HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
August 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from ________________ to ________________

Commission file number 0-29709

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	23-3028464
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

271 Main Street, Harleysville, Pennsylvania 19438
(Address of principal executive offices)
(Zip Code)

(215) 256-8828
(Registrant's telephone number, including area code)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $.01 Par Value, 2,316,490 as of August 14, 2003

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
AND SUBSIDIARY

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Harleysville Savings Financial Corporation

Unaudited Condensed Consolidated Statements of Financial Condition

	June 3 2003
Assets	
Cash and amounts due from depository institutions	$ 1,28
Interest bearing deposits in other banks	3,46
Total cash and cash equivalents	4,74
Investment securities held to maturity (fair value - June 30, $74,687,000; September 30, $57,555,000)	72,27
Investment securities available-for-sale at fair value	3,90
Mortgage-backed securities held to maturity (fair value - June 30, $247,156,000; September 30, $168,529,000)	243,24

Mortgage-backed securities available-for-sale at fair value	13,81
Loans receivable (net of allowance for loan losses - June 30, $1,991,000; September 30, $2,035,000)	289,58
Accrued interest receivable	2,92
Federal Home Loan Bank stock - at cost	13,08
Office properties and equipment	4,97
Deferred income taxes	34
Prepaid expenses and other assets	9,35
TOTAL ASSETS	$ 658,26
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 384,65
Advances from Federal Home Loan Bank	227,38
Accrued interest payable	1,06
Advances from borrowers for taxes and insurance	4,16
Accounts payable and accrued expenses	91
Total liabilities	618,18
Commitments	
Stockholders' equity:	
Preferred Stock: $.01 par value; 7,500,000 shares authorized; none issued	
Common stock: $.01 par value; 15,000,000 shares authorized; issued and outstanding, June 2003, 2,316,490; Sept. 2002, 2,316,490	2
Paid-in capital in excess of par	7,55
Treasury stock, at cost (June 2003, 52,217 shares; Sept. 2002, 55,912 shares)	(1,05
Retained earnings - partially restricted	33,47
Accumulated other comprehensive income	7
Total stockholders' equity	40,07
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 658,26

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended June 30,		For t
	2003	2002	200
INTEREST INCOME:			
Interest on mortgage loans	$4,210,229	$4,417,540	$12,857
Interest on mortgage-backed securities	2,352,111	2,529,961	7,250

Interest on consumer and other loans	851,227	976,226	2,649
Interest and dividends on tax-exempt investments	366,488	345,820	1,075
Interest and dividends on investments	476,304	562,817	1,510
Total interest income	8,256,359	8,832,364	25,343
Interest Expense:			
Interest on deposits	2,583,279	3,148,842	8,219
Interest on borrowings	2,772,530	2,729,782	8,290
Total interest expense	5,355,809	5,878,624	16,510
Net Interest Income	2,900,550	2,953,740	8,832
Provision for loan losses	--	--	
Net Interest Income after Provision for Loan Losses	2,900,550	2,953,740	8,832
Other Income:			
Gain on sales of loans	5,611	500	6
Loss on sales of securities	--	--	
Other income	324,209	276,149	935
Total other income	329,820	276,649	942
Other Expenses:			
Salaries and employee benefits	938,777	845,313	2,705
Occupancy and equipment	365,813	334,244	1,130
Deposit insurance premiums	15,007	15,423	45
Other	412,640	486,607	1,279
Total other expenses	1,732,237	1,681,587	5,161
Income before Income Taxes	1,498,133	1,548,802	4,614
Income tax expense	378,100	376,000	1,169
Net Income	$1,120,033	$1,172,802	$ 3,444
Basic Earnings Per Share	$ 0.49	$ 0.52	$
Diluted Earnings Per Share	$ 0.48	$ 0.51	$
Dividends Per Share	$ 0.16	$ 0.14	$

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

	Three Months Ended 2003	Three Months Ended 2002
Net Income	$1,120,033	$ 1,172,802
Other Comprehensive Income		
Unrealized gain (loss) on securities net of taxes	130,505	(50,378)
Total Comprehensive Income	$1,250,538	$ 1,122,424

	Nine Months Ended 2003	Nine Months Ended 2002
Net Income	$3,444,329	$ 3,237,853
Other Comprehensive Income		
Unrealized gain (loss) on securities net of taxes	21,507	(61,454)
Total Comprehensive Income	$3,465,836	$ 3,176,399

