | ---- |
| Operating Activities: | | |
| Net Income | \$ 1,255,495 | \$ 1,208,337 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 64,224 | 127,976 |
| Proceeds from the sale of loans held for sale | | 794,147 |
| Origination of loans held for sale | | (787,724) |
| Gain on sale of investments | (63,743) | (109,988) |
| Gain on sale of loans | | (6,423) |
| Amortization of deferred loan fees | (54,480) | (194,102) |
| Changes in assets and liabilities which provided (used) cash: | | |
| Increase (decrease) in accounts payable and accrued expenses and income taxes payable | 232,664 | (26,528) |
| (Increase) decrease in prepaid expenses and other assets | (2,949,755) | 122,563 |
| Decrease (increase) in accrued interest receivable | 74,105 | (275,914) |
| Increase in accrued interest payable | 56,980 | 56,899 |
| Net cash (used in) provided by operating activities | (1,384,510) | 909,243 |
| | ----- | ----- |
| Investing Activities: | | |
| Purchase of investment securities held to maturity | (11,000,000) | (3,989,750) |
| Proceeds from maturities of investment securities held to maturity | 8,152,467 | 3,296,553 |
| Purchase of FHLB stock | (155,600) | (796,100) |
| Long-term loans originated or acquired | (27,479,179) | (39,491,101) |
| Purchase of mortgage-backed securities held to maturity | (20,131,609) | (52,610,249) |
| Purchase of mortgage-backed securities available for sale | | (5,010,238) |
| Purchase of investment securities available for sale | (575,249) | |
| Proceeds from sales of investment securities available for sale | 4,613,148 | |
| Principal collected on long-term loans & mortgage-backed securities | 41,316,098 | 51,928,175 |
| Purchases of premises and equipment | (249,616) | (30,515) |
| Net cash used in investing activities | (5,509,540) | (46,703,225) |
| | ----- | ----- |
| Financing Activities: | | |
| Net increase in demand deposits, NOW accounts and savings accounts | 1,262,241 | 7,260,515 |
| Net increase in certificates of deposit | 2,273,518 | 3,924,692 |
| Cash dividends | (505,875) | (453,368) |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | |
|---|------------------|------------------|
| Net increase in FHLB advances | 2,269,380 | 29,266,135 |
| Proceeds from the reissuance of treasury stock | 129,946 | 137,527 |
| Net increase in advances from borrowers for taxes & insurance | 1,740,914 | 1,633,976 |
| | ----- | ----- |
| Net cash provided by financing activities | 7,170,124 | 41,769,477 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 276,074 | (4,024,505) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 4,718,784 | 6,401,598 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 4,994,858 | \$ 2,377,093 |
| | ===== | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

| | | |
|------------------|-----------|------------|
| Income taxes | \$ 31,000 | \$ 104,631 |
| Interest expense | 5,293,672 | 5,114,540 |

See notes to unaudited condensed consolidated financial statements.

page -4-

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three months ended December 31, 2004 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.

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Harleysville Savings Financial Corporation (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 consensed consolidated financial statements. There was no proforma effect in the three month periods ended December 31, 2004 and 2003. Effective for the first interim or annual reporting period that begins after June 15, 2005, the FASB will require that the Company recognize financial expense for the fair value of stock options that are granted or vest after that date. FASB set forth these rules in Statement No. 123(R), Share-Based Payment, which became final December 16, 2004. Management believes this will not have a material impact to the Company.

Recent Accounting Pronouncements - In March 2004, the FASB 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 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10-20 of this Issue has been delayed by FASB Staff Position ("FSP") EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," posted September 30, 2004. The delay of the effective date for paragraphs 10-20 will be superseded concurrent with the final issuance of proposed FSP EITF Issue 03-1-a, "Implication Guidance For the Application of Paragraph 16 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment. The disclosures continue to be effective for the Company's consolidated financial statements for fiscal years ending after December 15, 2003, for investments accounted for under SFAS No. 115 and No. 124. For all other investments within the scope of this Issue, the disclosures continue to be effective for fiscal years ending after June 15, 2004. The additional disclosures for cost method investments continue to be effective for fiscal years ending after June 15, 2004.

