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HARLEYSVILLE SAVINGS FINANCIAL CORP

Form 10-Q

February 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

OR

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

For the transition period from to

Commission file number 0-29709

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-3028464

(State or other jurisdiction of
incorporation or organization)

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

271 Main Street, Harleysville, Pennsylvania 19438

(Address of principal executive offices)
(Zip Code)

(215) 256-8828

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [] Yes [X] No

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

Common Stock, \$.01 Par Value, 3,735,894 shares outstanding as of February 12, 2008

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

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Harleysville Savings Financial Corporation
 Unaudited Condensed Consolidated Statements of Financial Condition

(In thousands, except share data)	December 31, 2007

Assets	
Cash and amounts due from depository institutions	\$ 1,465
Interest bearing deposits in other banks	9,509

Total cash and cash equivalents	10,974
Investment securities held to maturity (fair value - December 31, \$115,132; September 30, \$109,305)	113,234
Investment securities available-for-sale at fair value	1,521
Mortgage-backed securities held to maturity (fair value - December 31, \$193,850; September 30, \$188,612)	194,940
Mortgage-backed securities available-for-sale at fair value	795
Loans receivable (net of allowance for loan losses - December 31, \$1,924; September 30, \$1,932)	428,916
Accrued interest receivable	4,055
Federal Home Loan Bank stock - at cost	13,999
Office properties and equipment, net	9,875
Prepaid expenses and other assets	13,579

TOTAL ASSETS	\$ 791,888
	=====
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	\$ 440,500
Advances	298,711
Accrued interest payable	1,541
Advances from borrowers for taxes and insurance	3,267
Accounts payable and accrued expenses	630

Total liabilities	744,649

Stockholders' equity:	
Preferred Stock: \$.01 par value; 12,500,000 shares authorized; none issued	
Common stock: \$.01 par value; 25,000,000 shares authorized; 3,921,177 shares issued	39
Additional Paid-in capital	8,032
Treasury stock, at cost (Dec. 2007, 193,700 shares; Sept. 2007, 203,658)	(3,151)

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Retained earnings - partially restricted	42,533
Accumulated other comprehensive loss	(214)

Total stockholders' equity	47,239

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 791,888
	=====

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

(In thousands, except per share data)	For the Three Months Ended December 31,	
	2007	2006
	----	----
INTEREST INCOME:		
Interest on mortgage loans	\$ 4,585	\$ 4,213
Interest on commercial loans	308	41
Interest on mortgage-backed securities	2,281	2,444
Interest on consumer and other loans	1,516	1,510
Interest on taxable investments	1,451	1,257
Interest on tax-exempt investments	351	360
Dividends on investment securities	9	16
	-----	-----
Total interest income	10,501	9,841
	-----	-----
Interest Expense:		
Interest on deposits	4,145	3,710
Interest on borrowings	3,486	3,306
	-----	-----
Total interest expense	7,631	7,016
	-----	-----
Net Interest Income	2,870	2,825
Provision for loan losses	--	--
	-----	-----
Net Interest Income after Provision for Loan Losses	2,870	2,825
	-----	-----
Other Income:		
Customer service fees	164	130
Income on bank-owned life insurance	131	118
Other income	204	125
	-----	-----
Total other income	499	373
	-----	-----
Other Expenses:		
Salaries and employee benefits	1,320	1,255
Occupancy and equipment	266	253
Deposit insurance premiums	12	13
Data processing	119	156

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Other	669	583
	-----	-----
Total other expenses	2,386	2,260
	-----	-----
Income before Income Taxes	983	938
Income tax expense	182	181
	-----	-----
Net Income	\$ 801	\$ 757
	=====	=====
Basic Earnings Per Share	\$ 0.22	\$ 0.20
	=====	=====
Diluted Earnings Per Share	\$ 0.21	\$ 0.19
	=====	=====
Dividends Per Share	\$ 0.17	\$ 0.17
	=====	=====