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation & Subsidiary
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retained Earnings- Partially Restricted
Balance at October 1, 2002	$ 23,165	$ 7,551,849	$ (881,227)	$ 31,124,0
Net Income				3,444,3
Dividends - $.16 per share				(1,089,9
Treasury stock purchased			(681,592)	
Treasury stock delivered under Dividend Reinvestment Plan		116,770	227,571	
Treasury stock delivered under				

employee stock plan		(109,279)	278,819	
Unrealized holding gain on available for: sale securities, net of tax				
Balance at June 30, 2003	$ 23,165	$ 7,559,340	$ (1,056,429)	$ 33,478,3

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Consolidated Statements of Cash Flows

	Nine Months
	2003
Operating Activities:	
Net Income	$ 3,444,329
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	227,254
Amortization of deferred loan fees	(1,339,426)
Gain on sale of loans	6,313
Loss on sale of securities available for sale	--
Proceeds from the sale of loans held for sale	394,000
Changes in assets and liabilities which provided (used) cash:	
Decrease in accounts payable and accrued expenses and income taxes payable	(4,286)
(Increase) decrease in deferred income taxes	(70,254)
Increase in prepaid expenses and other assets	(224,553)
(Increase) decrease in accrued interest receivable	(91,476)
Increase in accrued interest payable	24,616
Net cash provided by operating activities	2,366,517
Investing Activities:	
Purchase of investment securities held to maturity	(43,392,095)
Proceeds from maturities of investment securities held to maturity	26,778,957
Purchase of investment securities available for sale	--
Proceeds from sale of investment securities available for sale	--
Purchase of FHLB stock	(2,593,200)
Long-term loans originated or acquired	(114,470,965)
Purchase of mortgage-backed securities available for sale	(20,686,030)
Purchase of mortgage-backed securities held to maturity	(207,676,165)
Principal collected on long-term loans & mortgage-backed securities	293,788,701
Purchases of premises and equipment	(186,424)
Net cash used in investing activities	(68,437,221)
Financing Activities:	

Net increase in demand deposits, NOW accounts and savings accounts	16,513,251
Net (decrease) increase in certificates of deposit	(3,809,739)
Cash dividends	(1,089,970)
Net increase in FHLB advances	19,882,232
Delivery of treasury stock for employee benefit plans	513,881
Purchase of treasury stock	(681,592)
Net proceeds from issuance of stock	--
Net increase in advances from borrowers for taxes & insurance	3,186,071
Net cash provided by financing activities	34,514,134
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31,556,570)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,302,904
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,746,334
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the period for:	
Income taxes	$ 1,191,201
Interest expense	17,577,059

See notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and nine months ended June 30, 2003 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period.

New Accounting Pronouncements

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

	For the Three Months Ended June 30, 2003	June 30, 2002	For th June 30, 2
Net income	$ 1,120,033	$ 1,172,802	$ 3,444,
Less: Stock based compensation expense	--	--	30,
Proforma net income	$ 1,120,033	$ 1,172,802	$ 3,413,
Earnings per share:			
Basic - as reported	$ 0.49	$ 0.52	$ 1
Basic - pro forma	0.49	0.52	1
Diluted - as reported	$ 0.48	$ 0.51	$ 1
Diluted - pro forma	0.48	0.51	1

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

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

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, which is being superseded. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company currently has no guarantees that would be required to be recognized, measured or disclosed under this Interpretation.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. The Interpretation clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company is not a party to any variable interest entities covered by the Interpretation.

2. INVESTMENT SECURITIES HELD TO MATURITY

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

	June 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 year through 5 years	$ 3,000,000	$ 13,000	
Due after 5 years through 10 years	12,998,761	152,239	
Due after 10 years through 15 years	30,360,256	243,744	$ (40,617)
Tax-Exempt Obligations			
Due after 10 years through 15 years	2,864,704	238,296	
Due after 15 years	23,054,816	1,761,184	
Total Investment Securities	$ 72,278,537	$ 2,408,463	$ (40,617)

	September 30, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 year through 5 years	$ 7,026,952	$ 26,048	

