HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-K
December 16, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended: September 30, 2011
or

o **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 Number)
271 Main Street, Harleysville, Pennsylvania	19438
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: (215) 256-8828
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	The Nasdaq Stock Market, LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO þ

The aggregate market value of the 3,306,832 shares of the Registrant s common stock held by non-affiliates (3,769,694 shares outstanding, less 462,862 shares held by affiliates), based upon the closing price of $15.10 for a share of common stock on March 31, 2011, as reported by the Nasdaq Stock Market, was approximately $49.9 million. Shares of common stock held by executive officers, directors and by each person who owns 5% or more of the outstanding common stock have been excluded since such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of December 2, 2011: 3,769,694

DOCUMENTS INCORPORATED BY REFERENCE

Set forth below are the documents incorporated by reference and the part of the Form 10-K into which the document is incorporated:

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders for the year ended September 30, 2011 are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

UNITED STATES
HARLEYSVILLE SAVINGS FINANICAL CORPORATION
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 2011
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Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward looking statements (as defined in the Securities Exchange Act of 1934 and the regulations hereunder). Forward looking statements are not historical facts but instead represent only the beliefs, expectations or opinions of Harleysville Savings Financial Corporation and its management regarding future events, many of which, by their nature, are inherently uncertain. Forward looking statements may be identified by the use of such words as: believe , expect , anticipate , intend , plan , estimate , or words of similar meaning, or future or conditional terms such as will , would , should , could , may , likely , probably , or possibly. Forward looking statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks, uncertainties and assumption, many of which are difficult to predict and generally are beyond the control of Harleysville Savings Financial Corporation and its management, that could cause actual results to differ materially from those expressed in, or implied or projected by, forward looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward looking statements: (1) economic and competitive conditions which could affect the volume of loan originations, deposit flows and real estate values; (2) the levels of non-interest income and expense and the amount of loan losses; (3) competitive pressure among depository institutions increasing significantly; (4) changes in the interest rate environment causing reduced interest margins; (5) general economic conditions, either nationally or in the markets in which Harleysville Savings Financial Corporation is or will be doing business, being less favorable than expected;(6) political and social unrest, including acts of war or terrorism; or (7) legislation or changes in regulatory requirements adversely affecting the business in which Harleysville Savings Financial Corporation will be engaged. Harleysville Savings Financial Corporation undertakes no obligation to update these forward looking statements to reflect events or circumstances that occur after the date on which such statements were made.

As used in this report, unless the context otherwise requires, the terms we, us, or the Company refer to Harleysville Savings Financial Corporation, a Pennsylvania corporation, and the term the Bank refers to Harleysville Savings Bank, a Pennsylvania chartered savings bank and wholly owned subsidiary of the Company. In addition, unless the context otherwise requires, references to the operations of the Company include the operations of the Bank.

PART I

Item 1. Business.

General

Harleysville Savings Financial Corporation is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Savings Bank in connection with the holding company reorganization of the Bank in February 2000 (the Reorganization). In August 1987, the Bank s predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County and one office located in Bucks County, Pennsylvania. The Bank s primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2011, the Company had $835.7 million of total assets, $524.4 million of deposits and $57.1 million of stockholders equity. The Company s stockholders equity constituted 6.83% of total assets as of September 30, 2011.

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

Deposits with the Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking (Department). It is also a member of the Federal Home Loan Bank of Pittsburgh (FHLB of Pittsburgh or FHLB), which is one of the 12 regional banks comprising the Federal Home Loan Bank System (FHLB System). The Bank is also subject to regulations of the Board of Governors of the Federal Reserve System (Federal Reserve Board) governing reserves required to be maintained against deposits and certain other matters.

The Company s principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438 and its telephone number is (215) 256-8828.

Competition

The Company faces significant competition in attracting deposits. Its most direct competition for deposits has historically come from commercial banks and other savings institutions located in its market area. The Company faces additional significant competition for investors funds from other financial intermediaries. The Company competes for deposits principally by offering depositors a variety of deposit programs, convenient branch locations, hours and other services. The Company does not rely upon any individual group or entity for a material portion of its deposits.

The Company s competition for real estate loans comes principally from mortgage banking companies, other savings institutions, commercial banks and credit unions. The Bank competes for loan originations primarily through the interest rates and loan fees it charges, the efficiency and quality of services it provides borrowers, referrals from real estate brokers and builders, and the variety of its products. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) eliminated many of the distinctions between commercial banks and savings institutions and holding companies and allowed bank holding companies to acquire savings institutions. FIRREA has generally resulted in an increase in the competition encountered by savings institutions and has resulted in a decrease in both the number of savings institutions and the aggregate size of the savings industry.

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Lending Activities

Loan Portfolio Composition. The Company s loan portfolio is predominantly comprised of loans secured by first mortgages on single-family residential properties. As of September 30, 2011, first mortgage loans on residential properties, including loans on single-family, multi-family residential properties, construction loans and lot loans on such properties, amounted to $342.2 million or 65.0% of the Company s total loan portfolio. Loans on the Company s residential properties are primarily long-term and are conventional (i.e., not insured or guaranteed by a federal agency).

As of September 30, 2011, loans secured by commercial real estate and commercial business loans comprised $91.1 million and $6.3 million or 17.3% and 1.2% of the total loan portfolio, respectively. Home equity lines, including installment home equity loans and home equity lines of credit comprised $85.5 million or 16.3% of the total loan portfolio. Consumer loans, including automobile loans, loans on savings accounts and education loans, constituted $1.1 million or 0.2% of the total loan portfolio as of September 30, 2011.

The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	As of September 30,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real estate loans:										
Residential										
Single-family	**$ 332,642**	**63.2%**	$ 336,081	65.0%	$ 343,155	68.2%	$ 333,885	68.9%	$ 302,420	71.3%
Multi-family	**1,612**	**0.3**	1,807	0.3	1,997	0.4	2,392	0.5	2,589	0.6
Construction	**5,818**	**1.1**	4,752	0.9	2,912	0.6	8,346	1.7	6,093	1.4
Lot loans	**2,125**	**0.4**	1,986	0.4	1,141	0.2	1,167	0.2	483	0.1
Home equity	**85,521**	**16.3**	90,511	17.5	92,343	18.4	92,254	19.1	95,453	22.5
Commercial real estate	**91,085**	**17.3**	75,450	14.6	54,341	10.8	37,799	7.8	12,869	3.0
Total real estate loans	**518,803**	**98.6%**	510,587	98.7%	495,889	98.6%	475,843	98.2%	419,907	99.0%
Non-real estate loans:										
Commercial business loans	**6,262**	**1.2**	4,327	0.8	4,982	1.0	6,584	1.4	2,440	0.6
Consumer non-real estate loans	**1,136**	**0.2**	1,980	0.5	2,242	0.4	1,955	0.4	1,881	0.4
Total consumer loans	**7,398**	**1.4%**	6,307	1.3%	7,224	1.4%	8,539	1.8%	4,321	1.0%
Total loans receivable	**526,201**	**100.0%**	516,894	100.0%	503,113	100.0%	484,382	100.0%	424,228	100.0%

Less:					
Loans in process	**(3,401)**	(3,426)	(1,873)	(5,108)	(2,794)
Deferred loan fees	**(1,003)**	(871)	(755)	(428)	(448)
Allowance for loan losses	**(3,311)**	(2,504)	(2,094)	(1,988)	(1,933)
Total loans receivable net	**$ 518,486**	$ 510,093	$ 498,391	$ 476,858	$ 419,053

Contractual Maturities. The following table sets forth scheduled contractual maturities of the loan and mortgage-backed securities portfolio of the Company as of September 30, 2011 by categories of loans and securities. The principal balance of the loan is set forth in the period in which it is scheduled to mature. This table does not reflect loans in process or unamortized premiums, discounts and fees.

	Principal Balance at September 30, 2011	Principal Repayments Contractually Due in Year(s) Ended September 30, 2012	2013	2014-2016	2017-2020	2021-2025	2026-and Thereafter
				(In Thousands)			
Residential real estate loans:							
Single-family	**$ 332,642**	**$ 4,990**	**$ 5,322**	**$ 17,963**	**$ 40,915**	**$ 58,545**	**$ 204,907**
Multi-family	**1,612**	**24**	**26**	**87**	**198**	**284**	**993**
Construction	**5,818**	**87**	**93**	**314**	**716**	**1,024**	**3,584**
Lot loans	**2,125**	**115**	**125**	**429**	**963**	**493**	
Mortgage-backed securities	**150,547**	**2,258**	**2,559**	**8,431**	**18,969**	**26,647**	**91,683**
Home equity lines of credit	**85,521**	**8,296**	**8,809**	**16,335**	**39,169**	**12,912**	
Commercial real estate	**91,085**	**3,279**	**3,552**	**12,479**	**28,874**	**42,901**	
Commercial business loans	**6,262**	**225**	**88**	**582**	**54**	**626**	**4,687**
Consumer and other loans	**1,136**	**140**	**150**	**265**	**256**	**141**	**184**
Total(1)	**$ 676,748**	**$ 19,414**	**$ 20,724**	**$ 56,885**	**$ 130,114**	**$ 143,573**	**$ 306,038**

(1) With respect to the $636.6 million of loans and mortgage-backed securities with principal maturities contractually due after September 30, 2012, $562.9 million have fixed rates of interest and $73.7 million have adjustable or floating rates of interest.

Contractual principal maturities of loans do not necessarily reflect the actual term of the Company s loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan rates substantially exceed rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans substantially exceed current mortgage loan rates.

Interest rates charged by the Company on loans are affected principally by the demand for such loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and government budgetary matters. The interest rates charged by the Company are competitive with those of other local financial institutions.

Origination, Purchase and Sale of Loans. Although the Company has general authority to originate, purchase and sell loans secured by real estate located throughout the United States, the Company s lending activities are focused in its assessment area of Montgomery County, Pennsylvania and surrounding suburban counties.

The Company accepts loan applications through its branch network, and also accepts mortgage applications from mortgage brokers who are approved by the Board of Directors to do business with the Company. The Company generally does not engage in the purchase of whole loans. The Company did engage in the acquisition of participations of commercial loans on a limited basis during fiscal years ended September 30, 2011 and 2010.

On occasion, we have sold participation interests in loans originated by us to other institutions. When we have sold participation interests, we generally have sold them to mitigate our risks in certain situations. During the year ended September 30, 2011, we sold no loan participations.

The Company s total loan originations decreased by $4.8 million or 3.5% in fiscal 2011 and decreased by $17.8 million or 11.7% in fiscal 2010. Of the $130.4 million and $135.2 million of total loans originated in fiscal 2011 and 2010, respectively, $50.4 million and $56.0 million were originated to fund single-family residential properties, $4.0 million and $8.3 million were loans originated to fund multi-family and construction properties and $68.9 million and $66.2 million were to fund commercial real estate and home equity lines of credits which are secured by real estate. The Company s total real estate loan originations in fiscal 2011 decreased by $6.9 million or 5.3% from the prior year. The non-real estate loans originated totaled $7.1 million and $4.9 million in 2011 and 2010, respectively. Management intends to continue to emphasize origination of consumer loans which may have adjustable rates, and generally have shorter terms than residential real estate loans.

The Company s total purchase of mortgage-backed securities increased by $44.9 million and $15.0 million in fiscal 2011 and 2010, respectively. The purchase of these mortgage-backed securities reflects the use of excess funds.

The following table shows total loans originated, sold and repaid during the periods indicated.

	Year Ended September 30, 2011	2010
	(In Thousands)	
Real estate loan originations:		
Residential:		
Single-family	**$ 50,423**	$ 55,744
Multi-family		
Construction	**3,992**	8,268
Lot loans		
Home equity	**31,569**	35,098
Commercial real estate	**37,285**	31,076
Commercial business loans	**6,262**	4,327
Consumer non-real estate loans(1)	**858**	671
Total loan originations	**130,389**	135,184
Purchases of mortgage-backed securities	**59,889**	14,986
Total loan originations, and purchases	**190,278**	150,170
Principal loan and mortgage-backed securities repayments	**161,443**	168,848
Transfer of loans to foreclosed real estate	**284**	
Total principal repayments and sales	**161,727**	168,848
Net increase (decrease) in loans and mortgage-backed securities	**$ 28,551**	$ (18,678)

(1) Includes installment vehicle loans, secured and unsecured personal loans and lines of credit.

Loan Underwriting Policies. Each loan application received by the Company is underwritten to the standards of the Company s written underwriting policies as adopted by the Company s Board of Directors. The Company s Board of Directors has granted loan approval authority to several officers and employees of the Company, provided that the loan meets the guidelines set out in its written underwriting policies. Individual approval authority of $500,000 has been granted to the Company s Chief Executive Officer, the Company s Chief Operating and Financial Officer, and the Company s Chief Lending Officer. Joint approval authority of $1.0 million has been granted to a combination of at least two of the above named individuals. Individual lending authority of $250,000 has been granted to the Bank s Vice President/Loan Administration Manager, the Vice President/Loan Customer Service Manager and to the Bank s

Consumer Loan and Residential Mortgage Underwriter, employed by the Company. Additional consumer loan lending authority of $50,000 has been granted to several designated underwriters, employed by the Bank. Loans with policy exceptions require approval by the next highest approval authority. Loans over $1.0 million must be approved by the Company s Senior Loan Committee or the Board of Directors.

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In the exercise of any loan approval authority, the officers of the Company will take into account the risk associated with the extension of credit to a single borrower, borrowing entity, or affiliation. The Company has an aggregate loans to one borrower limit of 15% of the Company s unimpaired capital and unimpaired surplus in accordance with federal regulations. At September 30, 2011, the largest aggregate amount of loans outstanding to any borrower, including related entities, was $5.5 million, which did not exceed the Company s loan to one borrower limitation.

Single Family Residential Real Estate Lending. The Company is permitted to lend up to 97% of the appraised value or sales price of the security property for a residential real estate loan, provided that the borrower obtains private mortgage insurance on loans that exceed 80% of the appraised value or sales price, whichever is less, of the security property. The Company will generally lend up to 95% of the lesser of the appraised value or the sale price for the purchase of single-family, owner-occupied dwellings which conform to the secondary market underwriting standards. Refinancings are limited to 90% or less. Loans over $417,000 and other non-conforming loans, secured by 1-4 residential, owner-occupied dwellings, are limited to 90% of the lesser of the purchase price or appraised value. The purchase of non-owner occupied, 1-4 unit dwellings may be financed to 80% of the lower of the appraisal or sale price; a refinance is limited to 80% of the appraised value if the borrower s FICO score is 680 or higher.

All appraisals and other property valuations are performed by independent fee appraisers approved by the Company s Senior Loan Committee. On all amortizing real estate loans, the Company requires borrowers to obtain title insurance, insuring the Company has a valid first lien on the mortgaged real estate. Borrowers must also obtain and maintain a hazard insurance policy prior to closing and, when the real estate is located in a flood hazard area designated by the Federal Emergency Management Agency, a flood insurance policy is required. Generally, borrowers advance funds on a monthly basis together with payment of principal and interest into a mortgage escrow account from which the Company makes disbursements for items such as real estate taxes and insurance premiums as they fall due.

The Company presently originates fixed-rate loans on single-family residential properties pursuant to underwriting standards consistent with secondary market guidelines, and which may or may not be sold into the secondary mortgage market as conditions warrant. Adjustable rate mortgages (ARMs), as well as non-conforming and jumbo fixed-rate loans in amounts up to $2.0 million, are held in the portfolio. It is the Company s policy to originate both fixed-rate loans and ARMs for terms up to 30 years. As of September 30, 2011 and 2010, $338.5 million or 64.3% and $340.8 million or 65.9% of the Company s total loan portfolio consisted of single-family (including construction loans) residential loans, respectively. As of September 30, 2011, approximately $326.9 million or 96.0% of the Company s total mortgage loans consisted of fixed-rate, single-family residential mortgage loans. As of such date, $13.7 million or 4.0% of the total mortgage loan portfolio consisted of adjustable-rate single-family residential mortgage loans. Most of the Company s residential mortgage loans include due on sale clauses.

During the years ended September 30, 2011 and 2010, the Company originated $4.0 million and $417,000 of ARM mortgages, respectively. ARMs represented 3.1% and 0.3% of the Company s total mortgage loan portfolio originations in fiscal 2011 and 2010, respectively. The ARM mortgages offered by the Company are originated with initial adjustment periods varying from one to 10 years, and provide for initial rates of interest below the rates which would prevail were the index used for repricing applied initially. The Company expects to emphasize the origination of ARMs as market conditions permit, in order to reduce the impact of rising interest rates in the market place. Such loans, however, may not adjust as rapidly as changes in the Company s cost of funds.