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

(In thousands)	Three Months December 2007
-----	-----
Net Income	\$ 801
Other Comprehensive Income	
Unrealized (loss) gain on securities, net of tax 2007, (\$64); 2006, \$20	(125) (1)

Total Comprehensive Income	\$ 676
	=====
(1) Disclosure of reclassification amount, net of tax for the three months ended	2007

Net unrealized gain (loss) arising during the three months ended	\$ (125)
Less: Reclassification adjustment for net gains included in net income	
Net of tax expense -2007, \$0; 2006, \$0	--

Net unrealized (loss) gain on securities	\$ (125)
	=====

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

(In thousands, except share and per share data)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	P R
Balance at October 1, 2007	3,921,177	\$ 39	\$ 8,044	\$ (3,316)	
Net Income					
Dividends - \$.17 per share					
Option Compensation			20		
Treasury Stock issued under Dividend Reinvestment Plan (9,958 shares)			(32)	165	
Unrealized holding gain on available - for- sale securities, net of tax					
Balance at December 31, 2007	<u>3,921,177</u>	<u>\$ 39</u>	<u>\$ 8,032</u>	<u>\$ (3,151)</u>	

(In thousands, except share and per share data)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	P R
Balance at October 1, 2006	3,921,177	\$ 39	\$ 7,992	\$ (1,262)	
Net Income					
Dividends - \$.17 per share					
Option Compensation			32		
Treasury stock issued for stock options exercised (2,500 shares)			(19)	43	
Treasury Stock issued under Dividend Reinvestment Plan (8,555 shares)			(1)	149	
Unrealized holding gain on available - for- sale securities, net of tax					
Balance at December 31, 2006	<u>3,921,177</u>	<u>\$ 39</u>	<u>\$ 8,004</u>	<u>\$ (1,070)</u>	

See notes to unaudited condensed consolidated financial statements.

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Harleysville Savings Financial Corporation
 Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended December	
	2007	2006
Operating Activities:		
Net Income	\$ 801	\$ 75
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	127	13
Deferred income taxes	47	(2)
Amortization of deferred loan fees	5	(1)
Net amortization of premiums and discounts	17	8
Increase in cash surrender value	(131)	(11)
Compensation charge on stock options	20	3
Changes in assets and liabilities which provided (used) cash:		
(Decrease) Increase in accounts payable and accrued expenses	(426)	1
Decrease in prepaid expenses and other assets	376	1
Decrease (increase) in accrued interest receivable	(8)	20
Decrease in accrued interest payable	(15)	(13)
Net cash provided by operating activities	813	95
Investing Activities:		
Purchase of investment securities held to maturity	(14,619)	(2,47)
Proceeds from maturities of investment securities available-for-sale	222	-
Proceeds from sale of investment securities available-for-sale	--	5,65
Proceeds from redemption of FHLB stock	141	99
Proceeds from maturities of investment securities held to maturity	7,964	18,45
Principal collected on long-term loans & mortgage-backed securities	22,446	24,44
Long-term loans originated or acquired	(32,314)	(20,09)
Purchases of premises and equipment	(85)	(2,13)
Net cash (used in) provided by investing activities	(16,245)	24,85
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	372	2,72
Net increase (decrease) in certificates of deposit	16,093	(1,84)
Cash dividends	(631)	(65)
Proceeds from long-term debt	47,000	-
Repayment of long-term debt	(46,898)	(28,74)
Treasury stock delivered under Dividend Reinvestment and employee stock plans	133	17
Net increase in advances from borrowers for taxes and insurance	2,020	1,79
Net cash provided by (used in) financing activities	18,089	(26,55)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,657	(75)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,317	10,05
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,974	\$ 9,30

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Supplemental Disclosure of Cash Flow Information

Cash paid during the period for:

Interest (credited and paid)	\$	7,646	\$	7,14
Income taxes	\$	300	\$	-

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three months ended December 31, 2007 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2008 or any other period. The financial information should be read in conjunction with the Annual Report on Form 10-K for the period ended September 30, 2007.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial 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.