page -5-

2. INVESTMENT SECURITIES HELD TO MATURITY

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

| | December 31, 2004 | | | |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
| U.S. Government Agencies | | | | |
| Due after 1 years through 5 years | \$ 5,999,580 | | \$ (38,580) | \$ 5,961,000 |
| Due after 5 years through 10 years | 12,096,165 | \$ 164,455 | (25,620) | 12,235,000 |
| Due after 10 years through 15 years | 27,928,656 | 6,942 | (623,598) | 27,312,000 |
| Tax Exempt Obligations | | | | |
| Due after 10 years through 15 years | 8,161,251 | 515,749 | | 8,677,000 |
| Due after 15 years | 16,823,453 | 1,009,547 | | 17,833,000 |
| | | | | |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|
| Total Investment Securities | \$71,009,105 | \$ 1,696,693 | \$ (687,798) | \$72,018,000 |
| | ===== | ===== | ===== | ===== |

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

| | Less than 12 Months | | 12 Months or Longer | | Tot Fair V |
|------------------------|---------------------|-------------------|---------------------|-------------------|---------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | |
| US Government agencies | \$34,245,050 | \$ (687,798) | \$ -- | \$ -- | \$34,24 |
| Total | \$34,245,050 | \$ (687,798) | \$ -- | \$ -- | \$34,24 |
| | ===== | ===== | ===== | ===== | ===== |

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

| | Amortized Cost | September 30, 2004 | | Gros Unreal Loss |
|-------------------------------------|-------------------|------------------------------|--|------------------------|
| | | Gross Unrealized Gains | | |
| U.S. Government Agencies | | | | |
| Due after 1 years through 5 years | \$ 999,347 | | | \$ (|
| Due after 5 years through 10 years | 15,278,032 | \$ 186,208 | | (21, |
| Due after 10 years through 15 years | 26,918,369 | 22,286 | | (402, |
| Tax Exempt Obligations | | | | |
| Due after 10 years through 15 years | 6,932,105 | 453,895 | | |
| Due after 15 years | 18,033,719 | 1,039,281 | | |
| Total Investment Securities | \$ 68,161,572 | \$1,701,670 | | \$ (424, |
| | ===== | ===== | | ===== |

At December 31, 2004 and September 30, 2004, U.S. Government Agencies include structured note securities with periodic interest rate adjustments and are callable periodically by the issuing agency. These structured notes were comprised of step-up bonds with par values of \$35.7 and \$38.7 million respectively, at December 31, 2004 and September 30, 2004. The Company has the positive intent and the ability to hold these securities to maturity.

page -6-

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | December 31, 2004 | | | Fair Value |
|-----------------------------|-------------------|-----------------------|-------------------------|--------------|
| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Losses | |
| Equities | \$ 972,917 | \$ 72,437 | \$ (4,199) | \$ 1,041,155 |
| Mutual Funds | 2,645,647 | | | 2,645,647 |
| Total Investment Securities | \$ 3,618,564 | \$ 72,437 | \$ (4,199) | \$ 3,686,802 |

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

| | Less than 12 Months | | 12 Months or Longer | | Total Fair Value | Total Unrealized Losses |
|----------|---------------------|-------------------|---------------------|-------------------|------------------|-------------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| Equities | \$ 299,700 | \$ (4,199) | \$ -- | \$ -- | \$ 299,700 | \$ -- |
| Total | \$ 299,700 | \$ (4,199) | \$ -- | \$ -- | \$ 299,700 | \$ -- |

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

| | September 30, 2004 | | | Fair Value |
|-----------------------------|--------------------|-----------------------|-------------------------|--------------|
| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Losses | |
| Equities | \$ 971,110 | \$ 58,377 | \$ -- | \$ 1,029,487 |
| Mutual Funds | 6,685,353 | | | 6,685,353 |
| Total Investment Securities | \$ 7,656,463 | \$ 58,377 | \$ -- | \$ 7,714,840 |

Proceeds from the sale of investments available for sale during the period ended December 31, 2004 were \$4,613,000 resulting in a pre-tax gain of \$64,000.