Multi-family Residential Real Estate Lending. The Company originates mortgage loans secured by multifamily dwelling units. At September 30, 2011, $1.6 million, or 0.3% of our total loan portfolio consisted of loans secured by multifamily residential real estate. The majority of our multifamily residential real estate loans are secured by apartment buildings located in the Bank s local market area. The interest rates for our multifamily residential real estate loans generally adjust at five- to ten-year intervals, with the rate to be negotiated at the end of such term or to automatically convert to a floating interest rate. These loans generally have a five-year term with an amortization period of no more than twenty years. At September 30, 2011, we had no multifamily residential real estate loans that were delinquent in excess of 30 days.

Construction Loans. The Company offers fixed-rate and adjustable-rate construction loans on residential properties. Residential construction loans are originated for individuals who are building their primary residence as well as to selected local builders for construction of single-family dwellings. As of September 30, 2011, $5.8 million or 1.1% of the total loans consisted of construction loans.

Construction loans to homeowners are usually made in connection with the permanent financing on the property. The permanent loans have amortizing terms up to 30 years, following the initial construction phase during which time the borrower pays interest on the funds advanced. These loans are reclassified as permanent mortgage loans when the residences securing the loans are completed. The Company will make construction/permanent loans up to a maximum of 90% of the fair market value of the completed project. The rate on the loan during construction is the same rate as the Company will charge on the permanent loan on the completed project. Advances are made on a percentage of completion basis with the Company s receipt of a satisfactory inspection report of the project.

Historically, the Company has been active in on-your-lot home construction lending and intends to continue to emphasize such lending. Although construction lending is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate, the Company historically has not experienced any significant problems.

The Company also offers mortgage loans on undeveloped single lots held for residential construction. These loans are generally fixed-rate loans with terms not exceeding 15 years; they are not a significant part of the Company s lending activities. Additionally, the Bank has not been active in residential subdivision lending and has no acquisition/development loans in the portfolio.

Home Equity. Home equity loans and lines of credit continue to be a popular product and represented $85.5 million or 16.3% of the loan portfolio at September 30, 2011. After taking into account first mortgage balances, the Company will lend up to 80% of the value of owner-occupied property on fixed rate terms up to 15 years. This amount may be raised to 100% when considering other factors, such as excellent credit history and income stability. At September 30, 2011, the Company had outstanding 2,680 home equity loans, of which 820 were installment equity loans and 1,860 were line of credit loans. As of such date, the Company had an outstanding balance on line of credit loans of approximately $59.5 million and there was approximately $55.2 million of unused credit available on such loans.

Commercial Real Estate Loans. The Company originates mortgage loans for the acquisition and refinancing of commercial real estate properties. At September 30, 2011, $91.1 million, or 17.3% of the Bank s total loan portfolio consisted of loans secured by commercial real estate properties, owner occupied commercial real estate loans and non-owner occupied commercial real estate loans. The majority of our commercial real estate loans are secured by office buildings, manufacturing facilities, distribution/warehouse facilities, and retail centers, which are generally located in our local market area. The interest rates for our commercial real estate loans generally adjust at one- to five-year intervals, and are typically renegotiated at the end of such period or automatically converted to a floating interest rate. The loans generally have a five-year term with an amortization period of no greater than twenty five years. At September 30, 2011, the largest such loan had a balance of $5.5 million.

The Company generally requires appraisals of the properties securing commercial real estate loans. Appraisals are performed by an independent appraiser designated by the Company and all appraisals are reviewed by management. The Company considers the quality and location of the real estate, the credit of the borrower, the cash flow of the project and the quality of management involved with the property when making decisions on commercial real estate loans.

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Loan-to-value ratios on our commercial real estate loans are generally limited to 80% of the appraised value of the secured property. As part of the criteria for underwriting commercial real estate loans, we generally impose a debt service coverage ratio (the ratio of net operating income before payment of debt service compared to debt service) of not less than 1.2-to-1. It is also our general practice to obtain personal guarantees from the principals of our corporate borrowers on commercial real estate loans.

Loans secured by commercial real estate typically have higher balances and are more difficult to evaluate and monitor and, therefore, involve a greater degree of credit risk than other types of loans. If the estimate of value proves to be inaccurate, the property may not provide us with full repayment in the event of default and foreclosure. Because payments on these loans are often dependent on the successful development, operation, and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. The Company also generally obtains loan guarantees from financially capable parties based on a review of personal financial statements.

Commercial Business Loans. Our commercial business loans amounted to $6.3 million or 1.2% of the total loan portfolio at September 30, 2011. The Company originates business loans typically for small to mid-sized businesses in our market area and may be for working capital, equipment financing, inventory financing, or accounts receivable financing. Small business loans may have adjustable or fixed rates of interest and generally have terms of three years or less but may go up to 10 years. Our commercial business loans generally are secured by equipment, machinery or other corporate assets. In addition, we generally obtain personal guarantees from the principals of the borrower with respect to all commercial business loans.

Commercial lending generally involves greater credit risk than residential mortgage or consumer lending, and involves risks that are different from those associated with commercial real estate lending. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default may represent an insufficient source of repayment because equipment and other business assets may, among other things, be obsolete or of limited use. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors), while liquidation of collateral is considered a secondary source of repayment.

Our commercial lenders actively solicit commercial business loans in our market area. Commercial business loans generally are deemed to involve a greater degree of risk than single-family residential mortgage loans. Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans, such as inventory or equipment, may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Consumer Non-Real Estate Loans. The Company actively originates consumer loans to provide a wider range of financial services to its customers and to improve the interest rate sensitivity of its interest-earning assets. Originations of consumer loans as a percent of total loan originations amounted to 0.7% and 0.5% during fiscal 2011 and 2010, respectively. The shorter-term and normally higher interest rates on such loans help the Company to maintain a profitable spread between its average loan yield and its cost of funds. The Company s consumer loan department offers vehicle loans, personal loans and personal lines of credit. Loans secured by deposit accounts at the Company are also made to depositors in an amount up to 90% of their account balances with terms of up to 15 years.

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Consumer loans generally involve more risk of collectibility than mortgage loans because of the type and nature of the collateral and, in certain cases, the absence of collateral. As continued payments are dependent on the borrower s continuing financial stability, these loans may be more likely to be adversely affected by job loss, divorce, personal bankruptcy or by adverse economic conditions.

Loan Fee and Servicing Income. The Company receives fees both for the origination of loans and for making commitments to originate and purchase residential and commercial mortgage loans. The Company also receives servicing fees with respect to residential mortgage loans it has sold. It also receives loan fees related to existing loans, including late charges, and credit life insurance commissions. Loan origination and commitment fees and discounts are a volatile source of income, varying with the volume and type of loans and commitments made and purchased and with competitive and economic conditions.

Loans fees generated on origination of loans under accounting principles generally accepted in the United States of America are deferred along with direct origination costs. Deferred loan fees, net and discounts on mortgage loans purchased are amortized to income as a yield adjustment over the estimated remaining terms of such loans using the interest method.

As of September 30, 2011, the Company was servicing $1.7 million of loans for others, which consisted of loans sold by the Company to the Federal Home Loan Bank (FHLB), in the amount $1.7 million. The Company receives a servicing fee of 0.25% on such loans.

Non-performing Loans and Real Estate Owned. When a borrower fails to make a required loan payment, the Company attempts to cure the default by contacting the borrower; generally, after a payment is more than 15 days past due, at which time a late charge is assessed. Defaults are cured promptly in most cases. If the delinquency on a mortgage loan exceeds 60 days and is not cured through the Company s normal collection procedures, or an acceptable arrangement is not worked out with the borrower, the Company will institute measures to remedy the default. This may include commencing a foreclosure action or, in special circumstances, accepting from the borrower a voluntary deed of the secured property in lieu of foreclosure with respect to mortgage loans and equity loans, or title and possession of collateral in the case of other consumer loans. Substantial delays may occur in instituting and completing residential foreclosure proceedings due to the extensive procedures and time periods required to be complied with under Pennsylvania law.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest income is recognized using the interest method when the collection is reasonably assured. The Company had $3.4 million of non-accrual loans at September 30, 2011 and $2.1 million of non-accrual loans at September 30, 2010.

If foreclosure is effected, the property is sold at a public auction in which the Company may participate as a bidder. If the Company is the successful bidder, the acquired real estate property is then included in the Company s real estate owned (REO) account until it is sold. When property is acquired, it is recorded at the market value at the date of acquisition less estimated cost to sell and any write-down resulting is charged to the allowance for loan losses. Interest accrual, if any, ceases on the date of acquisition and all costs incurred in maintaining the property from that date forward are expensed. Costs incurred for the improvement or development of such property are capitalized. The Company is permitted under Department regulations to finance sales of real estate owned by loans to facilitate, which may involve more favorable interest rates and terms than generally would be granted under the Company s underwriting guidelines.

Foreclosed Real Estate. Real estate acquired through, or in lieu of, loan foreclosures are carried at the fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had two properties in other real estate owned with balances totaling $196,000 at September 30, 2011 compared to one property with a balance totaling $186,000 as of September 30, 2010. All of the real estate owned properties at September 30, 2011 are residential properties located within the Bank s primary lending area.

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The following table sets forth information regarding non-accrual loans, loans which are 90 days or more delinquent but on which the Company is accruing interest, troubled debt restructurings, and other real estate owned held by the Company at the dates indicated. The Company continues to accrue interest on loans which are 90 days or more overdue where management believes that such interest is collectible.

	As of September 30,				
	2011	**2010**	**2009**	**2008**	**2007**
	(Dollars in Thousands)				
Residential real estate loans:					
Non-accrual loans	**$ 3,059**	$ 1,716	$ 335	$ 244	$
Accruing loans 90 days overdue		147	1,446	192	
Troubled debt restructurings					
Total	**3,059**	1,863	1,781	436	
Commercial loans:					
Non-accrual loans	**127**	312			
Accruing loans 90 days overdue				815	
Troubled debt restructurings					
Total	**127**	312		815	
Consumer loans:					
Non-accrual loans	**171**	110			
Accruing loans 90 days overdue	**15**		119	7	28
Troubled debt restructurings					
Total	**186**	110	119	7	28
Total non-performing loans:					
Non-accrual loans	**3,357**	2,138	335	244	
Accruing loans 90 days overdue	**15**	147	1,565	1,014	28
Troubled debt restructurings					
Total	**$ 3,372**	$ 2,285	$ 1,900	$ 1,258	$ 28
Total non-performing loans to total loans	**.40%**	.28%	.38%	.26%	n/m*
Total real estate owned, net of related reserves	**$ 196**	$ 186	$ 747		
Total non-performing loans and other real estate owned to total assets	**.43%**	.30%	.32%	.15%	n/m*

* Not material

Management establishes reserves for losses on delinquent loans when it determines that losses are probable. The Company has recorded a provision for loan losses totaling $1.2 million in fiscal 2011 and $600,000 in fiscal 2010, due to the increase in unemployment trends and decline in property values reflecting instability in the economy. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, future adjustments to reserves may be necessary if economic conditions differ substantially from the assumptions used in making the initial determinations.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectibility because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company s policy to establish specific reserves for losses on delinquent consumer loans and commercial loans when it determines that losses are probable. In addition, consumer loans are charged against reserves if they are more than 120 days delinquent unless a satisfactory repayment schedule is arranged.

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The following table summarizes activity in the Company s allowance for loan losses during the periods indicated.

	Year Ended September 30, 2011	2010	2009	2008	2007
	(Dollars In Thousands)				
Total loans outstanding at end of period	**$ 526,201**	$ 516,894	$ 503,113	$ 484,382	$ 424,228
Average loans outstanding	**521,548**	510,004	493,748	454,305	408,561
Allowance for loan losses, beginning of year	**$ 2,504**	$ 2,094	$ 1,988	$ 1,933	$ 1,956
Provision for loan losses	**1,150**	600	400	85	
Charge-offs:					
Single family	**(224)**				
Commercial real estate and multi family residential	**(105)**	(147)	(288)		
Construction					
Commercial business					
Home equity				(13)	(1)
Consumer non-real estate	**(14)**	(52)	(33)	(27)	(35)
Total charge-offs	**(343)**	(199)	(321)	(40)	(36)
Recoveries of loans previously charged off		9	27	10	13
Allowance for loan losses, end of year	**$ 3,311**	$ 2,504	$ 2,094	$ 1,988	$ 1,933
Allowance for loan losses as a percent non- performing loans	**98.19%**	109.58%	110.21%	158.03%	6,903.57%
Ratio of net charge-offs during the period to average loans outstanding during the period	**0.07%**	0.04%	0.06%	0.01%	0.01%

The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated.

	As of September 30, 2011 Amount of Allowance	2011 Loan Category as a % of total Loans	2010 Amount of Allowance	2010 Loan Category as a % of total Loans	2009 Amount of Allowance	2009 Loan Category as a % of total Loans	2008 Amount of Allowance	2008 Loan Category as a % of total Loans	2007 Amount of Allowance	2007 Loan Category as a % of total Loans
	(Dollars in Thousands)									
Single-family residential	**$ 855**	**63.6%**	$ 803	65.4%	$ 811	68.4%	$ 425	69.1%	$ 304	71.4%
Multi-family residential	**16**	**0.3**	18	0.3	20	0.4	24	0.5	5	0.6

Construction	**33**	**1.1**	7	0.9	4	0.6	13	1.7	9	1.4
Home equity	**431**	**16.3**	405	17.5	357	18.4	202	19.1	240	22.5
Commercial real estate	**1,516**	**17.3**	906	14.6	542	9.7	396	7.8	207	3.0
Commercial business loans	**214**	**1.2**	4	0.8	104	2.1	188	1.4	24	0.6
Consumer non-real estate loans	**5**	**0.2**	22	0.5	21	0.4	20	0.4	17	0.5
Unallocated	**241**		339		235		720		1,126	
Total loans receivable	**$ 3,311**	**100.0%**	$ 2,504	100.0%	$ 2,094	100.0%	$ 1,988	100.0%	$ 1,932	100.0%

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Investment Activities

The Company s investment portfolio consists primarily of United States government agency mortgage-backed securities and debt obligations of United States government agencies. The other investments include tax-exempt municipal obligations, money market mutual funds, and stock of the FHLB of Pittsburgh.

As of September 30, 2011, the Company had $125.5 million of mortgage-backed securities, invested in Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), all Government Sponsored Entities. FHLMC securities are guaranteed by the FHLMC, GNMA securities by the Federal Housing Administration and FNMA securities by the FNMA, which are instrumentalities of the United States government, and, pursuant to federal regulations, are deemed to be part of the Company s loan portfolio.

At September 30, 2011, The Bank holds $25.2 million in Collateralized Mortgage Obligations of which $21.9 million are issued by Government Sponsored Enterprises and $3.3 million are privately-issued. These private label securities are adequately rated.

The following table sets forth certain information relating to our investment and mortgage-backed securities portfolios and our investments in FHLB stock at the dates indicated.

	September 30,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Mortgage-backed securities and collateralized mortgage obligations (CMO s)	**$ 150,526**	**$ 158,487**	$ 131,604	$ 138,539	$ 163,215	$ 169,995
U.S. Government Sponsored Enterprises (GSE) Agency Notes	**65,993**	**66,085**	108,807	109,530	82,602	82,857
Municipal securities	**16,022**	**16,815**	16,462	17,188	22,592	23,317
Equity securities	**355**	**289**	355	343	355	311
U.S. Government Money Market funds	**17,420**	**17,420**	20,261	20,261	6,417	6,417
FHLB stock	**13,110**	**13,110**	16,096	16,096	16,096	16,096
Total investment and mortgage-backed securities and FHLB stock	**$ 263,426**	**$ 272,206**	$ 293,585	$ 301,957	$ 291,277	$ 298,993

The following table sets forth the amount of investment and mortgage-backed securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at September 30, 2011. No tax-exempt yields have been adjusted to a tax-equivalent basis.

	Amounts at September 30, 2011 Which Mature in						
	Weighted Average	Over One Year Through Five	Weighted Average	Over Five Through Ten	Weighted Average	Over Ten	Weighted Average

	One year Or less	Yield	Years	Yield	Years	Yield	Years	Yield
				(Dollars in Thousands)				
Bonds and other Debt securities:								
Mortgage-backed securities and CMO s	$	**0.00%**	**$ 6,818**	**4.27%**	**$ 23,644**	**4.60%**	**$ 120,064**	**3.97%**
U.S. Government Agency Notes	**13,003**	**0.93%**		**0.00%**		**0.00%**	**52,990**	**2.66%**
Municipal securities		**0.00%**		**0.00%**	**2,587**	**4.85%**	**13,435**	**4.52%**
Total	**$ 13,003**	**0.93%**	**$ 6,818**	**4.27%**	**$ 26,231**	**4.62%**	**$ 186,489**	**3.64%**

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The Company s investment strategy is set and reviewed periodically by the entire Board of Directors.