Recent Accounting Pronouncements - In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company

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must presume the tax position will be examined by the relevant tax authority and determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 represents a change in accounting principle and shall be reported as an adjustment to the opening balance of retained earnings. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. There was no impact on the Company's financial statements upon adoption of FIN 48 as of October 1, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for certain financial instruments which require retrospective application as of the beginning of the fiscal year of initial application (a limited form of retrospective application). The transition adjustment, measured as the difference between the carrying amounts and the fair values of those financial instruments at the date SFAS No. 157 is initially applied, should be recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the impact of adopting SFAS No. 157 on its Consolidated Financial Statements.

In December 2007, the FASB issued proposed FASB Staff Position (FSP) 157-b, "Effective Date of FASB Statement No. 157," that would permit a one-year deferral in applying the measurement provisions of Statement No. 157 to non-financial assets and non-financial liabilities (non-financial items) that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be

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recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of Statement 157 to that item is deferred until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. This deferral does not apply, however, to an entity that applies Statement 157 in interim or annual financial statements before proposed FSP 157-b is finalized. The Company is currently evaluating the impact, if any, that the adoption of FSP 157-b will have on the Company's operating income or net earnings.

In September 2006, the Emerging Issues Task Force (EITF) of FASB issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit

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Aspects of Endorsement Split Dollar Life Insurance Arrangements" (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Company is continuing to evaluate the impact of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company October 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares, nonvested equity share units and outstanding equity share options charged to retained earnings

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as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that are declared in fiscal years beginning after December 15, 2007. The Company expects that EITF 06-11 will not have an impact on its consolidated financial statements.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons". The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The adoption of this standard had no impact on the Company's consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10

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"Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements: (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

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

In December 2007, FASB issued statement No. 160 "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51". This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15,

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2008. The Company believes that this new pronouncement will have an immaterial impact on the Company's financial statements in future periods.

Staff Accounting Bulletin No. 110 (SAB 110) amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use of the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008.

Staff Accounting Bulletin No. 109 (SAB 109), "Written Loan Commitments Recorded at Fair Value Through Earnings" expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. To make the staff's views consistent with current authoritative accounting guidance, the SAB revises and rescinds portions of SAB No. 105, "Application of Accounting Principles to Loan Commitments." Specifically, the SAB revises the SEC staff's views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. The SAB retains the staff's views on incorporating expected net future cash flows related to internally-developed intangible assets in the fair value measurement of a written loan commitment. The staff expects registrants to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect SAB 109 to have a material impact on its financial statements.

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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:

(In thousands)	Amortized Cost	December 31, 2007 Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies	\$ 88,168	\$ 787	\$ (19)	\$ 88,936
Tax-Exempt Obligations	25,066	1,248	(118)	26,196
Total Investment Securities	\$ 113,234	\$ 2,035	\$ (137)	\$ 115,132

(In thousands)	Amortized Cost	September 30, 2007 Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
U.S. Government Agencies	\$ 83,155	\$ 211	\$ (533)	\$ 82,834
Tax Exempt Obligations	25,538	1,101	(167)	26,471
Total Investment Securities	\$ 108,693	\$ 1,312	\$ (700)	\$ 109,305

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3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

(In thousands)	Amortized Cost	December 31, 2007 Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	\$ 1,502	\$ 1	\$ (335)	\$ 1,168

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Money Market Mutual Funds	353				353
	-----	-----	-----	-----	-----
Total Investment Securities	\$ 1,855	\$ 1	\$ (335)	\$ 1,521	
	=====	=====	=====	=====	

(In thousands)	Amortized Cost	September 30, 2007		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Equity Securities	\$ 1,501	\$ 6	\$ (173)	\$ 1,334
Money Market Mutual Funds	576			576
	-----	-----	-----	-----
Total Investment Securities	\$ 2,077	\$ 6	\$ (173)	\$ 1,910
	=====	=====	=====	=====