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

| | December 31, 2004 | | | |
|---|----------------------|------------------------------|-------------------------------|---------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
| Collateralized mortgage obligations | \$ 17,665,769 | \$ 72,497 | \$ (70,266) | \$ 17,665,999 |
| FHLMC pass-through certificates | 122,760,750 | 513,076 | (321,826) | 122,952,000 |
| FNMA pass-through certificates | 116,582,198 | 669,264 | (713,462) | 116,537,999 |
| GNMA pass-through certificates | 9,444,605 | 480,395 | | 9,925,000 |
| Total Mortgage-Backed Securities | \$266,453,322 | \$ 1,735,232 | \$ (1,105,554) | \$267,082,800 |

A summary of investment with unrealized losses, aggregated by category, at December 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 | \$128,885,186 | \$(1,105,554) | \$ -- | \$ -- |
| Total | \$128,885,186 | \$(1,105,554) | \$ -- | \$ -- |

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

| | September 30, 2004 | | | |
|-------------------------------------|--------------------|------------------------------|-------------------------------|---------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
| Collateralized mortgage obligations | \$ 8,733,300 | \$ 42,446 | \$ (71,746) | \$ 8,704,000 |
| FHLMC pass-through certificates | 118,448,507 | 717,032 | (189,539) | 118,976,000 |
| FNMA pass-through certificates | 123,234,413 | 831,713 | (641,126) | 123,425,000 |
| GNMA pass-through certificates | 10,875,510 | 579,490 | | 11,455,000 |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | | | |
|----------------------------------|---------------|--------------|--------------|---------------|
| Total Mortgage-Backed Securities | \$261,291,730 | \$ 2,170,681 | \$ (902,411) | \$262,560,000 |
| | ===== | ===== | ===== | ===== |

The Company has the positive intent and ability to hold these securities to maturity.

page -8-

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

| | Amortized Cost | December 31, 2004 | | Fair Value |
|----------------------------------|-------------------|------------------------------|-------------------------------|--------------|
| | | Gross Unrealized Gains | Gross Unrealized Losses | |
| FNMA pass-through certificates | \$ 2,553,804 | \$ -- | \$ (2,843) | \$ 2,550,961 |
| Total Mortgage-Backed Securities | \$ 2,553,804 | \$ -- | \$ (2,843) | \$ 2,550,961 |
| | ===== | ===== | ===== | ===== |

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

| | Less than 12 Months | | 12 Months or Longer | |
|--|---------------------|-------------------|---------------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities available for sale | \$ 2,550,961 | \$ (2,843) | \$ -- | \$ -- |
| Total | \$ 2,550,961 | \$ (2,843) | \$ -- | \$ -- |
| | ===== | ===== | ===== | ===== |

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the securities are temporarily impaired.

| | Amortized Cost | September 30, 2004 | | Fair Value |
|-------|-------------------|------------------------------|-------------------------------|------------|
| | | Gross Unrealized Gains | Gross Unrealized Losses | |
| ----- | | | | |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | | | |
|----------------------------------|--------------|----------|-------------|--------------|
| FNMA pass-through certificates | \$ 3,803,463 | \$ 2,518 | \$ (10,706) | \$ 3,795,274 |
| | ----- | ----- | ----- | ----- |
| Total Mortgage-Backed Securities | \$ 3,803,463 | \$ 2,518 | \$ (10,706) | \$ 3,795,274 |
| | ===== | ===== | ===== | ===== |

6. LOANS RECEIVABLE

Loans receivable consist of the following:

| | December 31, 2004 | September 30, 2004 |
|---|-------------------|--------------------|
| | ----- | ----- |
| Residential Mortgages | \$ 257,033,912 | \$ 256,512,743 |
| Commercial Mortgages | 3,834,962 | 2,141,481 |
| Construction | 8,328,360 | 7,970,663 |
| Savings Account | 745,270 | 811,032 |
| Home Equity | 48,909,931 | 46,256,556 |
| Automobile and other | 711,467 | 732,062 |
| Line of Credit | 32,917,504 | 32,329,416 |
| | ----- | ----- |
| Total | 352,481,406 | 346,753,953 |
| Undisbursed portion of loans in process | (8,499,104) | (5,237,847) |
| Deferred loan fees | (898,372) | (955,052) |
| Allowance for loan losses | (1,974,000) | (1,976,849) |
| | ----- | ----- |
| Loans receivable - net | \$ 341,109,930 | \$ 338,584,205 |
| | ===== | ===== |

The total amount of loans being serviced for the benefit of others was approximately \$4.4 million and \$4.5 million at December 31, 2004 and September 30, 2004, respectively.