Sources of Funds

General. Deposits are the primary source of the Company s funds for use in lending and for other general business purposes. In addition to deposits, the Company obtains funds from loan payments and prepayments, FHLB advances and other borrowings, and, to a lesser extent, sales of loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general market interest rates and economic conditions.

Deposits. The Company has a number of different programs designed to attract both short-term and long-term deposits from the general public by providing an assortment of accounts and rates consistent with FDIC regulations. These programs include passbook and club savings accounts, NOW and regular checking accounts, money market deposit accounts, retirement accounts, certificates of deposit ranging in terms from 90 days to 60 months and jumbo certificates of deposit in denominations of $100,000 or more. The interest rates on the Company s various accounts are determined weekly by the Interest Rate Risk Management Officer based on reports prepared by members of senior management. The Company attempts to control the flow of deposits by pricing its accounts to remain competitive with other financial institutions in its market area.

The Company s deposits are obtained primarily from residents of Montgomery and Bucks Counties; the Company does not utilize brokered deposits. The principal methods used by the Company to attract deposit accounts include local advertising, offering a wide variety of services and accounts, competitive interest rates and convenient office locations. The Company also is a member of the STAR ATM network.

The following table shows the distribution of, and certain other information relating to, the Company s deposits by type as of the dates indicated.

	As of September 30,			
	2011		2010	
	Amount	Percent of Deposits	Amount	Percent of Deposits
	(Dollars in Thousands)			
Passbook and club accounts	**$ 4,194**	**0.8%**	$ 3,739	0.7%
NOW and interest-bearing checking accounts	**69,310**	**12.5**	53,897	10.2
Non-interest-bearing checking accounts	**20,836**	**4.7**	17,014	3.2
Money market demand accounts	**131,919**	**25.2**	133,540	25.3
Certificates of deposit:				
3 month	**948**	**0.2**	971	0.2
6 month	**3,783**	**0.7**	3,182	0.6
7 month	**17,989**	**3.4**	24,942	4.7
9 month	**7,023**	**1.3**	9,006	1.7
12 month	**22,813**	**4.4**	34,742	6.6
15 month	**4,849**	**0.9**	5,513	1.0
17 month	**3,487**	**0.7**	4,816	0.9
18 month	**3,607**	**0.7**	4,245	0.8
20 month	**24,776**	**4.7**	28,479	5.4
24 month	**12,783**	**2.4**	7,576	1.4
36 month	**27,968**	**5.3**	46,507	8.8
48 month	**52,711**	**10.1**	48,448	9.2
60 month	**43,483**	**8.3**	29,239	5.5
Other	**100**	**0.0**	100	0.0
Retirement accounts:				
Money market deposit accounts	**2,692**	**0.5**	2,540	0.5
Certificates of deposit	**69,130**	**13.2**	69,604	13.3

Total deposits	**$**	**524,401**	**100.0%**	$	528,100	100.0%

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The large variety of deposit accounts offered by the Company has increased the Company s ability to retain deposits and has allowed it to be competitive in obtaining new funds, although the threat of disintermediation (the flow of funds away from savings institutions into direct investment vehicles such as government and corporate securities and non-deposit products) still exists. The new types of accounts; however, have been more costly than traditional accounts during periods of high interest rates. In addition, the Company has become more vulnerable to short-term fluctuations in deposit flows as customers have become more rate-conscious and willing to move funds into higher yielding accounts. The ability of the Company to attract and retain deposits and the Company s cost of funds have been, and will continue to be, significantly affected by money market conditions.

The following table presents certain information concerning the Company s deposit accounts as of September 30, 2011 and the scheduled quarterly maturities of its certificates of deposit.

	Amount	Percentage of Total Deposits	Weighted Average Nominal Rate
		(Dollars in Thousands)	
Passbook and club accounts	$ 4,194	0.8%	0.83%
NOW and interest-bearing checking accounts	69,310	13.2	0.16
Non-interest-bearing checking accounts	20,836	4.0	0.00
Money market deposits accounts(1)	134,611	25.6	0.32
Total	$ 228,951	43.6%	0.26%
Certificate accounts maturing by quarter:			
December 31, 2011	$ 49,470	9.4%	1.56%
March 31, 2012	37,661	7.2	0.95
June 30, 2012	23,072	4.4	1.38
September 30, 2012	14,950	2.9	1.53
December 31, 2012	14,629	2.8	2.15
March 31, 2013	18,229	3.5	2.34
June 30, 2013	16,992	3.2	2.02
September 30, 2013	11,792	2.2	0.00
December 31, 2013	16,462	3.1	3.33
March 31, 2014	17,070	3.3	2.83
June 30, 2014	14,030	2.7	2.56
September 30, 2014	16,033	3.1	2.13
Thereafter	45,060	8.6	2.39
Total certificate accounts(1)	295,450	56.4	1.98
Total deposits	$ 524,401	100.0%	1.22%

(1) Includes retirement accounts.

Management of the Company expects, based on historical experience and its pricing policies, to retain a significant portion of the $125.2 million of certificates of deposit which mature during the 12 months ending September 30, 2012.

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The following table sets forth the net deposit flows of the Company during the periods indicated.

	Year Ended September 30, 2011	2010
	(In Thousands)	
Increase (decrease) before interest credited	**$ (9,828)**	$ 53,598
Interest credited	**6,129**	7,901
Net deposit (decrease) increase	**$ (3,699)**	$ 61,499

The following table presents by various interest rate categories the amounts of certificate accounts as of the dates indicated and the amounts of certificate accounts as of September 30, 2011 which mature during the periods indicated.

	As of September 30, 2011	Amounts at September 30, 2011 Maturing One Year or Less	Two Years	Three Years	Thereafter
			(In Thousands)		
Certificate accounts:					
0.01% to 2.00%	**$ 146,744**	**$ 96,782**	**$ 27,200**	**$ 12,868**	**$ 9,894**
2.01% to 4.00%	**142,438**	**25,792**	**33,032**	**48,448**	**35,166**
4.01% to 6.00%	**6,268**	**2,580**	**1,410**	**2,278**	
Total certificate accounts(1)	**$ 295,450**	**$ 125,154**	**$ 61,642**	**$ 63,594**	**$ 45,060**

(1) Includes retirement accounts.

The following table sets forth the maturity of our certificates of deposit of $100,000 or more at September 30, 2011, by time remaining to maturity.

At September 30, 2011

Quarter Ending:	**Amount**	**Weighted Average Rate**
	(Dollars in Thousands)	
December 31, 2011	**$ 8,517**	**1.63%**
March 31, 2012	**6,808**	**0.97**
June 30, 2012	**4,145**	**1.47**
September 30, 2012	**1,925**	**1.83**
After September 30, 2012	**40,146**	**2.59**
Total certificates of deposit with balances of $100,000 or more	**$ 61,541**	**2.18%**

Borrowings. The Bank obtains advances from the FHLB of Pittsburgh upon the security of its capital stock in the FHLB of Pittsburgh and a portion of its first mortgages. See Regulation - Regulation of the Bank Federal Home Loan Bank System. At September 30, 2011, the Bank had advances with maturities of one year or less totaling $53.0 million at an interest rate of 4.50% and FHLB advances with maturities of 13 months to 10 years totaling $147.2 million at interest-rates ranging from 3.01% to 5.29%. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. In addition, there are four long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $50 million at interest-rates ranging from 4.37% to 6.02%.

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Depending on the program, limitations on the amount of advances are based on either a fixed percentage of assets or the FHLB of Pittsburgh s assessment of the Bank s creditworthiness. FHLB advances are generally available to meet seasonal and other withdrawals of deposit accounts, to purchase mortgage-backed securities, investment securities and to expand lending.

The following table sets forth certain information regarding the borrowings of the Company as of the dates indicated.

	September 30,			
	2011		2010	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars In Thousands)			
Advances	**$ 250,194**	**4.34%**	$ 272,047	4.33%

The following table sets forth certain information concerning the short-term borrowings of the Company for the periods indicated.

	Year Ended September 30,	
	2011	2010
	(In Thousands)	
Advances:		
Average balance outstanding	**$ 918**	$ 1,225
Maximum amount outstanding at any month-end during the period	**$ 7,500**	$ 10,000
Weighted average interest rate during the period	**0.72%**	0.71%

Employees

The Company had 85 full-time employees and 45 part-time employees as of September 30, 2011. None of these employees is represented by a collective bargaining agent, and the Company believes that it enjoys good relations with its personnel.

Regulation

*The references to laws and regulations which are applicable to the Company and the Bank set forth below and elsewhere herein are brief summaries thereof which do not purport to be complete and are qualified in their entirety by reference to such laws and regulations***.**

Regulation of the Company

General. The Company is a registered bank holding company pursuant to the Bank Holding Company Act (BHCA) and, as such, is subject to regulation and supervision by the Federal Reserve Board and the Department. The Company is required to file annually a report of its operations with, and is subject to examination by, the Federal Reserve Board and the Department.

BHCA Activities and Other Limitations. The BHCA prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the Federal Reserve Board. The BHCA also generally prohibits a bank holding company from acquiring any bank located outside of the state in which the existing bank subsidiaries of the bank holding company are located unless specifically authorized by applicable state law. No approval under the BHCA is required, however, for a bank holding company already lawfully owning or controlling more than 50% of the voting shares of a bank to acquire additional shares of such bank.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank (or engaged in related activities as described below) and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The BHCA permits a bank holding company to elect to be considered a financial holding company (FHC). A bank holding company that makes an FHC election is permitted to engage in activities that are financial in nature or incidental to such financial activities. The BHCA lists certain activities that are considered financial in nature and permits the Federal Reserve Board to expand that list to include other activities that are complementary to the activities on the preapproved list. The preapproved activities include (1) securities underwriting, dealing and market making; (2) insurance underwriting; (3) merchant banking; and (4) insurance company portfolio investments. The Company has not made the FHC election.

The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the BHCA. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities, including real estate brokerage and syndication, land development, property management and underwriting of life insurance not related to credit transactions, are not closely related to banking and a proper incident thereto. However, under the BHCA certain of these activities are permissible for a bank holding company that becomes an FHC.

Limitations on Transactions with Affiliates. Transactions between savings banks and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a savings bank is any company or entity which controls, is controlled by or is under common control with the savings bank. In a holding company context, the parent holding company of a savings bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the savings bank. Generally, Section 23A (i) limits the extent to which the savings bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such bank s capital stock and surplus, and (ii) contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to covered transactions as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least favorable, to the bank or subsidiary as those provided to a non-affiliate. The term covered transaction includes the making of loans to, purchase of assets from, issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a savings bank to an affiliate.

In addition, Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and a greater than 10% stockholder of a savings bank, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the savings bank s loans to one borrower limit (generally equal to 15% of the bank s unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a savings bank to all insiders cannot exceed the bank s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital), less goodwill and, with certain exceptions, intangibles. Tier II capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Single-family residential first mortgage loans which are not past-due (90 days or more) or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighing system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total assets of 3.0%. Total assets for this purpose does not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Tier I leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies will be expected to maintain Tier I leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition.

Financial Support of Affiliated Institutions. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances when it might not do so absent such policy. The recently enacted legislation described below amended the Federal Deposit Insurance Act (FDIA) to incorporate this policy into law. Section 18 of the FDIA describes the circumstances under which a Federal banking agency would be protected from a claim by an affiliate or a controlling shareholder of an insured depository institution seeking the return of assets of such an affiliate or controlling shareholder. Under that provision, a claim would not be permitted if (1) the insured depository institution was under a written Federal directive to raise capital, (2) the institution was undercapitalized, and (3) the subject Federal banking agency followed the procedures set forth in Section 5(g) of the BHCA

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 generally established a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors. Among other things, the legislation (i) created a public company accounting oversight board which is empowered to set auditing, quality control and ethics standards, to inspect registered public accounting firms, to conduct investigations and to take disciplinary actions, subject to SEC oversight and review; (ii) strengthened auditor independence from corporate management by, among other things, limiting the scope of consulting services that auditors can offer their public company audit clients; (iii) heightened the responsibility of public company directors and senior managers for the quality of the financial reporting and disclosure made by their companies; (iv) adopted a number of provisions to deter wrongdoing by corporate management; (v) imposed a number of new corporate disclosure requirements; (vi) adopted provisions which generally seek to limit and expose to public view possible conflicts of interest affecting securities analysts; and (vii) imposed a range of new criminal penalties for fraud and other wrongful acts, as well as extended the period during which certain types of lawsuits can be brought against a company or its insiders.

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Regulation of the Bank

General. The Bank is subject to extensive regulation and examination by the Department and by the FDIC, which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. There are periodic examinations by the Department and the FDIC to test the Bank s compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the Department, the FDIC or the Congress could have a material adverse impact on the Bank and its operations.

Pennsylvania Savings Bank Law. The Pennsylvania Banking Code of 1965, as amended (the Banking Code) contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers and employees, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rulemaking power and administrative discretion to the Department so that the supervision and regulation of state-chartered savings banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices.

One of the purposes of the Banking Code is to provide savings banks with the opportunity to be competitive with each other and with other financial institutions existing under other Pennsylvania laws and other state, federal and foreign laws. A Pennsylvania savings bank may locate or change the location of its principal place of business and establish an office anywhere in Pennsylvania, with the prior approval of the Department.

The Department generally examines each savings bank not less frequently than once every two years. Although the Department may accept the examinations and reports of the FDIC in lieu of the Department s examination, the present practice is for the Department to conduct individual examinations. The Department may order any savings bank to discontinue any violation of law or unsafe or unsound business practice and may direct any trustee, director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Department has ordered the activity to be terminated, to show cause at a hearing before the Department why such person should not be removed.

Interstate Acquisitions. The Interstate Banking Act allows federal regulators to approve mergers between adequately capitalized banks from different states regardless of whether the transaction is prohibited under any state law, unless one of the banks home states has enacted a law expressly prohibiting out-of-state mergers before June 1997. This act also allows a state to permit out-of-state banks to establish and operate new branches in this state. The Commonwealth of Pennsylvania has not opted out of this interstate merger provision. Therefore, the federal provision permitting interstate acquisitions applies to banks chartered in Pennsylvania. Pennsylvania law, however, retained the requirement that an acquisition of a Pennsylvania institution by a Pennsylvania or a non-Pennsylvania-based holding company must be approved by the Banking Department. The Interstate Act also allows a state to permit out-of-state banks to establish and operate new branches in this state. Pennsylvania law permits an out of state banking institution to establish a branch office in Pennsylvania only if the laws of the state where that institution is located would permit an institution chartered under the laws of Pennsylvania to establish and maintain a branch in such other state on substantially the same terms and conditions.

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FDIC Insurance Premiums. The deposits of the Bank are insured by the Deposit Insurance Fund, which is administered by the FDIC. The recently enacted financial institution reform legislation permanently increased deposit insurance on most accounts to $250,000. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most noninterest bearing transaction deposit accounts and to guarantee certain unsecured debt of financial institutions and their holding companies. Under the unsecured debt program, the FDIC s guarantee expires on the earlier of the maturity date of the debt or December 31, 2012. The unlimited deposit insurance for non-interest-bearing transaction accounts was extended by the recently enacted legislation through the end of 2012 for all insured institutions without a separate insurance assessment (but the cost of the additional insurance coverage will be considered under the risk-based assessment system).The Bank does not participate in either of these programs.

The FDIC s risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The FDIC recently amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments became effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

In 2009, the FDIC collected a five basis point special assessment on each insured depository institution s assets minus its Tier 1 capital as of June 30, 2009. The amount of our special assessment, which was paid on September 30, 2009, was $382,000. The special assessment was fully expensed by the Company in the second quarter of 2009. In 2009, the FDIC also required insured deposit institutions on December 30, 2009 to prepay 13 quarters of estimated insurance assessments. Our prepayment totaled $3.1 million. Unlike a special assessment, this prepayment did not immediately affect bank earnings. Banks will book the prepaid assessment as a non-earning asset and record the actual risk-based premium payments at the end of each quarter. In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. The assessment rate for the third quarter of fiscal 2011 was .0025% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of the Bank s deposit insurance. At September 30, 2011, the Bank exceeded all of its regulatory capital requirements.