Due after 5 years through 10 years	2,000,000	75,000	
Due after 10 years through 15 years	21,757,858	415,571	$ (117,429)
Tax-Exempt Obligations			
Due after 10 years through 15 years	3,235,924	124,076	
Due after 15 years	21,644,665	1,406,010	(39,675)
Total Investment Securities	$ 55,665,399	$ 2,046,705	$ (157,104)

The Company has the positive intent and the ability to hold these securities to maturity. At June 30, 2003, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	June 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unreal Loss
Equites	$ 785,054	$ 93,531	$ (7
ARM Mutual Funds	3,027,105	--	
Total Investment Securities	$ 3,812,159	$ 93,531	$ (7

	September 30, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unreal Loss
ARM Mutual Funds	$ 11,999,611	$ --	$
Total Investment Securities	$ 11,999,611	$ --	$

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

June 30, 2003

Gross Gross

	Amortized Cost	Unrealized Gains	Unreal Loss
Collateralized mortgage obligations	$ 52,102,145	$ 119,115	$ (63
FHLMC pass-through certificates	53,667,645	987,355	
FNMA pass-through certificates	107,882,276	1,580,945	(47
GNMA pass-through certificates	29,591,150	1,335,850	$
Total Mortgage-backed Securities	$ 243,243,216	$ 4,023,265	$ (110

	September 30, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unreal Loss
Collateralized mortgage obligations	$ 45,143,747	$ 255,218	$ (5
FHLMC pass-through certificates	33,697,029	1,166,921	(4
FNMA pass-through certificates	29,674,733	1,062,267	
GNMA pass-through certificates	55,299,461	2,240,539	
Total Mortgage-backed Securities	$ 163,814,970	$ 4,724,945	$ (10

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	June 30, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unreal Loss
FNMA pass-through certificates	$ 13,801,533	$ 15,264	$
Total Mortgage-backed Securities	$ 13,801,533	$ 15,264	$

	September 30, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unreal Loss
FNMA pass-through certificates	$ 22,322,686	$ 69,129	$
GNMA pass-through certificates	7,116,778	6,347	
Total Mortgage-backed Securities	$ 29,439,464	$ 75,476	$

6. LOANS RECEIVABLE
Loans receivable consist of the following:

	June 30, 2003	September 30, 2002
Residential Mortgages	$ 228,811,206	$ 235,359,382
Commercial Mortgages	941,976	495,647
Construction	7,852,701	8,607,450
Education	357,291	334,271
Savings Account	732,983	478,969
Home Equity	33,365,996	41,451,058
Automobile and other	594,252	725,883
Line of Credit	27,049,458	18,529,734
Total	299,705,863	305,982,394
Undisbursed portion of loans in process	(6,435,723)	(6,502,564)
Deferred loan fees	(1,691,978)	(2,091,264)
Allowance for loan losses	(1,991,174)	(2,034,832)
Loans receivable - net	$ 289,586,988	$ 295,353,734

The total amount of loans being serviced for the benefit of others was approximately $2.5 million and $3.5 million at June 30, 2002 and September 30, 2002, respectively.

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

	Nine Months Ended June 30, 2003	2002
Balance, beginning of period	$ 2,034,832	$ 2,036,188
Amounts charged-off	(43,658)	(3,086)
Loan recoveries	--	5,113
Balance, end of period	$ 1,991,174	$ 2,038,215

7. OFFICE PROPERTIES AND EQUIPMENT
Office properties and equipment are summarized by major classification as follows:

	June 30, 2003	September 30, 2002
Land and buildings	$ 5,343,042	$ 5,190,758
Construction in progress	25,071	--
Furniture, fixtures and equipment	3,607,407	3,406,672
Automobiles	24,896	81,059
Total	9,000,416	8,678,489

Less accumulated depreciation	(4,028,215)	(3,665,458)
Net	$ 4,972,201	$ 5,013,031

8. DEPOSITS
Deposits are summarized as follows:

	June 30, 2003	September 30, 2002
NOW accounts	$ 17,318,217	$ 14,051,771
Checking accounts	10,868,562	8,572,256
Money Market Demand accounts	93,955,892	83,464,010
Passbook and Club accounts	3,785,955	3,327,338
Certificate accounts	258,721,864	262,531,603
Total deposits	$ 384,650,490	$ 371,946,978

The aggregate amount of certificate accounts in denominations of more than $100,000 at June 30, 2003 amounted to approximately $22.8 million.