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

| | Three Months Ended December 31, | |
|------------------------------|---------------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| Balance, beginning of period | \$ 1,976,849 | \$ 1,990,672 |
| Provision for loan losses | -- | -- |
| Amounts charged-off | (4,084) | (3,088) |
| Loan recoveries | 1,235 | 63 |
| | ----- | ----- |
| Balance, end of period | \$ 1,974,000 | \$ 1,987,647 |
| | ===== | ===== |

page -9-

7. OFFICE PROPERTIES AND EQUIPMENT

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

December 31, 2004 September 30, 2004

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | | |
|-----------------------------------|--------------|--------------|
| Land and buildings | \$ 6,534,779 | \$ 6,489,050 |
| Furniture, fixtures and equipment | 3,352,451 | 3,102,835 |
| Automobiles | 24,896 | 24,896 |
| | ----- | ----- |
| Total | 9,912,126 | 9,616,781 |
| Less accumulated depreciation | (3,977,759) | (3,867,806) |
| | ----- | ----- |
| Net | \$ 5,934,367 | \$ 5,748,975 |
| | ===== | ===== |

8. DEPOSITS

Deposits are summarized as follows:

| | December 31, 2004 | September 30, 2004 |
|-------------------------------|-------------------|--------------------|
| | ----- | ----- |
| Non-interest bearing checking | \$ 9,681,526 | \$ 8,335,991 |
| NOW accounts | 21,296,647 | 19,838,879 |
| Checking accounts | 3,634,018 | 3,431,273 |
| Money Market Demand accounts | 99,100,575 | 100,448,760 |
| Passbook and Club accounts | 3,651,582 | 4,047,204 |
| Certificate accounts | 271,402,050 | 269,128,532 |
| | ----- | ----- |
| Total deposits | \$408,766,398 | \$405,230,639 |
| | ===== | ===== |

The aggregate amount of certificate accounts in denominations of more than \$100,000 at December 31 and September 30, 2004 amounted to approximately \$28.7 million and \$28.1 million, respectively. Amounts in excess of \$100,000 are not federally insured.

9. COMMITMENTS

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

| | |
|---|--------------|
| Origination of fixed-rate mortgage loans | \$ 8,221,910 |
| Origination of adjustable-rate mortgage loans | 146,250 |
| Unused line of credit loans | 36,602,364 |
| Loans in process | 8,499,104 |
| | ----- |
| Total | \$53,469,628 |
| | ===== |

10. CASH DIVIDEND AND STOCK SPLIT

On January 26, 2005, the Board of Directors declared a five for three stock split and declared a cash dividend of \$.25 per share payable on February 23, 2005 to the stockholders' of record at the close of business on February 9, 2005. The number of shares and dividends on the face of the consolidated financial statements do not reflect the five for three stock split. The shares of Harleysville Savings Financial Corporation will trade on February 24, 2005 on a post split basis.

Three Months Ended December 31,

2004

2003

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

| | ----- Basic ----- | ----- Diluted ----- | ----- Basic ----- | ----- Diluted ----- |
|--|-------------------------|---------------------------|-------------------------|---------------------------|
| Pre-split number of shares outstanding | 2,299,407 | 2,343,815 | 2,269,265 | 2,327,971 |
| Additional shares due to stock split | 1,532,938 | 1,562,543 | 1,512,843 | 1,551,988 |
| Post-split number of shares | 3,832,345 | 3,906,358 | 3,782,108 | 3,879,959 |
| | ----- | ----- | ----- | ----- |
| | ----- Basic ----- | ----- Diluted ----- | ----- Basic ----- | ----- Diluted ----- |
| Pre-split earnings per share | \$ 0.55 | \$ 0.54 | \$ 0.53 | \$ 0.52 |
| Post-split earnings per share | 0.33 | 0.32 | 0.32 | 0.32 |
| Pre-split dividend per share | \$ 0.22 | | \$ 0.20 | |
| Post-split dividend per share | 0.13 | | 0.12 | |

page -10-

11. EARNINGS PER SHARE

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

| | For the Three Months Ended December 31, | |
|---------|--|------------------------|
| | ----- 2004 ----- | ----- 2003 ----- |
| Basic | 2,299,407 | 2,269,265 |
| Diluted | 2,343,815 | 2,327,971 |