Capital Requirements. The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks which, like the Bank, are not members of the Federal Reserve System. The FDIC s capital regulations establish a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC s regulation, highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

The FDIC also requires that savings banks meet a risk-based capital standard. The risk-based capital standard for savings banks requires the maintenance of total capital which is defined as Tier I capital and supplementary (Tier 2 capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The components of Tier I capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan losses. Allowance for loan losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At September 30, 2011, the Bank met each of its capital requirements.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies (including the FDIC) have adopted substantially similar regulations to implement Section 38 of the FDIA. Under the regulations, a savings bank shall be deemed to be (i) well capitalized if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized , (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) significantly undercapitalized if it has a total risk-based ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which the FDIC may reclassify a well capitalized savings bank as adequately capitalized and may require an adequately capitalized savings bank or an undercapitalized savings bank to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized savings bank as critically undercapitalized). At September 30, 2011, the Bank was in the well capitalized category.

The Bank is also subject to more stringent Department capital guidelines. Although not adopted in regulation form, the Department utilizes capital standards requiring a minimum of 6% leverage capital and 10% risk-based capital. The components of leverage and risk-based capital are substantially the same as those defined by the FDIC.

Loans-to-One Borrower Limitation. With certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers in an amount equal to 15% of its capital account.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank s total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors , trustees and officers liability insurance coverage or bankers blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Pursuant to FDIC regulations promulgated under Section 24 of the FDIA, insured savings banks engaging in impermissible activities may seek approval from the FDIC to continue such activities. Savings banks not engaging in such activities but that desire to engage in otherwise impermissible activities may apply for approval from the FDIC to do so; however, if such bank fails to meet the minimum capital requirements or the activities present a significant risk to the FDIC insurance funds, such application will not be approved by the FDIC. The FDIC has authorized the Bank s subsidiary HARL, LLC, to invest up to 15% of its capital in the equity securities of bank holding companies, banks or thrifts. As of September 30, 2011, $289,000 was invested by HARL, LLC in such equity securities.

Regulatory Enforcement Authority. Federal banking regulators have substantial enforcement authority over the financial institutions that they regulate including, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Except under certain circumstances, federal law requires public disclosure of final enforcement actions by the federal banking agencies.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Pittsburgh, which is one of 12 regional Federal Home Loan Banks that administers a home financing credit function primarily for its members. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. The Federal Home Loan Bank of Pittsburgh is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (*i.e.*, advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. At September 30, 2011, the Bank had $200.2 million of Federal Home Loan Bank advances and $75.0 million available on its credit line with the Federal Home Loan Bank.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Pittsburgh in an amount equal to 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 5% of its outstanding advances from the Federal Home Loan Bank. At September 30, 2011, the Bank was in compliance with the applicable requirement.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of Federal Home Loan Bank stock in the future.

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Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. The required reserves must be maintained in the form of vault cash or an account at a Federal Reserve Bank. At September 30, 2011, the Bank was in compliance with its reserve requirements.

Community Reinvestment Act. All insured depository institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution s failure to comply with the provisions of the Community Reinvestment Act could result in restrictions on its activities. The Bank received a satisfactory Community Reinvestment Act rating in its most recently completed examination.

Recent Legislation

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminated the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

Bank and thrift holding companies with assets of less than $15 billion as of December 31, 2009, such as the Company, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than $500 million) on or after May 19, 2010, will no longer count as Tier 1 capital. Trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and allow greater access by shareholders to the company s proxy material by authorizing the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

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It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Federal and State Taxation

General. The Bank is subject to federal income taxation in the same general manner as other corporations with some exceptions, including particularly the reserve for bad debts discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Bank.

Method of Accounting. For federal income tax purposes, the Bank currently reports its income and expenses on the accrual method of accounting and uses a tax year ending September 30 for filing its federal income tax returns.

Bad Debt Reserves. The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2011 and 2010 includes approximately $1.3 million representing bad debt deductions for which no deferred income taxes have been provided.

Distributions. If the Bank distributes cash or property to its stockholders, and the distribution is treated as being from its accumulated pre-1988 tax bad debt reserves, the distribution will cause the Bank to have additional taxable income. A distribution to stockholders is deemed to have been made from accumulated bad debt reserves to the extent that (a) the reserves exceed the amount that would have been accumulated on the basis of actual loss experience, and (b) the distribution is a non-dividend distribution. A distribution in respect of stock is a non-dividend distribution to the extent that, for federal income tax purposes, (i) it is in redemption of shares, (ii) it is pursuant to a liquidation of the institution, or (iii) in the case of a current distribution, together with all other such distributions during the taxable year, it exceeds the Bank s current and post-1951 accumulated earnings and profits. The amount of additional taxable income created by a non-dividend distribution is an amount that when reduced by the tax attributable to it is equal to the amount of the distribution.

Minimum Tax. The Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The alternative minimum tax is payable to the extent such AMTI is in excess of an exemption amount. The Code provides that an item of tax preference is the excess of the bad debt deduction allowable for a taxable year pursuant to the percentage of taxable income method over the amount allowable under the experience method. The other items of tax preference that constitute AMTI include (a) tax exempt interest on newly-issued (generally, issued on or after August 8, 1986) private activity bonds other than certain qualified bonds and (b) for taxable years beginning after 1989, 75% of the excess (if any) of (i) adjusted current earnings as defined in the Code, over (ii) AMTI (determined without regard to this preference and prior to reduction by net operating losses). Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding three taxable years and forward to the succeeding 15 taxable years. Effective for net operating losses arising in tax years beginning after October 1, 1997, the carryback period is reduced from three years to two years and the carryforward period is extended from 15 years to 20 years. At September 30, 2011, the Bank had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf. However, a corporation may deduct 100% of dividends from a member of the same affiliated group of corporations.

Other Matters. The Company s federal income tax returns for its tax years 2007 and beyond are open under the statute of limitations and are subject to review by the Internal Revenue Service (IRS).

Pennsylvania Taxation. The Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, which imposes a tax at the rate of 11.5% on the Bank s net earnings, determined in accordance with accounting principles generally accepted in the United States of America, as shown on its books. For fiscal years beginning in 1983, and thereafter, net operating losses may be carried forward and allowed as a deduction for three succeeding years. This Act exempts the Bank from all other corporate taxes imposed by Pennsylvania for state tax purposes, and from all local taxes imposed by political subdivisions thereof, except taxes on real estate and real estate transfers.

Subsidiary

The Bank is the only direct wholly owned subsidiary of the Company. The Bank formed HSB, Inc., a Delaware company, as a wholly owned subsidiary of the Bank during fiscal 1997. HSB, Inc. was formed in order to accommodate the transfer of certain assets that are legal investments for the Bank and to provide for a greater degree of protection to claims of creditors. The laws of the State of Delaware and the court system create a more favorable environment for the business affairs of the subsidiary. HSB, Inc. currently manages the investment securities for the Bank, which as of September 30, 2011 amounted to approximately $172.6 million. The Bank has two limited liability company subsidiaries, Freedom Financial Solutions LLC (FFS) and HARL, LLC. FFS was established to engage in the sale of insurance products through a third party. HARL, LLC was established for the purpose of investing in FDIC insured financial institutions/holding company equity securities.

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

As of September 30, 2011, the Company conducted its business from its main office in Harleysville, Pennsylvania and six other full service branch offices. The Company is also part of the STAR ATM System, which provides customers with access to their deposits at locations worldwide.

County	Address	Owned or Leased	Lease Expiration Date	Net Book Value of Property and Leasehold Improvements at September 30, 2011	Deposits
				(In Thousands)	
Montgomery	1889 Ridge Pike Royersford, Pennsylvania	Owned		$ 1,646	$ 23,621
Montgomery	271 Main Street Harleysville, Pennsylvania	Owned		916	196,576
Montgomery	640 East Main Street Lansdale, Pennsylvania	Leased	May 2043(1)	775	54,158
Montgomery	1550 Hatfield Valley Road Hatfield, Pennsylvania	Leased	January 2064(1)	759	89,368
Montgomery	2301 West Main Street Norristown, Pennsylvania	Owned		358	86,158
Montgomery	3090 Main Street Sumneytown, Pennsylvania	Owned		180	59,643
Bucks	741 North County Line Road Souderton, Pennsylvania	Owned		2,809	14,877
Total				$ 7,443	$ 524,401

(1) The land at this office is leased; however, the Bank owns the building.

Item 3. Legal Proceedings.

The Company is not involved in any legal proceedings except nonmaterial litigation incidental to the ordinary course of business.

Item 4. [Reserved]

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) The information for all equity based and individual compensation arrangements is incorporated by reference from Part III, Item 12 hereof.

Harleysville Savings Financial Corporation s common stock is listed on the Nasdaq Global Market under the symbol HARL . The common stock was issued at an adjusted price of $1.45 per share in connection with the Company s conversion from mutual to stock form and the common stock commenced trading on the NASDAQ Stock Market on September 3, 1987. Prices shown below reflect the prices reported by the NASDAQ Stock Market during the indicated periods. The closing price of the common stock on September 30, 2011 was $14.01 per share. There were 3,758,751 shares of common stock outstanding as of September 30, 2011, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or street name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
September 30, 2011	**$ 15.52**	**$ 11.57**	**$ 14.01**	**$ 0.19**
June 30, 2011	**15.74**	**14.75**	**15.25**	**0.19**
March 31, 2011	**15.56**	**14.60**	**15.24**	**0.19**
December 31, 2010	**15.72**	**14.01**	**15.03**	**0.19**
September 30, 2010	$ 15.85	$ 14.00	$ 14.57	$ 0.19
June 30, 2010	16.20	13.30	15.29	0.19
March 31, 2010	14.25	13.06	13.90	0.19
December 31, 2009	14.37	12.02	13.86	0.19

(b) Not applicable.

(c) The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of common stock of the Company during the fourth quarter of fiscal 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1 31, 2011				50,492
August 1 31, 2011				50,492
September 1 30, 2011				50,492
Total		$		50,942

(1) On June 30, 2008, the Company announced its current program to repurchase up to 5.0% of the outstanding shares of common stock of the Company, or 196,000 shares. The program does not have an expiration date and all shares are purchased in the open market.

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Item 6. Selected Financial Data.

Selected Balance Sheet Data:	As of September 30,				
(Dollars in thousands, except per share data)	**2011**	**2010**	**2009**	**2008**	**2007**
Total Assets	**$ 835,713**	$ 857,140	$ 830,007	$ 825,675	$ 773,544
Cash and investment securities	**122,306**	166,063	121,364	89,483	118,920
Mortgage-backed securities	**150,547**	131,628	163,215	214,690	193,660
Total Investments	**272,853**	297,691	284,579	304,173	312,580
Consumer loans receivable	**424,424**	431,966	440,367	433,743	405,064
Commercial loans receivable	**97,373**	80,631	60,118	45,103	15,922
Allowance for loan losses	**(3,311)**	(2,504)	(2,094)	(1,988)	(1,933)
Total Loans Receivable Net	**518,486**	510,093	498,391	476,858	419,053
FHLB stock	**13,110**	16,096	16,096	16,574	14,140
Checking accounts	**90,146**	70,912	58,463	53,166	51,202
Savings accounts	**138,805**	139,818	80,373	54,647	54,690
Certificate of deposit accounts	**295,450**	317,370	327,765	317,700	318,143
Total Deposits	**524,401**	528,100	466,601	425,513	424,035
Advances	**250,194**	272,047	309,046	347,846	298,609
Total stockholders equity	**57,082**	53,351	50,139	47,209	47,041
Book value per share	**15.19**	14.47	13.82	13.23	12.65

	Year Ended September 30,				
Selected Operations Data:	**2011**	**2010**	**2009**	**2008**	**2007**
Interest income	**$ 37,573**	$ 40,018	$ 41,343	$ 43,076	$ 40,289
Interest expense	**19,034**	21,747	24,886	29,016	28,806
Net interest income	**18,539**	18,271	16,457	14,060	11,483
Provision for loan losses	**1,150**	600	400	85	
Net interest income after provision for loan losses	**17,389**	17,671	16,057	13,975	11,483
Realized gain (loss) on securities, including impairment			(454)	(179)	160
Other income	**2,986**	1,987	1,925	1,909	1,730
Other expense	**13,125**	12,702	11,527	10,094	9,216
Income before taxes	**7,250**	6,956	6,001	5,611	4,157
Income tax expense	**1,855**	1,948	1,285	1,232	911
Net income	**$ 5,395**	$ 5,008	$ 4,716	$ 4,379	$ 3,246
Earnings per share basic	**$ 1.45**	$ 1.37	$ 1.31	$ 1.20	$ 0.85
Earnings per share diluted	**1.44**	1.36	1.31	1.20	0.83
Dividends per share	**0.76**	0.76	0.73	0.69	0.68

	Year Ended September 30,				
Selected Other Data:	**2011**	**2010**	**2009**	**2008**	**2007**
Return on average assets(1)	**0.63%**	0.59%	0.57%	0.54%	0.42%
Return on average equity(1)	**9.79%**	9.73%	9.70%	9.42%	6.71%
Dividend payout ratio	**52.38%**	55.41%	55.60%	57.26%	80.02%
Average equity to average assets(1)	**6.46%**	6.07%	5.90%	5.76%	6.13%
Interest rate spread(1)	**2.07%**	2.04%	1.84%	1.57%	1.39%
Net yield on interest-earning assets(1)	**2.23%**	2.21%	2.04%	1.79%	1.58%
Ratio of non-performing assets to total assets at end of period	**0.40%**	0.30%	0.32%	0.15%	0.00%
Ratio of interest-earning assets to interest-bearing liabilities at end of period	**107.30%**	106.47%	106.45%	105.93%	104.75%
Full service banking offices at end of period	**7**	7	6	6	6

(1) All ratios are based on average monthly balances during the indicated periods.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in understanding our financial condition, and the results of operations for Harleysville Savings Financial Corporation, and its subsidiary Harleysville Savings Bank, for the fiscal years ended September 30, 2011 and 2010. The information in this section should be read in conjunction with the Company s financial statements and the accompanying notes included elsewhere herein.

Critical Accounting Policies and Judgments

The Company s consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 2, Summary of Significant Accounting Policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company s reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company s future financial condition and results of operations.

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 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 probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement.

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 of the loan portfolio. The allowance is 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, 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.

Investment Securities Impairment Valuation. Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or requirement of the Company to sell its investment in debt securities and its intent and ability to retain its investment in equity securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Overview

Harleysville Savings Financial Corporation, a bank holding company, of which Harleysville Savings Bank (the Bank), is a wholly owned subsidiary, was formed in February 2000. For purposes of this discussion, the Company, including its wholly owned subsidiary, will be referred to as the Company. The Company s earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company s interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other thrift institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. To reduce the effect of adverse changes in interest rates on its operations, the Company has adopted certain asset and liability management strategies, described below. The Company s earnings are also affected by, among other factors, other non-interest income, other expenses, and income taxes.

The Company s total assets at September 30, 2011 amounted to $835.7 million compared to $857.1 million as of September 30, 2010. The decrease in assets was primarily due to a decrease in total investments of $27.2 million and repurchase of FHLB stock of $3.0 million. The decrease in investments and FHLB stock was partially offset by an increase in loans receivable and cash of $10.8 million. Total liabilities at September 30, 2011 were $778.6 million compared to $803.8 million at September 30, 2010. The decrease in liabilities was due to an decrease in total deposits of $3.7 million and a decrease in borrowings of $21.9 million. Stockholder s equity totaled $57.1 million at September 30, 2011 compared to $53.4 million as of September 30, 2010.

During fiscal 2011, net interest income increased $268,000 or 1.47% from the prior fiscal year. This increase was the result of a .41% decrease in the average interest-earning assets which was offset by a .36% decrease in average interest-bearing liabilities, and an increase in the interest rate spread to 2.07% in fiscal year 2011 from 2.04% in fiscal year 2010. Net income for fiscal 2011 was $5.4 million compared to $5.0 million for the fiscal year ended 2010. The Company s return on average assets (net income divided by average total assets) was 0.63% during fiscal 2011 compared to 0.59% during fiscal 2010. Return on average equity (net income divided by average equity) was 9.79% during fiscal 2011 compared to 9.73% during fiscal year 2010.