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4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

(In thousands)	Amortized Cost	December 31, 2007		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 16,124	\$ 80	\$ (159)	\$ 16,045
FHLMC pass-through certificates	95,877	375	(857)	95,395
FNMA pass-through certificates	82,704	96	(627)	82,173
GNMA pass-through certificates	235	2		237
	-----	-----	-----	-----
Total Mortgage-Backed Securities	\$ 194,940	\$ 553	\$ (1,643)	\$ 193,850
	=====	=====	=====	=====

(In thousands)	Amortized Cost	September 30, 2007		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Collateralized mortgage obligations	\$ 16,471	\$ 97	\$ (299)	\$ 16,269
FHLMC pass-through certificates	89,533	164	(2,198)	87,499
FNMA pass-through certificates	86,586	12	(2,008)	84,590
GNMA pass-through certificates	252	2		254
	-----	-----	-----	-----

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Total Mortgage-Backed Securities	\$ 192,842	\$ 275	\$ (4,505)	\$ 188,612
	=====	=====	=====	=====

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5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

(In thousands)	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	\$ 785	\$ 10	\$ --	\$ 795
	-----	-----	-----	-----
Total Mortgage-Backed Securities	\$ 785	\$ 10	\$ --	\$ 795
	=====	=====	=====	=====

(In thousands)	September 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	\$ 785	\$ 32	\$ --	\$ 817
	-----	-----	-----	-----
Total Mortgage-Backed Securities	\$ 785	\$ 32	\$ --	\$ 817
	=====	=====	=====	=====

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	(In thousands)	
	December 31, 2007	September 30, 2007
Residential Mortgages	\$ 314,078	\$ 305,341
Commercial Mortgages	18,696	15,314
Construction	3,988	6,093
Savings Account	1,036	977
Home Equity	73,673	74,218
Automobile and other	933	904
Home Equity Line of Credit	22,201	21,386
	-----	-----
Total	434,605	424,233
Undisbursed portion of loans in process	(3,384)	(2,795)
Deferred loan fees	(381)	(453)

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Allowance for loan losses	(1,924)	(1,932)
	-----	-----
Loans Receivable - net	\$ 428,916	\$ 419,053
	=====	=====

The total amount of loans being serviced for the benefit of others was approximately \$3.6 million at December 31, 2007 and September 30, 2007, respectively.

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

	Three Months Ended	
	December 31, 2007	September 30, 2007

	(In thousands)	
Balance, beginning of period	\$ 1,933	\$ 1,956
Amounts charged-off	(13)	(37)
Loan recoveries	4	13
	-----	-----
Balance, end of period	\$ 1,924	\$ 1,932
	=====	=====

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7. DEPOSITS

Deposits are summarized as follows:

	(In thousands)	
	December 31, 2007	September 30, 2007

Non-interest bearing checking	\$ 11,296	\$ 11,740
NOW accounts	15,680	13,711
Interest Checking accounts	27,082	25,750
Money Market Demand accounts	49,653	51,827
Passbook and Club accounts	2,553	2,864
Certificate accounts	334,236	318,143
	-----	-----
Total deposits	\$ 440,500	\$ 424,035
	=====	=====

The aggregate amount of certificate accounts in denominations of more than \$100,000 at December 31, 2007 and September 30, 2007 amounted to approximately \$54.7 million and \$53.6 million, respectively. Amounts in excess of \$100,000 may not be federally insured.

8. COMMITMENTS

At December 31, 2007, the following commitments were outstanding:

	(In thousands)
Origination of mortgage loans	\$ 14,699
Unused line of credit loans	46,158
Loans in process	3,384

Total	\$ 64,241
	=====

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9. EARNINGS PER SHARE

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

	For the Three Months Ended December 31,	
	2007	2006
Basic	3,721,413	3,854,322
Diluted	3,736,585	3,892,750

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.