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:

| Maturing Period | December 31, 2004 | | September 30, 2004 | |
|------------------|----------------------|------------------------------|-----------------------|------------------------------|
| | Amount | Weighted Interest Rate | Amount | Weighted Interest Rate |
| 1 to 12 months | \$ 30,043,158 | 3.64% | \$ 40,428,147 | 3.40% |
| 13 to 24 months | 22,547,072 | 3.75% | 9,545,900 | 3.55% |
| 25 to 36 months | 22,088,497 | 3.36% | 28,476,845 | 3.59% |
| 37 to 48 months | 67,960,282 | 4.84% | 54,582,988 | 5.08% |
| 49 to 60 months | 20,801,721 | 3.70% | 34,950,243 | 3.77% |
| 61 to 72 months | 15,000,000 | 6.08% | 15,000,000 | 6.08% |
| 73 to 84 months | 37,781,643 | 4.67% | 25,968,870 | 4.89% |
| 85 to 120 months | 52,000,000 | 4.41% | 57,000,000 | 4.43% |
| Total | \$268,222,373 | 4.36% | \$265,952,993 | 4.34% |

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

The advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which \$10.6 million out of \$30.0 was used at December 31, 2004 and \$19.1 million was used as of September 30, 2004. Included in the table above at December 31, 2004 and September 30, 2004 are convertible advances whereby the FHLB has the option at a predetermined strike rate to convert the fixed interest rate to an adjustable rate tied to London Interbank Offered Rate ("LIBOR"). The Company then has the option to repay these advances if the FHLB converts the interest rate. These advances are included in the periods in which they mature. The Company has a total borrowing capacity of \$527.0 million of which \$268.2 million was used as of December 31, 2004.

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 consolidated 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, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 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 |
|--|--------------|--------|--------------|
| | Amount | Ratio | Adequacy P |
| ----- | | | |
| As of December 31, 2004 | | | |
| Tier 1 Capital (to assets) | \$45,105,227 | 6.25% | \$28,862,329 |
| Tier 1 Capital (to risk weighted assets) | 45,105,227 | 13.59% | 13,272,209 |
| Total Capital (to risk weighted assets) | 47,110,227 | 14.20% | 26,544,418 |
| As of September 30, 2004 | | | |
| Tier 1 Capital (to assets) | \$44,124,545 | 6.20% | \$28,480,960 |
| Tier 1 Capital (to risk weighted assets) | 44,124,545 | 13.69% | 12,890,920 |
| Total Capital (to risk weighted assets) | 46,127,545 | 14.31% | 25,781,840 |

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 consolidated financial statements are prepared based on the application of certain accounting policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations.

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

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

Specific Allowance Required for Certain Impaired or Collateral-Dependent Loans: We establish a allowance for certain impaired loans for the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. At December 31, 2004, no loans were considered impaired.

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

General Valuation Allowance on the Remainder of the Loan Portfolio - We establish another general allowance for loans that are not classified to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is

page -12-

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

Changes in Financial Position for the Three Month Period Ended December 31, 2004

Total assets at December 31, 2004 were \$727.0 million, an increase of \$8.8 million or 1.2% for the three month period then ended. This increase was primarily the result of an increase in other assets due to the purchase of bank owned life insurance, mortgage-backed securities held to maturity, loan receivables, investment securities held to maturity of \$2.9 million, \$5.2 million, \$2.5 million and \$2.8 million, respectively. This growth is one of the ways the Company manages its capital based on its business plan. The increase was partially offset by a decrease in investment securities available for sale and mortgage-backed securities available for sale of \$4.0 million and \$1.2 million, respectively.

During the three-month period ended December 31, 2004, total deposits increased by \$3.6 million to \$408.8 million. Advances from borrowers for taxes and insurance also increased by \$1.7 million. There was also an increase in advances from Federal Home Loan Bank of \$2.3 million, which was used for the origination of loans and the purchase of mortgage-backed securities. This growth is a result of the growth in our local market and the execution of our business plan which calls for asset growth.

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

31, 2004 with the Three Month Period Ended December 31, 2003

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

Net Interest Income

The increase in the net interest income for the three month period ended December 31, 2004 when compared to the same period in 2003 can be attributed to the increase in interest rate spread from 1.57% in 2003 to 1.68% in 2004. Total interest income was \$8.6 million for the three month period ended December 31, 2004 compared to \$8.1 million for the comparable period in 2003. The increase was a result of an increase in the average balance of interest-earning assets of \$34.6 million and an increase in the average yield for the interest-earning assets to 4.89% for the three month period ended December 31, 2004 from 4.84% for the comparable period in 2003.