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Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

	As of September 30, 2011	For The Year Ended September 30, 2011			2010			2009		
	Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
					(Dollars in Thousands)					
Interest-earning assets:										
Mortgage loans(2)(3)	**5.56%**	**$ 332,145**	**$ 18,952**	**5.71%**	$ 345,041	$ 20,127	5.83%	$ 340,311	$ 20,024	5.88%
Mortgage-backed securities	**3.87%**	**139,801**	**5,675**	**4.06%**	148,137	6,879	4.64%	190,934	9,187	4.81%
Commercial loans	**5.80%**	**87,798**	**5,146**	**5.86%**	70,404	4,218	5.99%	51,103	3,096	6.06%
Consumer and other loans(3)	**4.53%**	**102,346**	**4,046**	**3.95%**	106,758	4,380	4.10%	106,216	4,772	4.49%
Investments	**1.65%**	**167,414**	**3,754**	**2.24%**	155,757	4,414	2.83%	117,152	4,264	3.64%
Total interest-earning assets	**4.50%**	**829,504**	**37,573**	**4.53%**	826,097	40,018	4.84%	805,716	41,343	5.13%
Interest-bearing liabilities:										
Savings and money market	**0.33%**	**139,811**	**602**	**0.43%**	110,095	932	0.85%	67,509	961	1.42%
Checking	**0.16%**	**61,604**	**49**	**0.08%**	49,998	85	0.17%	44,151	172	0.39%
Certificates of deposit	**1.98%**	**308,611**	**6,837**	**2.22%**	324,853	8,017	2.47%	315,672	9,824	3.11%
Total deposits	**1.27%**	**510,026**	**7,488**	**1.47%**	484,946	9,034	1.86%	427,332	10,957	2.26%
Borrowings	**4.34%**	**263,084**	**11,546**	**4.39%**	290,956	12,713	4.37%	329,567	13,929	4.23%
Total interest-bearing liabilities	**2.29%**	**773,110**	**19,034**	**2.46%**	775,902	21,747	2.80%	756,899	24,886	3.29%

Net interest income/interest rate spread	**2.21%**		**$ 18,539**	**2.07%**		$ 18,271	2.04%		$ 16,457	1.84%
Net interest-earning assets/net yield on interest-earning assets(1)		**$ 56,394**		**2.23%**	$ 50,195		2.21%	$ 48,817		2.04%
Ratio of interest-earning assets to interest-bearing liabilities				**107.3%**			106.5%			106.5%

(1) Net interest income divided by average interest-earning assets.

(2) Loan fee income is immaterial to this analysis.

(3) There were 29 non-accruing loans totaling $3,357,000 at September 30, 2011, 17 non-accruing loans totaling $2,138,000 at September 30, 2010 and two non-accruing loans totaling $335,000 at September 30, 2009.

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The following table shows, for the periods indicated, the changes in interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior year rate) and changes in rate (changes in rate multiplied by prior year volume). Changes in rate/volume (determined by multiplying the change in rate by the change in volume) have been allocated to the change in rate or the change in volume based upon the respective percentages of their combined totals.

	Fiscal 2011 Compared to Fiscal 2010 Increase (Decrease)			Fiscal 2010 Compared to Fiscal 2009 Increase (Decrease)		
(In Thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income on interest-earning assets:						
Mortgage loans(1)	**$ (742)**	**$ (433)**	**$ (1,175)**	$ 272	$ (169)	$ 103
Mortgage-backed securities	**(372)**	**(831)**	**(1,203)**	(1,997)	(312)	(2,309)
Commercial	**1,017**	**(89)**	**928**	1,156	(34)	1,122
Consumer and other loans(1)	**(178)**	**(157)**	**(335)**	24	(415)	(391)
Interest and dividends on Investments	**369**	**(1,029)**	**(660)**	457	(307)	150
Total	**94**	**(2,539)**	**(2,445)**	(88)	(1,237)	(1,325)
Interest expense on interest-bearing liabilities:						
Deposits	**43**	**(1,589)**	**(1,546)**	241	(2,164)	(1,923)
Borrowings	**(1,223)**	**56**	**(1,167)**	(1,709)	493	(1,216)
Total	**(1,180)**	**(1,533)**	**(2,713)**	(1,468)	(1,671)	(3,139)
Net change in net interest income	**$ 1,274**	**$ (1,006)**	**$ 268**	$ 1,380	$ 434	$ 1,814

(1) There were 29 non-accruing loans totaling $3,357,000 at September 30, 2011, 17 non-accruing loans totaling $2,138,000 at September 30, 2010 and two non-accruing loans totaling $335,000 at September 30, 2009.

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Net Interest Income

Net interest income increased by $268,000 or 1.5% in fiscal 2011, over the prior year. The increase in the net interest income in fiscal 2011 was due to an increase in the interest rate spread between interest bearing assets and interest earning liabilities in spite of a decrease in the balance sheet. The driving factors are further explained below under Interest Income and Interest Expense.

Interest Income

Interest income on mortgage loans decreased by $1.2 million or 5.8% in fiscal 2011 and from the prior year. During fiscal 2011, the average balance of mortgage loans decreased $12.9 million or 3.7% and the yield decreased by 12 basis points. The decrease in income was a reflection of a decrease in loan volume. The majority of loans during the year were fixed rate mortgages. The decrease in interest on mortgage-backed securities reflects a decrease in average balance by $8.3 million or 5.6%, and a decrease in yield of 58 basis points in fiscal 2011. During fiscal 2011, the average consumer and other loan average balance decreased $4.4 million or 4.1% and the yield decreased by 15 basis points. The increase on interest income on commercial loans during fiscal 2011 reflected an increase in average balance of $17.4 million which was partially offset by a decrease in yield of 13 basis points.

Interest and dividends on investments decreased by $660,000 or 15.0% in fiscal 2011 from fiscal 2010. During fiscal 2011, the decrease in income resulted from a decrease in yield of 59 basis points in spite of an increase in average balance of $11.7 million or 7.5%. The increase in the average balance in fiscal 2011 reflects funds that were deployed from normal cash flows due to deposit growth.

Interest Expense

Interest expense on deposits decreased $1.5 million or 17.1% in fiscal 2011 as compared to the prior year. In fiscal 2011, the average balance of deposits increased by $25.1 million. The average rate paid on deposits was 1.5% for the year ended September 30, 2011, compared to 1.86% for the year ended September 30, 2010. The average rate paid on deposits is a direct reflection of the falling interest rate environment.

Interest expense on borrowings decreased by $1.2 million or 9.2% in fiscal 2011 as compared to the prior year. The increase in 2011 was the result of a decrease in the average balance in borrowings of $27.9 million or 9.6%. Borrowings were primarily paid down by the increase of deposits and also the maturity of investments during fiscal 2011.

Provision for Loan Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of loan loss reserves is based upon a regular monthly review of loan delinquencies and classified assets , as well as local and national economic trends. The allowance for loan losses totaled $3.3 million and $2.5 million at September 30, 2011 and 2010 or 0.6% and 0.5% of total loans at September 30, 2011 and 2010, respectively. The Company recorded an increased provision for loan losses of $1.2 million in fiscal 2011 compared to $600,000 in fiscal 2010, due to the increase in unemployment trends and declines in property values reflecting instability in the economy.

Other Income

The Company s total other operating income increased to $3.0 million in fiscal 2011 compared to $2.0 million in fiscal 2010. The increase in fiscal 2011 was primarily due to a one-time bank-owned life insurance (BOLI) benefit claim of $1.0 million due to the death of an officer. Bank owned life insurance income was $1.5 million in fiscal 2011 compared to $512,000 in fiscal 2010.

Customer service fees were $549,000 and $641,000 in fiscal 2011 and 2010, respectively. The decrease was due to less NSF fees during 2011.

Other income, which consists primarily of loan servicing fees, the sale of non-deposit products and insurance commissions, increased by $55,000 or 6.6% during fiscal 2011. The fees, which comprise other income, are set by the Company at a level, which is intended to cover the cost of providing the related services and expenses to customers and employees.

Other Expenses

Salaries and employee benefits increased by $457,000 or 6.6% in fiscal 2011 as compared to fiscal 2010. The increased expenses of salaries and employee benefits during the periods are attributable to increased staffing, due to a new branch and bank growth, normal salary increases and increased employee benefit expenses as well as stock compensation expense.

Occupancy and equipment expense increased by $46,000 or 3.4% in fiscal 2011 compared to fiscal 2010. Data processing costs increased by $94,000 in fiscal 2011. The increase in occupancy and equipment expenses in fiscal 2011 was attributable to a new satellite branch, normal growth, normal technology needs and inflationary effects.

Other expenses, which consist primarily of advertising expenses, directors fees, ATM network fees, professional fees, checking account costs, REO expenses, and stockholders expense increased by $5,000 or 0.2% in fiscal 2011 compared to fiscal 2010. The increase in other expenses in 2011 was attributable to increases in advertising, office supplies, audit expense and REO expenses. Many of these expenses were attributable to natural growth of our customer base and overall growth of our retail and business banking.

FDIC insurance expense for the fiscal year 2011 decreased $179,000 or 19.8% from fiscal 2010 due to a change in the FDIC method of calculating the basis of the premium and as well as reducing the rate charge which took effect on April 1, 2011.

Income Taxes

The Company recorded income tax provisions of $1.9 million and $1.9 million for fiscal year 2011 and 2010, respectively. The effective tax rate was 25.6% in fiscal 2011 compared to 28.0% in fiscal 2010. See Note 8 of the Notes to Consolidated Financial Statements which provides an analysis of the provision for income taxes.

Commitments and Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and the unused portions of lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Commitments to extend credit and lines of credit are not recorded as an asset or liability by us until the instrument is exercised. At September 30, 2011 and 2010, we had no commitments to originate loans for sale.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the customer. The amount and type of collateral required varies, but may include accounts receivable, inventory, equipment, real estate and income-producing commercial properties. At September 30, 2011 and 2010, commitments to originate loans and commitments under unused lines of credit, including undisbursed portions of construction loans in process, for which the Company is obligated amounted to approximately $84.0 million and $78.5 million, respectively.

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Letters of credit are conditional commitments issued by the Company guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Commercial letters of credit are used primarily to facilitate trade or commerce and are also issued to support public and private borrowing arrangements, bond financings and similar transactions. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Collateral may be required to support letters of credit based upon management s evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. Most letters of credit expire within one year. At September 30, 2011 and September 30, 2010, the Company had letters of credit outstanding of approximately $405,000 and $405,000, respectively, of which all are standby letters of credit. At September 30, 2011 and 2010, the uncollateralized portion of the letters of credit extended by the Company was approximately $191,000 and $135,000, respectively.

The Company is also subject to various pending claims and contingent liabilities arising in the normal course of business, which are not reflected in the consolidated financial statements. Management considers that the aggregate liability, if any, resulting from such matters will not be material.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

The following table summarizes our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding letters of credit, lines of credit and under our construction loans at September 30, 2011.

	Total Amounts Committed
	(In Thousands)
Letters of credit	$ 405
Commitments to originate loans	17,466
Unused portion of home equity lines of credit	55,208
Unused portion of commercial lines of credit	7,772
Undisbursed portion of construction loans in process	3,401
Total commitments	$ 84,252

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Contractual Obligations

The Company s contractual cash obligations at September 30, 2011 were as follows:

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
			(In Thousands)		
Lease agreements	$ 695	$ 135	$ 277	$ 283	$
Borrowings	250,194	53,029	60,341	27,656	109,168
Certificates of deposit	295,450	125,154	125,236	45,060	
	$ 546,338	$ 178,318	$ 185,852	$ 73,000	$ 109,168

Liquidity and Capital Resources

The Company s assets decreased to $835.7 million as of September 30, 2011 from $857.1 million at September 30, 2010. Stockholders equity increased to $57.1 million as of September 30, 2011 from $53.4 million at September 30, 2010. As of September 30, 2011, stockholders equity amounted to 6.8% of the Bank s total assets under accounting principles generally accepted in the United States of America (GAAP). For a financial institution, liquidity is a measure of the ability to fund customers needs for loans, deposit withdrawals and repayment of borrowings. Harleysville Savings 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 Company s core deposit base. In addition to cash, the Company maintains a portfolio of cash flows generating investments to meet its liquidity requirements. The Company 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 Company 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 September 30, 2011, the Company had a remaining borrowing capacity with the FHLB of Pittsburgh of approximately $165.1 million. To the extent that the Company cannot meet its liquidity needs with normal cash flows and deposit growth, the Company will be able to utilize the available borrowing capacity provided by the FHLB of Pittsburgh to fund asset growth and loan commitments.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Asset and Liability Management

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases or decreases in interest rates. The principal determinant of the exposure of 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 decrease the interest rate sensitivity by shortening the repricing intervals and the maturities of the Company s interest-earning assets. Although management of the Company believes that the steps taken have reduced the Company s overall vulnerability to increases and decreases in interest rates, the Company remains vulnerable to material and prolonged increases and decreases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets and interest rate sensitive assets exceed interest rate sensitive liabilities, respectively.

The authority and responsibility for interest rate management is vested in the Company s Board of Directors. The Chief Financial Officer implements the Board of Directors policies during the day-to-day operations of the Company. Each month, the Chief Financial 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. The Chief Financial Officer 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 September 30, 2011, 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. However, many of our assets can prepay at any time without a penalty unlike many of our liabilities that have a contractual maturity.

The passbook accounts, negotiable order of withdrawal (NOW) accounts and a portion of the 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 table below 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 in a different period.

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
			(In Thousands)		
Interest-earning assets:					
Mortgage loans	$ 56,557	$ 59,050	$ 46,569	$ 180,021	$ 342,197
Commercial loans	49,658	17,216	14,329	16,144	97,347
Mortgage-backed securities	55,908	41,406	23,289	29,944	150,547
Consumer and other loans	68,042	9,690	4,552	4,373	86,657
Investment securities and other investments	80,462	23,846	21,445	5,806	131,559
Total interest-earning assets	310,627	151,208	110,184	236,288	808,307
Interest-bearing liabilities:					
Passbook and Club accounts	401			3,793	4,194
NOW and interest-bearing checking accounts	6,931			62,379	69,310
Consumer Money Market Deposit accounts	53,172			58,021	111,193
Business Money Market Deposit accounts	17,563			5,855	23,418
Certificate accounts	126,177	124,560	44,713		295,450
Borrowed money	57,708	59,253	26,389	106,844	250,194
Total interest-bearing liabilities	261,952	183,813	71,102	236,892	753,759
Repricing GAP during the period	$ 48,675	$ (32,605)	$ 39,082	$ (604)	$ 54,548
Cumulative GAP	$ 48,675	$ 16,070	$ 55,152	$ 54,548	
Ratio of GAP during the period to total assets	5.82%	-3.90%	4.68%	-0.07%	
Ratio of cumulative GAP to total assets	5.82%	1.92%	6.60%	6.53%	

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with GAAP which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since prices are affected by inflation to a larger extent than interest rates.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Harleysville Savings Financial Corporation
Harleysville, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of Harleysville Savings Financial Corporation and subsidiary (the Company) as of September 30, 2011 and 2010, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harleysville Savings Financial Corporation and subsidiary as of September 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC

ParenteBeard LLC
Allentown, Pennsylvania
December 16, 2011

Consolidated Statements of Financial Condition

(In thousands, except share data)	September 30, 2011	2010
Assets		
Cash and amounts due from depository institutions	**$ 3,857**	$ 4,052
Interest bearing deposits	**18,725**	16,138
Total cash and cash equivalents	**22,582**	20,190
Investments and mortgage-backed securities:		
Available for sale (amortized cost 2011, $18,560; 2010, $21,401)	**18,515**	21,413
Held to maturity (fair value 2011, $240,581; 2010, $264,448)	**231,756**	256,088
Loans receivable (net of allowance for loan losses 2011, $3,311; 2010, $2,504)	**518,486**	510,093
Accrued interest receivable	**2,847**	3,210
Federal Home Loan Bank stock at cost	**13,110**	16,096
Foreclosed real estate	**196**	186
Office properties and equipment, net	**12,005**	12,158
Prepaid expenses and other assets	**16,216**	17,706
TOTAL ASSETS	**$ 835,713**	$ 857,140
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	**$ 524,401**	$ 528,100
Long-term debt	**250,194**	272,047
Accrued interest payable	**1,315**	1,407
Advances from borrowers for taxes and insurance	**1,368**	1,247
Accounts payable and accrued expenses	**1,353**	988
Total liabilities	**778,631**	803,789
Commitments and contingencies (Notes 12 & 13)		
Stockholders Equity:		
Preferred Stock: $.01 par value; 7,500,000 shares authorized; none issued		
Common stock: $.01 par value; 15,000,000 shares authorized; 3,921,177 shares issued: share outstanding 2011, 3,758,751; 2010 3,687,409	**39**	39
Additional paid-in capital	**8,346**	8,126
Treasury stock, at cost (2011, 162,426 shares; 2010, 233,768 shares)	**(2,405)**	(3,383)
Retained earnings partially restricted	**51,131**	48,562
Accumulated other comprehensive income (loss)	**(29)**	7

Total stockholders equity	**57,082**	53,351
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 835,713**	$ 857,140

See notes to consolidated financial statements.