10. ADVANCES

Advances consists of the following:

Maturing Period	December 31, 2007		September 30, 2007	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	\$ 60,346	4.54%	\$ 69,227	5.07%
13 to 24 months	19,791	4.33%	20,043	4.37%
25 to 36 months	22,162	4.46%	17,410	4.50%
37 to 48 months	34,596	4.73%	23,595	4.99%
49 to 60 months	46,816	4.55%	58,334	4.48%
61 to 72 months	20,000	4.63%	20,000	4.63%
73 to 84 months	20,000	4.26%	20,000	4.26%
85 to 120 months	75,000	4.12%	70,000	4.50%
Total	\$ 298,711	4.49%	\$ 298,609	4.65%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which \$25.5 million out of \$75.0 million was used at December 31, 2007 and \$31.5 million was used as of September 30, 2007, for general purposes. Included in the table above at December 31, 2007 and September 30, 2007 are convertible advances whereby the FHLB has the option at a predetermined strike rate to convert the fixed interest rate to an adjustable rate tied to London Interbank Offered Rate ("LIBOR"). The Company then has the option to repay these advances if the FHLB converts the interest rate. These advances are included in the periods in which they mature. The Company has a total FHLB borrowing capacity of \$522.1 million of which \$258.7 million was used as of December 31, 2007. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling \$40 million.

11. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (the "Bank") is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet

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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, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purpo (In thousands)
	Amount	Ratio	Amount

As of December 31, 2007			
Tier 1 Capital (to assets)	\$ 47,125	6.03%	\$ 31,286
Tier 1 Capital (to risk weighted assets)	47,125	11.91%	15,827
Total Capital (to risk weighted assets)	49,049	12.40%	31,654
As of September 30, 2007			
Tier 1 Capital (to assets)	\$ 46,797	6.02%	\$ 31,021
Tier 1 Capital (to risk weighted assets)	46,797	12.12%	15,443
Total Capital (to risk weighted assets)	48,729	12.62%	30,886

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

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Company does not intend to update these forward-looking statements.

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

Critical Accounting Policies and Judgments

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

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 an allowance for certain impaired loans for the amounts by which the 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 probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. At December 31, 2007 and September 30, 2007, 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 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

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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,

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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, 2007

Total assets at December 31, 2007 were \$791.9 million, an increase of \$18.3 million for the three-month period then ended. The increase was primarily due to the retail growth in mortgage and commercial loans, resulting in an overall increase in loans receivable of approximately \$9.9 million. There was also an increase in investments due to purchases less maturities of approximately \$6.6 million. The increase was partially offset by a decrease in accounts payable and accrued expenses of \$426,000.

During the three-month period ended December 31, 2007, total deposits increased by \$16.5 million to \$440.5 million. Advances from borrowers for taxes and insurance also increased by \$2.0 million. There was also an increase in advances of \$103,000.

Comparisons of Results of Operations for the Three Month Period Ended December 31, 2007 with the Three Month Period Ended December 31, 2006

Net Interest Income

The increase in the net interest income for the three-month period ended December 31, 2007 when compared to the same period in 2006 can be attributed to the increase in interest rate spread from 1.45% in 2006 to 1.46% in 2007. Net interest income was \$2.9 million for the three-month period ended December 31, 2007 compared to \$2.8 million for the comparable period in 2006.

Non-Interest Income

Non-interest income increased to \$499,000 for the three-month period ended December 31, 2007 from \$373,000 for the comparable period in 2006. The increase is primarily due to the fact that the Company had additional income related to customers transaction accounts.

Non-Interest Expenses

For the three-month period ended December 31, 2007, non-interest expenses increased by \$126,000 or 5.6% to \$2.4 million compared to \$2.3 million for the same period in 2006. Management believes that these are reasonable increases in the cost of operations after considering the impact of additional expenses related to the Company's new commercial loan department. The annualized ratio of non-interest expenses to average assets for the three-month period ended December 31, 2007 and 2006 was 1.21% and 1.19%, respectively.