9. COMMITMENTS
At June 30, 2003, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 11,129,605
Unused line of credit loans	29,335,014
Loans in process	6,435,723
Total	$ 46,900,342

10. DIVIDEND
On July 16, 2003, the Board of Directors declared a cash dividend of $.18 per share payable on August 20, 2003 to the stockholders of record at the close of business on August 6, 2003.

11. EARNINGS PER SHARE
The calculations of earnings per share were based on the number of common stock and common stock equivalents outstanding for the three and nine months ended June 30, 2003 and 2002.

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2003	2002	2003	2002

Basic	2,275,936	2,257,574	2,271,791	2,246,829
Diluted	2,328,722	2,303,573	2,321,813	2,288,888

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. In addition, in those and other portions of this document, the words "anticipate," "believe," "estimate," "intend," "should" and similar expressions, or the negative thereof, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future-looking events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

Critical Accounting Policies and Judgments

The Company's condensed consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1, Summary of Significant Accounting Policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations. Allowance for Loan Losses - The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). The Bank's periodic evaluation of the allowance is based on known and inherent risks in the portfolio, past loan loss experience, current economic conditions, trends within the Company's market area and other relevant factors. The first step in determining the allowance for loan losses is recognizing a specific allowance on individual impaired loans. Special mention, nonaccrual, substandard and doubtful residential and other consumer loans are considered for impairment. An allowance is recognized for loan losses in the remainder of the loan portfolio based on known and inherent risk characteristics in the portfolio, past loss experience and prevailing market conditions. Because evaluating losses involves a high degree of management judgment, a margin is included for the imprecision inherent in making these estimates. While management believes that the allowance is adequate to absorb estimated credit losses in its existing loan portfolio, future adjustments may be necessary in circumstances that differ substantially form the assumptions used in evaluating the adequacy of the allowance for loan losses.

Changes in Financial Position for the Nine-Month Period Ended June 30, 2003
Total assets at June 30, 2003 were $658.3 million, an increase of $38.0 million or 6.1% for the nine-month period. The increase was primarily the result of an increase in mortgage-backed securities held to maturity of $79.4 million, an increase in investment securities held to maturity of $16.6 million and an increase in FHLB stock of $2.6 million. These increases were offset by a

decrease of $8.1 million in investment securities available for sale, a decrease in loans receivable of $5.8 million, a decrease in cash equivalents of $31.6 million and a decrease in mortgage-backed securities available for sale of $15.7 million. Retail deposits and long-term Federal Home Loan Bank advances funded the overall increase in assets.

During the nine-month period ended June 30, 2003, total deposits increased by $12.7 million to $384.7 million. The increase was partially attributed to an increase of $3.3 million in NOW, $2.3 million in checking accounts, $10.5 million in money market demand accounts, which was partially offset by a decrease of certificates of $3.8 million. Advances from borrowers for taxes and insurance also increased by $3.2 million. This is a seasonal increase as the majority of taxes the Company escrows for are disbursed in the month of August. There was also an increase in advances from Federal Home Loan Bank of $19.9 million, which was used to fund the purchase of mortgage-backed securities and investment securities.

Comparisons of Results of Operations for the Three-Month and Nine-Month Periods Ended June 30, 2003 with the Three and Nine-Month Periods Ended June 30, 2002.

Net Interest Income
The decrease in the net interest income for the three month period ended June 30, 2003 when compared to the same period in 2002 can be attributed to the decrease in the interest rate spread of 20 basis points. The increase in the net interest income for the nine month period ended June 30, 2003 when compared to the same period in 2002 can be attributed to the increase in the interest rate spread of 19 basis points.

Total interest income was $8.3 million for the three-month period ended June 30, 2003 compared to $8.8 million for the comparable period in 2002. For the nine month period ended June 30, 2003, total interest income was $25.3 million compared to $26.4 million for the comparable period in 2002. The decrease is the result of the reduction in the average yield for the interest-earning assets to 5.19% and 6.06% for the three and nine-month periods ended June 30, 2003, respectively from 6.15% and 6.27% for the comparable periods in 2002.

Total interest expense decreased to $5.4 million for the three-month period ended June 30, 2003 from $5.9 million for the comparable period in 2002. For the nine-month period ended June 30, 2003, total interest expense decreased to $16.5 million from $18.3 million for the comparable period in 2002. These decreases occurred as a result of a decrease in the average rate on liabilities to 3.56% and 4.17% for the three and nine-month periods ended June 30, 2003, respectively, from 4.32% and 4.57% for the comparable period ended June 30, 2002.