Total interest expense increased to \$5.4 million for the three month period ended December 31, 2004 from \$5.2 million for the comparable period in 2003. This increase was the result of an increase in the average interest bearing liabilities average balance to \$666.8 million from \$632.4 million for the three month period ended December 31, 2004 and 2003. The increase was partially offset by a decrease in the average cost on interest-bearing liabilities to 3.21% for the three month period ended December 31, 2004 from 3.27% for the comparable period ended December 31, 2003.

Non-Interest Income

Non-interest income decreased to \$406,000 for the three month period ended December 31, 2004 from \$453,000 for the comparable period in 2003. The decrease is due to a decrease in gain on the sale of loans and investment securities available for sale.

Non-Interest Expenses

For the three month period ended December 31, 2004, non-interest expenses increased by \$212,000 or 12.2% to \$2.0 million compared to \$1.8 million for the same period in 2003. Management believes these are reasonable increases in the cost of operations after considering the impact of the 4.4% growth in the assets of the Company since December 31, 2003. The annualized ratio of non-interest expenses to average assets for the three month

page -13-

period ended December 31, 2004 and 2003 was 1.08% and 1.02%, respectively. The Company anticipates additional expenses in relation to the adoption of Sarbanes-Oxley Section 404 in the current fiscal year in the form of professional fees.

Income Taxes

The Company made provisions for income taxes of \$427,000 for the three-month period ended December 31, 2004 compared to \$391,000 for the comparable period in 2003. The primary reason for the increase in the percentage of tax expense in 2004 was the increase in amount of taxable income which was partially offset by an increase in nontaxable income.

Liquidity and Capital Recourses

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

As of December 31, 2004, the Company had \$53.5 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, 2005, is \$84.9 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 \$527.0 million at December 31, 2004 of which \$268.2 million was outstanding at December 31, 2004.

The Bank's net income for the quarter ended December 31, 2004 of \$1,341,000 increased the Bank's stockholders' equity to \$45.2 million or 6.3% 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, 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

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

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 | \$ 42,734 | \$ 61,866 | \$ 43,595 |
| Mortgage-backed securities | 55,481 | 59,256 | 42,811 |
| Consumer and other loans | 55,064 | 19,579 | 6,762 |
| Investment securities and other investments | 27,693 | 4,010 | 9,847 |
| | ----- | ----- | ----- |
| Total interest-earning assets | 180,972 | 144,711 | 103,015 |
| | ----- | ----- | ----- |
| Interest-bearing liabilities | | | |
| Passbook and Club accounts | -- | -- | -- |
| NOW and checking accounts | -- | -- | -- |
| Money Market Deposit accounts | 30,926 | -- | -- |
| Choice Savings | 4,532 | | |
| Certificate accounts | 84,869 | 114,118 | 72,415 |
| Borrowed money | 52,253 | 61,062 | 55,656 |
| | ----- | ----- | ----- |
| Total interest-bearing liabilities | 172,580 | 175,180 | 128,071 |
| | ----- | ----- | ----- |
| Repricing GAP during the period | \$ 8,392 | \$ (30,469) | \$ (25,056) |
| | ===== | ===== | ===== |
| Cumulative GAP | \$ 8,392 | \$ (22,077) | \$ (47,133) |
| | ===== | ===== | ===== |
| Ratio of GAP during the period to total assets | 1.22% | -4.43% | -3.65% |
| | ===== | ===== | ===== |
| Ratio of cumulative GAP to total assets | 1.22% | -3.21% | -6.86% |

=====

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

page -15-

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.

page -16-

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 26, 2005
- (c) There were 2,303,542 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 2,029,456 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 |
|-------------------------|-----------|----------|
| | --- | ----- |
| Philip A. Clemens | 2,015,911 | 13,545 |
| Edward J. Molnar | 2,015,501 | 13,955 |
| Charlotte A. Hunsberger | 2,014,569 | 14,887 |

Election of director for a one-year term:

| | FOR | WITHHELD |
|----------------------|-----------|----------|
| | --- | ----- |
| James L. Rittenhouse | 2,014,411 | 15,045 |

Name of each director whose term of office continued:

Edgar Filing: HARLEYSVILLE SAVINGS FINANCIAL CORP - Form 10-Q

David J. Friesen
George W. Meschter
Sanford L. Alderfer
Mark R. Cummins
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, 2005

| FOR | AGAINST | ABSTAIN |
|-----------|---------|---------|
| --- | ----- | ----- |
| 2,023,615 | 938 | 4,903 |

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

page -17-