Income Taxes

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The Company made provisions for income taxes of \$182,000 for the three-month period ended December 31, 2007 compared to \$181,000 for the comparable period in 2006. These provisions are based on the levels of pre-tax income, adjusted primarily for tax-exempt interest income on investments.

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Liquidity and Capital Recourses

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

As of December 31, 2007, the Company had \$64.2 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and new deposits.

The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh up to the Company's maximum borrowing capacity, which was \$522.1 million at December 31, 2007 of which \$258.7 million was outstanding at December 31, 2007.

The Bank's net income for the three months ended December 31, 2007 of \$801,000 increased the Bank's stockholders' equity to \$47.2 million or 6% 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.

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The authority and responsibility for interest rate management is vested in the Company's Board of Directors. The Chief Executive Officer implements the Board of Directors' policies during the day-to-day operations of the Company. Each month, the Chief Financial Officer ("CFO") presents the Board of Directors with a report, which outlines the Company's asset and liability "gap" position in various time periods. The "gap" is the difference between interest-earning assets and interest-bearing liabilities which mature or reprice over a given time period.

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

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2007, 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	\$ 61,127	\$ 51,688	\$ 21,629
Commercial loans	7,029	2,216	944
Mortgage-backed securities	66,202	66,063	19,041
Consumer and other loans	45,398	27,171	7,582

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Investment securities and other investments	62,880	41,647	19,545
	-----	-----	-----
Total interest-earning assets	242,636	188,785	68,741
	-----	-----	-----
Interest-bearing liabilities			
Passbook and Club accounts	--	--	--
NOW and checking accounts	--	--	--
Consumer Money Market Deposit accounts	15,316		
Business Money Market Deposit accounts	5,116	--	--
Certificate accounts	276,335	50,914	6,987
Borrowed money	67,384	41,549	74,779
	-----	-----	-----
Total interest-bearing liabilities	364,151	92,463	81,766
	-----	-----	-----
Repricing GAP during the period	\$ (121,515)	\$ 96,322	\$ (13,025)
	=====	=====	=====
Cumulative GAP	\$ (121,515)	\$ (25,193)	\$ (38,218)
	=====	=====	=====
Ratio of GAP during the period to total assets	-15.34%	12.16%	-1.64%
	=====	=====	=====
Ratio of cumulative GAP to total assets	-15.34%	-3.18%	-4.83%
	=====	=====	=====

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Item 4. Controls and Procedures

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

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

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Part II OTHER INFORMATION

Item 1. Legal Proceedings

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Not applicable.

Item 1A.

Risk Factors

There are no material changes to the risk factors set forth in Part 1, Item 1A, Risk Factors'' of the Company's Form 10-K for the year ended September 30, 2007. Please refer to that section for disclosures regarding the risk and uncertainties related to the Company's business.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3.

Defaults upon Senior Securities

Not applicable.

Item 4.

Submission of Matters to a Vote of Security Holders

- (a) The annual meeting of Stockholders was held on January 23, 2008.
- (c) There were 3,727,273 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 3,149,857 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 -----
Charlotte A. Hunsberger, Esq.	3,119,513	30,344
Edward J. Molnar	3,121,864	27,993

Name of each director whose term of office continued:

Sanford L. Alderfer
 Mark R. Cummins
 Ronald B. Geib
 David J. Friesen
 George W. Meschter
 James L. Rittenhouse

- 2. Proposal to ratify the appointment by the board of Beard Miller Company LLP as the Company's independent auditors for the year ending September 30, 2008

FOR ---	AGAINST -----	ABSTAIN -----
3,136,241	8,580	5,036

The proposals were adopted by the stockholders of the Company.

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Item 5. Other information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

No.

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

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

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Signatures

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

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

Date: February 13, 2008 By: /s/ Ronald B. Geib

Ronald B. Geib
Chief Executive Officer

Date: February 13, 2008 By: /s/ Brendan J. McGill

Brendan J. McGill
Senior Vice President
Treasurer and Chief Financial Officer

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