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Consolidated Statements of Income

(In thousands, except share data)	Year Ended September 30, 2011	2010
Interest Income:		
Interest and fees on mortgage loans	**$ 18,953**	$ 20,127
Interest on mortgage-backed securities	**5,675**	6,879
Interest on commercial loans	**5,146**	4,218
Interest on consumer and other loans	**4,046**	4,380
Interest on taxable investments	**2,905**	3,385
Interest on tax-exempt investments	**845**	1,026
Dividends on investment securities	**3**	3
Total interest and dividend income	**37,573**	40,018
Interest Expense:		
Interest on deposits	**7,488**	9,034
Interest on borrowings	**11,546**	12,713
Total interest expense	**19,034**	21,747
Net Interest Income	**18,539**	18,271
Provision for Loan Losses	**1,150**	600
Net Interest Income, after Provision for Loan Losses	**17,389**	17,671
Other Income:		
Customer service fees	**549**	641
Income on bank-owned life insurance	**1,548**	512
Other income	**889**	834
Total other income	**2,986**	1,987
Other Expenses:		
Salaries and employee benefits	**7,403**	6,946
Occupancy and equipment	**1,382**	1,336
Deposit insurance premiums	**727**	906
Data processing	**743**	649
Other	**2,870**	2,865

Total other expenses		**13,125**		12,702
Income before Income Taxes		**7,250**		6,956
Income tax expense		**1,855**		1,948
Net Income	**$**	**5,395**	$	5,008
Earnings Per Share:				
Basic	**$**	**1.45**	$	1.37
Diluted	**$**	**1.44**	$	1.36
Weighted Average Shares Outstanding:				
Basic		**3,726,599**		3,658,300
Diluted		**3,758,281**		3,685,004

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

(In Thousands)	Year Ended September 30, 2011	2010
Net Income	**$ 5,395**	$ 5,008
Other Comprehensive Income		
Unrealized (loss) gain on securities available for sale, net of tax 2011, ($21); 2010, $19	**(36)(1)**	36(1)
Total Comprehensive Income	**$ 5,359**	$ 5,044

Consolidated Statements of Comprehensive Income

	2011	2010
(1) Disclosure of reclassification amount, net of tax for the years ended:		
Net unrealized gain (loss) arising during the year	**$ (57)**	$ 55
Reclassification adjustment for realized gains included in net income		
	$ (57)	$ 55
Tax effect	**21**	(19)
Net unrealized (loss) gain on securities available for sale	**$ (36)**	$ 36

See notes to consolidated financial statements.

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Consolidated Statements of Stockholders Equity

(In thousands, except share data)	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings-Partially Restricted	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Balance at September 30, 2009	3,627,696	$ 39	$ 8,002	$ 46,329	$ (29)	$ (4,202)	$ 50,139
Net income				5,008			5,008
Dividends $.76 per share				(2,775)			(2,775)
Stock based compensation			167				167
Treasury stock purchased	(5,659)					(78)	(78)
Treasury stock delivered under ESOP	10,000					137	137
Treasury stock delivered under dividend reinvestment plan	41,089		15			554	569
Employee options exercised	14,283		(58)			206	148
Change in unrealized holding gain on available-for-sale securities, net of reclassification and tax					36		36
Balance at September 30, 2010	**3,687,409**	**39**	**8,126**	**48,562**	**7**	**(3,383)**	**53,351**
Net income				5,395			5,395
Dividends $.76 per share				(2,826)			(2,826)
Stock based compensation			214				214
Treasury stock delivered under ESOP	10,000		10			137	147
Treasury stock delivered under dividend reinvestment plan	41,540		43			569	612
Employee options exercised	19,802		(47)			272	225
Change in unrealized holding loss on available-for-sale securities, net of reclassification and tax					(36)		(36)
Balance at September 30, 2011	**3,758,751**	**$ 39**	**$ 8,346**	**$ 51,131**	**$ (29)**	**$ (2,405)**	**$ 57,082**

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(In Thousands)	Year Ended September 30, 2011	2010
Operating Activities:		
Net Income	**$ 5,395**	$ 5,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**615**	570
Provision for loan losses	**1,150**	600
Writedowns of foreclosed real estate	**91**	
(Gain) loss on sale of foreclosed real estate	**(7)**	159
Amortization of deferred fees	**197**	96
Net (accretion) amortization of premiums and discounts	**(193)**	192
Increase in cash surrender value of bank owned life insurance	**(491)**	(512)
Gain on death benefit on bank owned life insurance policy	**(1,057)**	
Stock based compensation	**214**	167
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in accounts payable and accrued expenses	**365**	(182)
Decrease (increase) in prepaid expenses and other assets	**1,133**	(1,205)
Decrease in accrued interest receivable	**363**	509
Decrease in accrued interest payable	**(92)**	(199)
Net cash provided by operating activities	**7,683**	5,203
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	**(59,889)**	(14,986)
Purchase of investment securities held to maturity	**(54,232)**	(129,352)
Purchase of investment securities available-for-sale	**(90,701)**	(131,264)
Redemption of FHLB stock	**2,986**	
Proceeds from the redemption of investment securities available-for-sale	**93,542**	117,400
Proceeds from maturities of investment securities held to maturity	**97,568**	109,434
Proceeds from sale of foreclosed real estate	**190**	588
Purchase of bank owned life insurance	**(191)**	
Proceeds on bank owned life insurance	**2,117**	
Principal collected on mortgage-backed securities held to maturity	**41,078**	46,248
Principal collected on long-term loans	**120,365**	122,600
Long-term loans originated or acquired	**(130,389)**	(135,184)
Purchase of premises and equipment	**(462)**	(2,242)
Net cash provided by (used in) investing activities	**21,982**	(16,758)
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	**18,221**	71,894
Net decrease in certificates of deposit	**(21,920)**	(10,395)

Cash dividends	**(2,214)**	(2,206)
Repayment of long-term debt	**(21,853)**	(36,999)
Acquisition of treasury stock		(78)
Sale of treasury stock delivered under employee stock plans	**372**	285
Net increase (decrease) in advances from borrowers for taxes and insurance	**121**	(198)
Net cash (used in) provided by financing activities	**(27,273)**	22,303
INCREASE IN CASH AND CASH EQUIVALENTS	**2,392**	10,748
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**20,190**	9,442
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 22,582**	$ 20,190
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	**$ 19,126**	$ 21,946
Income taxes	**1,205**	1,825
Non-cash transfer of loans to foreclosed real estate	**284**	186

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

Harleysville Savings Financial Corporation (the Company) is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. Harleysville Savings Bank (the Bank) is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential, commercial and consumer loans. The Bank s customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank s wholly owned subsidiary, HSB Inc., a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions 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.

Use of Estimates in Preparation of the 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. The most significant of these estimates and assumptions in the Company s consolidated financial statements is the allowance for loan losses and other-than-temporary impairment of investments. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk Most of the Company s activities are with customers located within the southeastern region of Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, including interest-bearing demand deposits in banks.

Interest-Bearing Deposits in Banks Interest-bearing deposits in banks are carried at cost.

Investment and Mortgage-Backed Securities The Company classifies and accounts for debt and equity securities as follows:

Held to Maturity Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of the trade date, reported in the consolidated statement of income and determined using the amortized cost of the specific security sold.

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For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security s fair value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security and whether it is more likely than not that it will be required to sell the security before its fair value has recovered to a level at least equal to the amortized cost.

For equity securities, once a decline in value is determined to be other-than-temporary, the value of the equity security is reduced to fair value and a corresponding charge to earnings is recognized.

For debt securities, accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When the Company determines that a security s unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

Loans The Company grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southeastern Pennsylvania. The ability of the Company s debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Interest Income on Loans Interest income is accrued on the unpaid principal balance. Interest on loans is recognized as income when earned. The accrual of interest on mortgage loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Deferred Loan Fees Loan origination fees, net of certain direct origination costs, are deferred and the balance is amortized to income as an adjustment over the life of the loan using the interest method.

Allowance for Loan Losses The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, status of nonperforming loans, general economic conditions as they relate to the Company s market area, and other factors related to the collectibility of the Company s loan portfolio.

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The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned 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.

Foreclosed Real Estate Real estate acquired through, or in lieu of, loan foreclosures are carried at the fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had foreclosed real estate of $196,000 and $186,000 as of September 30, 2011 and 2010, respectively.

Office Properties and Equipment Land is carried at cost. Office properties and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets that range from four to forty years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Federal Home Loan Bank Stock Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock. During 2010 and 2011, the FHLB allowed certain redemptions.

Management s determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB or restricted stock as of September 30, 2011.

Cash Surrender Value Of Bank Owned Life Insurance (BOLI) The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the consolidated statements of income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the consolidated statements of financial condition and amounted to $13,542,000 and $13,920,000 at September 30, 2011 and 2010, respectively. During the year ended September 30, 2011, income on BOLI included a $1.0 million death benefit claim.

Income Taxes Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiary file a consolidated Federal income tax return.

The Company analyzes each tax position taken in its tax returns and determines the likelihood that the position will be realized. Only tax positions that are more likely than not to be realized can be recognized in the Company s financial statements. For tax positions that do not meet this recognition threshold, the Company will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any material unrecognized tax benefits or accrued interest or penalties at September 30, 2011 and 2010, or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months. The Company s policy is to account for interest as a component of interest expense and penalties as a component of other expenses. The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the State of Pennsylvania. The Company is no longer subject to examination by taxing authorities for the years before October 1, 2007.

Transfers of Financial Assets Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Treasury Stock The Company records treasury stock purchases at cost. Gains and losses on subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method.

Stock Based Compensation The Company currently has several stock based compensation plans in place for employees and directors of the Company. The Company recognizes the cost of employee services received in exchange for an award of equity investment based on grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based compensation expense for the years ended September 30, 2011 and 2010 was $214,000 and $167,000, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2011 and 2010 was $22,000 and $18,000, respectively.

Earnings Per Share Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and unvested stock awards, and are determined using the treasury stock method. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30,	
	2011	2010
Weighted average shares outstanding basic	**3,726,599**	3,658,300
Increase in shares due to dilutive potential common shares	**31,682**	26,704
Weighted average shares outstanding diluted	**3,758,281**	3,685,004

Other Comprehensive Income The Company presents, as a component of comprehensive income, amounts from transactions and other events, which are currently excluded from the statement of income and are recorded directly to stockholders equity. The Company s other comprehensive income consists of net unrealized holding gains or losses on securities available-for-sale, net of income taxes.

Subsequent Events The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2011 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

Reclassifications Certain amounts in the prior period s financial statements have been reclassified to conform with the current year classifications. The reclassifications had no effect on net income.

Recent Accounting Pronouncements In October 2009, the FASB issued ASU 2009-17, (*Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities)*. This Update amends the Codification for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. The amendments in this Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity s involvement in variable interest entities, which will enhance the information provided to users of financial statements. This Update is effective at the start of a reporting entity s first fiscal year beginning after November 15, 2009. The adoption of this new guidance did not have an impact on our financial position or result of operations.

The FASB has issued ASU 2010-06, (*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements).* This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and
- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard did not have an impact on our financial position or results of operations.

ASU 2010-20, *Receivables (Topic 310): (Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses),* will help investors assess the credit risk of a company s receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this update apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods *ending* on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods *beginning* on or after December 15, 2010. For nonpublic companies, the amendments are effective for annual reporting periods ending on or after December 15, 2011. The Company has provided the required credit quality disclosures.

In April 2011, the FASB issued Accounting Standard Update (ASU) No. 2011-02, *Receivables (Topic 310*): (*A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring)*, to clarify the accounting principles applied to loan modifications. ASU No. 2011-02 was issued to address the recording of an impairment loss in FASB ASC 310, *Receivables*. ASU No. 2011-02 adds text to the scope guidance Section 310-40-15 that is meant to help determine when a lender has granted a concession on their terms of a loan. The added material also provides criteria that should be used to help determine when the loan restructuring delays a payment by a length of time that is considered insignificant and when the borrower is having financial problems. For public companies the effective date is for fiscal quarters and years that start June 15, 2011, or later with the retrospective application to the beginning of the fiscal year for loans that are restructured during the year in which the changes are adopted. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03: *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.* The FASB has issued this ASU to clarify the accounting principles applied to repurchase agreements, as set forth by FASB ASC Topic 860, Transfers and Servicing. This ASU, entitled Reconsideration of Effective Control for Repurchase Agreements, amends one of three criteria used to determine whether or not a transfer of assets may be treated as a sale by the transferor. Under Topic 860, the transferor may not maintain effective control over the transferred assets in order to qualify as a sale. This ASU eliminates the criteria under which the transferor must retain collateral sufficient to repurchase or redeem the collateral on substantially agreed upon terms as a method of maintaining effective control. This ASU is effective for both public and nonpublic entities for interim and annual reporting periods beginning on or after December 31, 2011, and requires prospective application to transactions or modifications of transactions which occur on or after the effective date. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04: *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU amends FASB ASC Topic 820, Fair Value Measurements, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The ASU clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity s stockholder s equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The ASU also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The ASU also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the ASU is effective for annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05: *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* The provisions of this ASU amend FASB ASC Topic 220, *Comprehensive Income*, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholder s equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate, but consecutive, statements of net income and other comprehensive income. Under previous GAAP, all three presentations were acceptable. Regardless of the presentation selected, the Reporting Entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for the Company for fiscal years and interim periods beginning after December 31, 2011 and the required presentation will be included in those filings.

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of the Company s securities with gross unrealized gains and losses, as of September 30, 2011 and 2010 are as follows:

Available for sale securities:

	September 30, 2011			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity securities	**$ 355**	**$ 44**	**$ (110)**	**$ 289**
Collateralized mortgage obligations	**785**	**21**		**806**
U.S. Government money market funds	**17,420**			**17,420**
Total Available for Sale Securities	**$ 18,560**	**$ 65**	**$ (110)**	**$ 18,515**

	September 30, 2010			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 355	$ 42	$ (54)	$ 343
Collateralized mortgage obligations	785	24		809
U.S. Government money market funds	20,261			20,261
Total Available for Sale Securities	$ 21,401	$ 66	$ (54)	$ 21,413

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Held to maturity securities:

	September 30, 2011			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE S)	$ 124,576	$ 7,855	$	$ 132,431
Collateralized mortgage obligations	25,165	118	(33)	25,250
Municipal bonds	16,022	814	(21)	16,815
U.S. Government Agencies	65,993	146	(54)	66,085
Total Held to Maturity Securities	$ 231,756	$ 8,933	$ (108)	$ 240,581

	September 30, 2010			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE s)	$ 110,732	$ 6,755	$	$ 117,487
Collateralized mortgage obligations	20,087	193	(37)	20,243
Municipal bonds	16,462	773	(47)	17,188
U.S. Government Agencies	108,807	768	(45)	109,530
Total Held to Maturity Securities	$ 256,088	$ 8,489	$ (129)	$ 264,448

All the Company s mortgage-backed securities and collateralized mortgage obligations are residential. At September 30, 2011, The Bank holds $25.2 million in Collateralized Mortgage Obligations (CMOs) of which $21.9 million are issued by Government Sponsored Enterprises and $3.3 million are privately-issued. These private label securities are adequately rated. A summary of securities with unrealized losses, aggregated by category, at September 30, 2011 is as follows:

	Less than 12 Months		12 Months or Longer			Total
(In Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
Collateralized mortgage obligations	$ 11,830	$ (33)	$	$	$ 11,830	$ (33)
Municipal bonds			1,517	(21)	1,517	(21)
U.S. Government Agencies	12,942	(54)			12,942	(54)
Subtotal debt securities	24,772	(87)	1,517	(21)	26,289	(108)
Equity securities	45	(13)	114	(97)	159	(110)
Total temporarily impaired securities	$ 24,817	$ (100)	$ 1,631	$ (118)	$ 26,448	$ (218)

At September 30, 2011, debt securities in a gross unrealized loss position consisted of 12 securities that at such date had an aggregate depreciation of 0.41% from the Company s amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until maturity and the Company does not believe it will be required to sell such securities prior to the recovery of the amortized cost basis. Management does not believe any individual unrealized loss on debt securities as of September 30, 2011 represents an other-than-temporary impairment.

As of September 30, 2011, there were four equity securities in an unrealized loss position. Management evaluated the length of time and the extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may effect the future earnings potential. The Company has the ability and intent to hold these securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of September 30, 2011 represents an other-than-temporary impairment. There were no impairment charges on equity securities, during the years ended September 30, 2011 and 2010.

A summary of securities with unrealized losses, aggregated by category, at September 30, 2010 is as follows:

	Less than 12 Months		12 Months or Longer			Total
		Unrealized		Unrealized	Total	Unrealized
(In Thousands)	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Collateralized mortgage obligations	$ 8,262	$ (4)	$ 1,530	$ (33)	$ 9,792	$ (37)
Municipal bonds	378		1,494	(47)	1,872	(47)
U.S. Government Agencies	6,955	(45)			6,955	(45)
Subtotal debt securities	15,595	(49)	3,024	(80)	18,619	(129)
Equity Securities	55	(3)	160	(51)	215	(54)
Total temporarily impaired securities	$ 15,650	$ (52)	$ 3,184	$ (131)	$ 18,834	$ (183)

The following table sets forth the stated maturities of the investment and mortgage-backed securities at September 30, 2011. Money market funds and equity securities are not included in the table based on lack of maturity.

	September 30, 2011	
(In Thousands)	**Amortized Cost**	**Fair Value**
Available for sale:		
Due in one year or less	**$**	**$**
Due after on year through five years		
Due after five years through ten years	**785**	**806**
Due after ten years		
Total	**$ 785**	**$ 806**
Held to maturity:		
Due in one year or less	**$ 13,003**	**$ 99,073**
Due after on year through five years	**6,818**	**122,011**
Due after five years through ten years	**26,231**	**19,317**
Due after ten years	**185,704**	**180**
Total	**$ 231,756**	**$ 240,581**

There were no sales of investment or mortgage-backed securities during the years ended September 30, 2011 and 2010.

Certain of the Company s investment securities, totaling $8.9 million and $10.3 million at September 30, 2011 and 2010, respectively, were pledged as collateral to secure deposit sweep accounts and public deposits as required or permitted by law. Other securities totaling $52.8 million and $60.6 million at September 30, 2011 and 2010, respectively, were pledged for long-term advances of $50 million as described in Note 7.

4. LOANS RECEIVABLE

Loans receivable consists of the following:

(In Thousands)	September 30, 2011	2010
Residential Mortgages	**$ 336,379**	$ 339,874
Construction	**5,818**	4,752
Home Equity	**85,521**	90,511
Commercial Mortgages	**91,085**	75,450
Commercial Business Loans	**6,262**	4,327
Consumer Non-Real Estate	**1,136**	1,980
Total	**526,201**	516,894
Undisbursed portion of loans in process	**(3,401)**	(3,426)
Deferred loan fees	**(1,003)**	(871)
Allowance for loan losses	**(3,311)**	(2,504)
Loans Receivable net	**$ 518,486**	$ 510,093

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At September 30, 2011 and 2010, the Company was servicing residential mortgage loans for others amounting to approximately $1,708,000 and $1,762,000, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. In connection with the loans serviced for others, the Company held borrowers escrow balances of approximately $7,000 and $7,000 at September 30, 2011 and 2010, respectively.

The Bank has had, and may be expected to have in the future, loan transactions in the ordinary course of business with directors, officers, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to related parties at September 30, 2011 and 2010, were approximately $736,000 and $784,000, respectively. Additional loans and repayments for the year ended September 30, 2011, were $29,000 and $25,000, respectively.

The loans receivable portfolio is segmented into consumer and commercial loans. Consumer loans consist of the following classes: residential mortgage loans, construction loans, home equity loans and other consumer loans. Commercial loans consist of the following classes: commercial mortgages and commercial business loans. For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally is either applied against principal or reported as interest income, according to management s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management s estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

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The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. 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 quarterly to ensure their relevance in the current economic environment.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Other consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company s policy to establish specific reserves for losses on delinquent consumer loans and commercial loans when it determines that losses are probable.

An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for loans by either the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company s impaired loans are measured based on the estimated fair value of the loan s collateral. Interest payments on impaired loans and non-accrual loans are applied to principal unless the ability to collect the principal amount is fully secured, in which case interest is recognized on the cash basis.

For residential mortgage loans, home equity loans and commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial business loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

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The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower s overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management s close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loan not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company s allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management s comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company s internal risk rating system as of September 30, 2011:

	September 30, 2011				
(In Thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential Mortgages	**$ 333,243**	**$ 77**	**$ 2,417**	**$ 642**	**$ 336,379**
Construction	**5,818**				**5,818**
Home Equity	**85,285**	**50**	**186**		**85,521**
Commercial Mortgages	**80,615**	**10,343**		**127**	**91,085**
Commercial Business Loans	**6,162**	**100**			**6,262**
Consumer Non-Real Estate	**1,136**				**1,136**
Total	**$ 512,259**	**$ 10,570**	**$ 2,603**	**$ 769**	**$ 526,201**

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2011 and for the year then ended:

(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	**$ 1,526**	**$ 1,530**	**$**	**$ 1,541**	**$ 87**
Construction					
Home Equity	**77**	**77**		**77**	
Commercial Mortgages	**127**	**232**		**194**	
Commercial Business Loans					
Consumer Non-Real Estate				**5**	
With an allowance recorded:					
Residential Mortgages	**$ 1,533**	**$ 1,632**	**$ (198)**	**$ 1,639**	**$ 28**
Construction					
Home Equity	**109**	**109**	**(79)**	**111**	**2**
Commercial Mortgages					
Commercial Business Loans					
Consumer Non-Real Estate					
Total:					
Residential Mortgages	**$ 3,059**	**$ 3,162**	**$ (198)**	**$ 3,180**	**$ 115**
Construction					
Home Equity	**186**	**186**	**(79)**	**188**	**2**
Commercial Mortgages	**127**	**232**		**194**	
Commercial Business Loans					
Consumer Non-Real Estate				**5**	

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At September 30, 2010, the Company had impaired loans of $312,000 with a related allowance for loan loss of $126,000.

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of September 30, 2011:

September 30, 2011

(In Thousand)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
Residential Mortgages	**$ 1,719**	**$ 2,771**	**$ 4,490**	**$ 331,889**	**$ 336,379**	**$**
Construction				**5,818**	**5,818**	
Home Equity	**467**	**100**	**567**	**84,954**	**85,521**	**15**
Commercial Mortgages	**4,180**	**127**	**4,307**	**86,778**	**91,085**	
Commercial Business Loans				**6,262**	**6,262**	
Consumer Non-Real Estate		**4**	**4**	**1,132**	**1,136**	
Total	**$ 6,366**	**$ 3,002**	**$ 9,368**	**$ 516,833**	**$ 526,201**	**$ 15**

The following table presents nonaccrual loans by classes of the loan portfolio as of September 30, 2011:

(In Thousands)	September 30, 2011
Residential Mortgages	**$ 3,059**
Construction	
Home Equity	**171**
Commercial Mortgages	**127**
Commercial Business Loans	
Consumer Non-Real Estate	
Total	**$ 3,357**

At September 30, 2010, the Company had total non-accrual loans of $2,138,000 and loans in excess of 90 days and still accruing interest in the amount of $147,000.

The following schedule summarizes the changes in the allowance for loan losses for the years ended September 30, 2011 and 2010:

(In Thousands)	Year Ended September 30, 2011	2010
Balance, beginning of year	**$ 2,504**	$ 2,094
Provision of loan losses	**1,150**	600

Recoveries				9
Charge offs		**(343)**		(199)
Balance, end of year	**$**	**3,311**	$	2,504

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The following table provides the activity in the allowance for loan losses by loan class for the year ended September 30, 2011 and the balance in the allowance for loan losses at September 30, 2011 disaggregated on the basis of the Company s impairment method by loan class along with the balance of loans receivable by class disaggregated on the basis of the Company s impairment methodology.

(In Thousands)	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Beginning Balance, September 30, 2010	**$ 821**	**$ 7**	**$ 405**	**$ 906**	**$ 4**	**$ 22**	**$ 339**	**$ 2,504**
Charge-offs	**(224)**			**(105)**		**(14)**		**(343)**
Recoveries								
Provisions	**274**	**26**	**26**	**715**	**210**	**(3)**	**(98)**	**1,150**
Ending balance, September 30, 2011	**$ 871**	**$ 33**	**$ 431**	**$ 1,516**	**$ 214**	**$ 5**	**$ 241**	**$ 3,311**
Ending balance: Individually evaluated for impairment	**$ 198**	**$**	**$ 79**	**$**	**$**	**$**	**$**	**$ 277**
Ending balance: Collectively evaluated for impairment	**$ 673**	**$ 33**	**$ 352**	**$ 1,516**	**$ 214**	**$ 5**	**$ 241**	**$ 3,034**
Loans:								
Ending balance:	**$ 336,379**	**$ 5,818**	**$ 85,521**	**$ 91,085**	**$ 6,262**	**$ 1,136**	**$**	**$ 526,201**
Ending balance: Individually evaluated for impairment	**$ 3,059**	**$**	**$ 186**	**$ 127**	**$**	**$**	**$**	**$ 3,372**
Ending balance: Collectively evaluated for impairment	**$ 333,320**	**$ 5,818**	**$ 85,335**	**$ 90,958**	**$ 6,262**	**$ 1,136**	**$**	**$ 522,829**

As a result of adopting the amendments in ASU No. 2011-02, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. The Company identified no loans for which the allowance for loan losses had previously been measured under a general allowance for credit losses methodology that are now considered troubled debt restructurings in accordance with ASU No. 2011-02, and as such, there are no retroactive disclosures required. The company had no loans modified as troubled debt restructurings for the nine months ended September 30, 2011. The Company had no loans modified as troubled debt restructurings with the previous 12 months from September 30, 2011 which were in payment default.

5. OFFICE PROPERTIES AND EQUIPMENT

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

(In Thousands)	September 30, 2011	2010
Land	**$ 3,277**	$ 3,277

Buildings	**10,278**	10,152
Branch office in construction	**32**	161
Furniture, fixtures and equipment	**5,448**	5,025
Automobiles	**60**	18
Total	**19,095**	18,633
Less accumulated depreciation	**(7,090)**	(6,475)
Net	**$ 12,005**	$ 12,158

Depreciation expense for the years ended September 30, 2011 and 2010 amounted to approximately $615,000 and $570,000, respectively.

6. DEPOSITS

Deposits are summarized as follows:

	September 30,			
	2011		2010	
(Dollars in Thousands)	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
Non-interest bearing checking accounts	**$ 20,836**	**0.00%**	$ 17,015	0.00%
NOW accounts	**30,175**	**0.06**	21,320	0.06
Interest bearing checking accounts	**39,135**	**0.16**	32,577	0.12
Money market deposit accounts	**134,611**	**0.32**	136,079	0.52
Passbook and club accounts	**4,194**	**0.83**	3,739	0.81
Certificate of deposit accounts	**295,450**	**1.98**	317,370	2.31
Total Deposits	**$ 524,401**	**1.22%**	$ 528,100	1.54%

At September 30, 2011, the amounts of scheduled maturities of certificate of deposit accounts were as follows:

For the year ended September 30:	2012	**$ 125,154**
	2013	**61,642**
	2014	**63,594**
	2015	**25,131**
	2016	**19,929**
Total		**$ 295,450**

The aggregate amount of certificate accounts in denominations of $100,000 or more at September 30, 2011 and 2010 amounted to approximately $61.5 million and $59.2 million, respectively. On October 3, 2008, FDIC deposit insurance temporarily increased from $100,000 to $250,000 per depositor through December 31, 2013 and was permanently increased to $250,000 in July 2010.

Interest expense on savings deposits is composed of the following:

	Year Ended September 30,	
(In Thousands)	2011	2010
NOW, interest-bearing checking and MMDA accounts	**$ 602**	$ 1,363
Passbook and club accounts	**49**	42
Certificate accounts	**6,837**	7,629
Total	**$ 7,488**	$ 9,034

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Company has a line of credit with the Federal Home Loan Bank of which $0 of the available $75.0 million was used at September 30, 2011 and 2010. The average balance outstanding on the line of credit for the years ended September 30, 2011 and 2010 was $918,000 and $1.2 million, respectively. The maximum amount outstanding at any time for 2011 and 2010 was $7.5 and $10 million, respectively. The weighted average interest rate during 2011 and

2010 was 0.72% and 0.71%.

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Long-term debt consists of the following:

		Amount		Weighted Average Rate	
		2011	**2010**	**2011**	**2010**
		(Dollars in Thousands)			
FHLB long-term debt:					
Fixed rate advances maturing:					
	2012	**$ 53,029**		**4.50%**	
	2013	**17,778**		**3.66%**	
	2014	**12,563**		**3.32%**	
	2015	**17,656**		**3.84%**	
	2016	**10,000**		**4.71%**	
	2017	**35,000**		**4.57%**	
	2018	**54,168**		**4.08%**	
Total FHLB long-term debt		**200,194**	222,047	**4.20%**	4.20%
Other long-term debt:					
Fixed rate long-term debt maturing:					
	2013	**15,000**		**4.55%**	
	2014	**15,000**		**4.80%**	
	2017	**10,000**		**4.37%**	
Total other long-term debt fixed		**40,000**	40,000	**4.60%**	4.60%
Adjustable long-term debt maturing:					
	2018	**10,000**	10,000	**6.02%**	5.99%
Total other long-term debt		**$ 50,000**	$ 50,000	**4.88%**	4.88%
Total long-term debt		**$ 250,194**	$ 272,047	**4.34%**	4.33%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans. In addition, there are four long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $50 million.

8. INCOME TAXES

The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2011 and 2010 includes approximately $1,325,000 representing bad debt deductions for which no deferred income taxes have been provided.

The expense for income taxes differs from that computed at the statutory federal corporate tax rate as follows:

	Year Ended September 30,	
	2011	**2010**

(Dollars in Thousands)	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
At statutory rate	**$ 2,465**	**34.0%**	$ 2,365	34.0%
Adjustments resulting from:				
Tax-exempt income	**(803)**	**(11.1)**	(513)	(7.4)
State tax-net of federal tax benefit	**113**	**1.6**		
Other	**80**	**1.1**	96	1.4
Expense per consolidated statements of income	**$ 1,855**	**25.6%**	$ 1,948	28.0%

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Income tax expense is summarized as follows:

(In thousands)	Year Ended September 30, 2011	2010
Current	**$ 2,082**	$ 1,873
Deferred	**(227)**	75
Total Income Tax Expense	**$ 1,855**	$ 1,948

Items that gave rise to significant portions of the deferred tax accounts are as follows:

(In thousands)	September 30, 2011	2010
Deferred Tax Assets:		
Deferred Loan Fees	**$ 2**	$ 3
Allowance for Loan Losses	**1,126**	851
Unrealized loss on investment securities	**15**	
Non-deductible capital losses	**47**	47
Securities impairment	**156**	156
Other	**122**	69
Sub-Total	**1,468**	1,126
Deferred Tax Liabilities:		
Unrealized gain on investment securities		(4)
Properties and equipment	**(839)**	(740)
Sub-Total	**(839)**	(744)
Total	**$ 629**	$ 382

9. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are 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 Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of September 30, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2011, 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.

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

	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2011						
Tier 1 Capital (to assets)	**$ 57,055**	**6.77%**	**$ 33,722**	**4.00%**	**$ 42,153**	**5.00%**
Tier 1 Capital (to risk weighted assets)	**57,055**	**12.23%**	**18,662**	**4.00%**	**27,993**	**6.00%**
Total Capital (to risk weighted assets)	**60,366**	**12.94%**	**37,325**	**8.00%**	**46,656**	**10.00%**
At September 30, 2010						
Tier 1 Capital (to assets)	$ 53,330	6.19%	$ 34,440	4.00%	$ 43,050	5.00%
Tier 1 Capital (to risk weighted assets)	53,330	11.35%	18,799	4.00%	28,199	6.00%
Total Capital (to risk weighted assets)	55,834	11.88%	37,599	8.00%	46,999	10.00%

The Company s capital ratios are not significantly different than the Bank s disclosed above.

10. RETIREMENT SAVINGS PLANS

The Company has an employee stock ownership pension plan and a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for both plans are at the discretion of the Company s Board of Directors. Compensation expense related to the plans was $432,000 and $398,000 for the years ended September 30, 2011 and 2010, respectively.

11. STOCK BASED COMPENSATION AND EMPLOYEE STOCK PURCHASE PLAN

In January 1996, the stockholders approved the 1995 Stock Option Plan. This plan consists of two parts: Plan I incentive stock options and Plan II compensatory stock options.

In January 2001, the stockholders approved the 2000 Stock Option Plan. This plan consists of two parts: Plan I incentive stock options and Plan II compensatory stock options.

In January 2006, the stockholders approved the 2005 Stock Option Plan. This plan consists of two parts: Plan I incentive stock options and Plan II compensatory stock options.

In January 2010, the stockholders approved the 2009 Stock Incentive Plan which provides 300,000 shares for the granting of incentive stock options, compensatory stock options, stock appreciation rights and share awards of restrictive stock. The number of shares available to be issued as share awards will not exceed 75,000 shares. There are 267,122 shares remaining for grant under this plan.

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A summary of transactions under these plans follow:

	2011		2010	
	Options	Weighted Average Price	Options	Weighted Average Price
Outstanding, beginning of year	**474,860**	**$ 14.52**	382,521	$ 14.68
Exercised	**(19,800)**	**11.35**	(14,283)	9.54
Canceled	**(8,732)**	**12.71**	(4,367)	13.80
Granted	**56,470**	**15.15**	110,989	13.29
Outstanding, end of year	**502,798**	**$ 14.75**	474,860	$ 14.52
Options exercisable, end of year	**200,850**	**$ 16.09**	146,982	$ 15.09

A summary of the exercise price ranges at September 30, 2011 is as follows:

Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
8,367	**$ 8.70-12.00**	**2.05**	**$ 10.94**
320,981	**12.01-16.00**	**7.32**	**13.29**
173,450	**16.01-18.00**	**4.05**	**17.63**
502,798	**$ 8.70-18.00**	**6.10**	**$ 14.75**

At September 30, 2011 and 2010, the aggregate intrinsic value of options outstanding was $345,000 and $560,000, respectively. At September 30, 2011 and 2010, the aggregate intrinsic value of options exercisable was $89,000 and $181,000, respectively. For the years ended September 30, 2011 and 2010, the aggregate intrinsic value of options exercised was $72,000 and $66,000, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2011. This amount changes based on changes in the market value of the Company s common stock.

The weighted average fair value of stock options granted in the years ended September 30, 2011 and 2010 was $1.79 and $1.65, respectively, and was estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions while the market price of the Company s common stock at the date of grant is used for restricted stock awards:

	Year Ended September 30,	
	2011	2010
Risk free interest rate of return	**2.76%**	3.46%
Expected option life	**120 months**	120 months
Expected volatility	**46.2%**	45.9%
Expected dividends	**6%**	5.8%

The expected volatility is based on historic volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company s history and expectation of dividend payouts.

Stock based compensation expense related to stock options for the years ended September 30, 2011 and 2010 was $195,000, or $185,000 net of tax, and $167,000, or $158,000 net of tax, respectively. As of September 30, 2011, there was approximately $215,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

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On November 12, 2010, 2,822 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of $15.15 per share. The restricted stock awarded vest 20% annually beginning November 14, 2011. During the year ended September 30, 2011, $19,000 in compensation expense was recognized in regard to these restricted stock awards. At September 30, 2011, there was $23,000 of unrecognized compensation expense related to the restricted stock awards which is expected to be recognized over a period of 4 years. Restricted stock award activity for the year ended September 30, 2011 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year		**$**
Granted	**2,822**	**15.15**
Forfeited		
Vested		
Unvested restricted stock, end of year	**2,822**	**$ 15.15**

The Company also has established an Employee Stock Purchase Plan (the Purchase Plan) whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% or more than 10% of such employee s total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company s Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. During 2011 and 2010, no shares were issued to employees, respectively. At September 30, 2011 and 2010, there were 53,583 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

12. COMMITMENTS

At September 30, 2011, the Company had approximately $8.2 million in outstanding commitments to originate mortgage loans, all of which were at fixed rates ranging from 3.250% to 5.750%. The unfunded home equity line of credit commitments at September 30, 2011 were $55.2 million. The Company had $8.3 million and $985,000 of committed commercial and consumer loans, respectively at September 30, 2011. In addition, the Company had $7.8 million of unused commercial lines of credit at September 30, 2011. The amounts of undisbursed portions of loans in process at September 30, 2011 were $3.4 million. The Company had a total of $405,000 in standby letters of credit. Also, at September 30, 2011, the Company had no outstanding futures or options positions.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2011 for guarantees under standby letters of credit issued is not material.

The Company leases land for two of its branch offices. Minimum rental commitments for the next five years at September 30, 2011, are summarized below:

	Fiscal Year	Rental Amount (In Thousands)
	2012	$ 135
	2013	139
	2014	138
	2015	141
	2016	142
Total		$ 695

13. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company s consolidated financial statements.

14. RESTRICTED RETAINED EARNINGS

At the time of conversion to a stock savings bank, in 1987, the Bank established a liquidation account in an amount equal to the Bank s net worth as reflected in the latest consolidated statement of financial condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder s proportionate amount of the total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately $2,300,000 at September 30, 2011. Furthermore, the Company may not repurchase any of its stock if the effect thereof would cause the Company s net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

15. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

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The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset s or liability s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2011 and 2010 are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2011				
Available for sale securities:	**$ 289**	**$ 289**	**$**	**$**
Equity securities				
U.S. Government money market funds	**17,420**	**17,420**		
Collateralized mortgage obligations	**806**		**806**	
Total	**$ 18,515**	**$ 17,709**	**$ 806**	**$**
September 30, 2010				
Available for sale securities:				
Equity securities	$ 343	$ 343	$	$
U.S. Government money market funds	20,261	20,261		
Collateralized mortgage obligations	809		809	
Total	$ 21,413	$ 20,604	$ 809	$

There were no transfers in and out of Level 1 and Level 2 fair value measurements for the year ended September 30, 2011.

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For assets measured at fair value on a non recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2011 and 2010 are as follows:

Description	**September 30, 2011**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
Impaired Loans	**$ 1,365**	**$**	**$**	**$ 1,365**

Description	September 30, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	$ 186	$	$	$ 186

The following valuation techniques were used to measure fair value of the Company s financial instruments in the tables above and below.

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Impaired loans are those loans which the Company has measured impairment generally based on the fair value of the loan s collateral. Fair value is generally determined base upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 values, based upon the lowest level of input that is significant to the fair value measurements.

Federal Home Loan Bank Stock (Carried at Cost)

The carrying amount of this restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)
The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.
Deposit Liabilities (Carried at Cost)
The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of an aggregated expected monthly maturities on time deposits.
Borrowings (Carried at Cost)
Fair values of borrowings are estimated using discounted cash flow analysis, based on quoted prices for new advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.
Off-Balance Sheet financial Instruments (Disclosed at Cost)
Fair values for the Company s off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remain terms of the agreements and the counterparties credit standing. The fair value of these off-balance sheet finer instruments are not considered material as of September 30, 2011.
The estimated fair value amounts have been determined by the Company using available market information appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret the data to develop the estimates.
The carrying amounts and estimated fair values of all the Company s financial instruments as of September 30, 2011 and 2010 are as follows:

	September 30,			
	2011		2010	
(In Thousands)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	**$ 22,582**	**$ 22,582**	$ 20,190	$ 20,190
Securities held to maturity	**231,756**	**240,581**	256,088	264,448
Securities available-for-sale	**18,515**	**18,515**	21,413	21,413
Loans receivable net	**518,486**	**543,732**	510,093	530,294
Federal Home Loan Bank stock	**13,110**	**13,110**	16,096	16,096
Accrued interest receivable	**2,847**	**2,847**	3,210	3,210
Liabilities:				
Checking, passbook, club and NOW deposit accounts	**94,340**	**94,340**	74,651	74,651
Money Market deposit accounts	**134,611**	**134,611**	136,079	136,079
Certificate of deposit accounts	**295,450**	**303,290**	317,370	325,881
Borrowings	**250,194**	**276,735**	272,047	291,857
Accrued interest payable	**1,315**	**1,315**	1,407	1,407
Off balance sheet financial instruments				

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Limitation

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

16. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements of Harleysville Savings Financial Corporation are as follows:

(In Thousands)	September 30,	
Condensed Statements of Financial Condition	**2011**	**2010**
Assets		
Cash	**$ 77**	$ 62
Investment in subsidiary	**57,219**	53,714
Total Assets	**$ 57,296**	$ 53,776
Liabilities & Stockholders Equity		
Other liabilities	**$ 214**	$ 425
Stockholders equity	**57,082**	53,351
Total Liabilities & Stockholders Equity	**$ 57,296**	$ 53,776

	For the Year Ended September 30,	
Condensed Statements of Income:	**2011**	**2010**
Equity in income of subsidiary	**$ 5,947**	$ 5,513
Other expense	**552**	505
Net income	**$ 5,395**	$ 5,008

	For the Year Ended September 30,	
Condensed Statements of Cash Flows	**2011**	**2010**
Net income	**$ 5,395**	$ 5,008
(Decrease) increase in other liabilities	**9**	16
Income of Harleysville Savings Bank	**(5,947)**	(5,513)
Net cash used by operating activities	**(543)**	(489)
Investing activities:		
Dividends received from subsidiary	**2,400**	2,519
Net cash provided by investing activities	**2,400**	2,519

Financing activities:		
Acquisition of treasury stock		(78)
Sale of treasury stock delivered under employee stock plans	**372**	285
Dividends paid	**(2,214)**	(2,206)
Net cash used in financing activities	**(1,842)**	(1,999)
Net increase (decrease) in cash and cash equivalents	**15**	31
Cash and cash equivalents at the beginning of the period	**62**	31
Cash and cash equivalents at the end of the period	**$ 77**	$ 62

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17. Quarterly Financial Data (Unaudited)

Unaudited quarterly financial data for the years ended September 30, 2011 and 2010 is as follows: (in thousands, except per share data)

	2011				2010			
(In Thousands)	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
Interest Income	**$ 9,430**	**$ 9,291**	**$ 9,494**	**$ 9,358**	$ 10,256	$ 9,944	$ 9,951	$ 9,867
Interest Expense	**4,975**	**4,764**	**4,736**	**4,559**	5,869	5,425	5,290	5,163
Net Interest Income	**4,455**	**4,527**	**4,758**	**4,799**	4,387	4,519	4,661	4,704
Provision for loan losses	**150**	**175**	**165**	**660**	150	150	150	150
Net interest income after provision for loan losses	**4,305**	**4,352**	**4,593**	**4,139**	4,237	4,369	4,511	4,554
Bank owned life insurance income	**123**	**121**	**1,163**	**141**	122	121	122	147
Other Income	**378**	**311**	**356**	**393**	380	337	386	372
Other expense	**3,161**	**3,340**	**3,385**	**3,239**	3,070	3,230	3,205	3,197
Income before income taxes	**1,645**	**1,444**	**2,727**	**1,434**	1,669	1,597	1,814	1,876
Income tax expense	**429**	**350**	**739**	**337**	455	437	500	556
Net income	**$ 1,216**	**$ 1,094**	**$ 1,988**	**$ 1,097**	$ 1,214	$ 1,160	$ 1,314	$ 1,320
Per Common Share:								
Earnings per share basic	**$ 0.33**	**$ 0.29**	**$ 0.53**	**$ 0.29**	$ 0.33	$ 0.32	$ 0.36	$ 0.36
Earnings per share diluted	**$ 0.33**	**$ 0.29**	**$ 0.53**	**$ 0.29**	$ 0.33	$ 0.32	$ 0.36	$ 0.35

Earnings per share is computed independently for each period presented. Consequently, the sum of the quarters may not equal the total earnings per share for the year.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable

Item 9A. Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Operating and 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 September 30, 2011. Based on such evaluation, our Chief Executive Officer and Chief Operating and 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 fourth fiscal quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Management s Assessment of Internal Control over Financial Reporting

Management is responsible for designing, implementing, documenting, and maintaining an adequate system of internal control over financial reporting. An adequate system of internal control over financial reporting encompasses the processes and procedures that have been established by management to:

- maintain records that accurately reflect the company s transactions;
- prepare financial statement and footnote disclosures in accordance with GAAP that can be relied upon by external users;
- prevent and detect unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the criteria in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation under the criteria in Internal Control-Integrated Framework, management concluded that internal control over financial reporting was effective as of September 30, 2011. Furthermore, during the conduct of its assessment, management identified no material weakness in its financial reporting control system.

The Board of Directors of Harleysville Savings Financial Corporation, through its Audit Committee, provides oversight to managements conduct of the financial reporting process. The Audit Committee, which is composed entirely of independent directors, is also responsible to recommend the appointment of independent public accountants. The Audit Committee also meets with management, the internal audit staff, and the independent public accountants throughout the year to provide assurance as to the adequacy of the financial reporting process and to monitor the overall scope of the work performed by the internal audit staff and the independent public accountants.

Because of its inherent limitations, our disclosure controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm under rules of the Securities and Exchange Commission that permits the Company to provide only management s report in this annual report.

/s/ Ronald B. Geib	/s/ Brendan J. McGill
President and Chief Executive Officer	Executive Vice President, Chief Operating and Financial Officer

Item 9B. Other Information.

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned Information with Respect to Nominees for Director, Directors Whose Terms Continue and Executive Officers and Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement for the Annual Meeting of Stockholders for the year ended September 30, 2011 to be held in January 2012 (the Proxy Statement).

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. A copy of the Code of Ethics may be found on the Company s website at www.harleysvillesavingsbank.com.

Item 11. Executive Compensation.

The information required herein is incorporated by reference from the information contained in the section captioned Management Compensation in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required herein is incorporated by reference from the information contained in the section captioned Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management in the Proxy Statement.

The following table sets forth certain information for all equity compensation plans of the Company and individual compensation arrangements (whether with employees or non-employees, such as directors) in effect as of September 30, 2011.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	502,798	$ 14.75	267,122
Equity compensation plans not approved by security holders			
Total	502,798	$ 14.75	267,122

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Item 13. Certain Relationships and Related Transactions and Directors Independence.

The information required herein is incorporated by reference from the information contained in the sections captioned Management Compensation Related Party Transactions and Information with Respect to Nominees for Director, Continuing Directors and Executive Officers in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required herein is incorporated by reference from the information contained in the section captioned Relationship with Independent Registered Public Accounting Firm Audit Fees in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) The following financial statements are incorporated by reference from Item 8 hereof:

Consolidated Statements of Financial Condition as of September 30, 2011 and 2010
Consolidated Statements of Income for the Years Ended September 30, 2011 and 2010
Consolidated Statements of Stockholders Equity for the Years Ended September 30, 2011 and 2010
Consolidated Statements of Comprehensive Income for the Years Ended September 30, 2011 and 2010
Consolidated Statements of Cash Flows for the Years Ended September 30, 2011 and 2010
Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

No.	Description	Location
3.1	Amended and Restated Articles of Incorporation	(1)
3.2	Amended and Restated Bylaws	(1)
4.0	Common Stock Certificate	(2)
10.1	1995 Stock Option Plan*	(3)
10.2	Amended and Restated 2000 Stock Option Plan*	(4)
10.3	Amended and Restated 2005 Stock Option Plan*	(4)
10.4	2009 Stock Incentive Plan*	(5)
10.5	Profit Sharing Incentive Plan*	(3)
10.6	Amended and Restated Employment Agreement among the Company, the Bank and Ronald B. Geib*	(4)
10.7	Form of Change in Control Agreement among Harleysville Savings Financial Corporation, Harleysville Savings Bank and each of Brendan J. McGill, Stephen J. Kopenhaver, Adrian D. Gordon and Sheri Strouse*	(6)
22.0	Subsidiaries of the Registrant Reference is made to Item 1. Business - Subsidiaries of this Form 10-K for the required information	
23.1	Consent of ParenteBeard LLC	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.0	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer	Filed herewith
101.INS	XBRL Instance Document.**	
101.SCH	XBRL Taxonomy Extension Schema Document.**	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**	
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.**	

* Denotes management compensation plan or arrangement.

** These interactive data files are being furnished as part of this Annual Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed file for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

(1) Incorporated herein by reference to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on August 17, 2007.

(2) Incorporated by reference to the Company s Current Report on Form 8-K filed with the SEC on February 25, 2000.

(3) Incorporated herein by reference to the Company s Annual Report on Form 10-K for the year ended September 30, 2003, filed with the SEC on December 23, 2003.

(4) Incorporated by reference to the Company s Current Report on Form 8-K filed with the SEC on November 21, 2008.

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(5) Incorporated by reference to the Company s definitive proxy statement filed with the SEC on December 18, 2009.

(6) Incorporated by reference to the Company s Current Report on Form 8-K filed with the SEC on May 21, 2009.

(b) Exhibits

The exhibits listed under (a)(3) of this Item 15 are filed herewith.

(c) Reference is made to (a)(2) of this Item 15.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

December 16, 2011

By: /s/ Ronald B. Geib
Ronald B. Geib
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/ Edward J. Molnar Edward J. Molnar	Chairman of the Board	December 16, 2011
/s/ Ronald B. Geib Ronald B. Geib	President and Chief Executive Officer *(principal executive officer)*	December 16, 2011
/s/ Brendan J. McGill Brendan J. McGill	Executive Vice President, Chief Operating and Financial Officer *(principal financial and principal accounting officer)*	December 16, 2011
/s/ Sanford L. Alderfer Sanford L. Alderfer	Director	December 16, 2011
/s/ Mark R. Cummins Mark R. Cummins	Director	December 16, 2011
/s/ Thomas D. Clemens Thomas D. Clemens	Director	December 16, 2011
/s/ Charlotte A. Hunsberger Charlotte A. Hunsberger	Director	December 16, 2011
/s/ George W. Meschter George W. Meschter	Director	December 16, 2011

/s/ James L. Rittenhouse	Director	December 16, 2011
James L. Rittenhouse		

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