Other Income
Other income increased to $330,000 for the three-month period ended June 30, 2003 from $277,000 for the comparable period in 2002. For the nine-month period ended June 30, 2003, other income increased to $942,000 from $781,000 for the comparable period in 2002. The three-month increase is due to additional fees collected from fee generating services in connection with refinancing offered by the Company. The nine month increase is due to the lack of a loss on the sale of investment securities, which was recognized in the first quarter 2002 of $24,000 and additional fees collected from fee generating services offered by the Company.

Other Expenses
During the quarter ended June 30, 2003, other expenses increased by $51,000 or

3.0% to $1.7 million when compared to the same period in 2002. For the nine month period ended June 30, 2003, other expenses increased by $381,000 or 8.0% compared to the comparable period in 2002. Management believes these are normal increases in the cost of operations after considering the effects of the growth in the assets of the Company when compared to the same periods in 2002. The annualized ratio of expenses to average assets for the three and nine month periods ended June 30, 2003 was 1.06% and 1.08%, respectively when compared to the three and nine month periods ended June 30, 2002 of 1.13% and 1.10%, respectively.

Income Taxes

The Company made provisions for income taxes of $378,000 and $1.2 million for the three and nine-month periods ended June 30, 2002, respectively, compared to $376,000 and $869,000 for the comparable periods in 2002. These provisions are based on the levels of taxable income.

Liquidity and Capital Resources

The Company's net income for the quarter ended June 30, 2003 of $1.1 million increased stockholder's equity to $40.1 million or 6.09% of total assets. This amount is well in excess of the Company's minimum regulatory capital requirements as illustrated below:

	(in thousands)			
	Leveraged		Risk-based	
Actual regulatory capital	$ 40,072	6.1%	$ 42,105	14.
Minimum required regulatory capital	26,123	4.0%	22,467	8.
Excess capital	$ 13,949	2.1%	$ 19,638	6.

The liquidity of the Company's operations, measured by the ratio of the cash and securities balances to total assets, equaled 51.4% at June 30, 2003 compared to 47.9% at September 30, 2002.

As of June 30, 2003, the Company had $46.9 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and net new deposits. In addition, the amount of certificate accounts, which are scheduled to mature during the 12 months ending June 30, 2004, is $121.6 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company. The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh ("FHLB") up to the Company's maximum borrowing capacity which was $488.9 million at June 30, 2003, of which $227.4 million was outstanding at June 30, 2003.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases in interest rates. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing or maturity of the Company's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. If the maturities of such assets and liabilities were perfectly matched, and if the interest rates borne by its assets and liabilities were equally flexible and moved concurrently, neither of which is the case, the impact on net interest income of rapid increases or decreases in interest rates would be minimized. The Company's asset and liability management policies seek to increase the interest rate sensitivity by shortening the repricing intervals and the maturities of the Company's interest-earning assets. Although management of the Company believes that the steps taken have reduced the Company's overall vulnerability to increases in interest rates, the Company remains vulnerable to material and prolonged increases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets.

The authority and responsibility for interest rate management is vested in the Company's Board of Directors. The Chief Executive Officer implements the Board of Directors' policies during the day-to-day operations of the Company. Each month, the Chief Executive Officer presents the Board of Directors with a report, which outlines the Company's asset and liability "gap" position in various time periods. The "gap" is the difference between interest-earning assets and interest-bearing liabilities which mature or reprice over a given time period. He also meets weekly with the Company's other senior officers to review and establish policies and strategies designed to regulate the Company's flow of funds and coordinate the sources, uses and pricing of such funds. The first priority in structuring and pricing the Company's assets and liabilities is to maintain an acceptable interest rate spread while reducing the effects of changes in interest rates and maintaining the quality of the Company's assets.

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of June 30, 2003, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

The passbook accounts, negotiable order of withdrawal ("NOW") accounts, interest bearing accounts, and money market deposit accounts, are included in the "Over 5 Years" categories based on management's beliefs that these funds are core deposits having significantly longer effective maturities based on the Company's retention of such deposits in changing interest rate environments.

Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income. Conversely, during a period of falling interest rates, a positive gap would result in a decrease in net interest income while a negative gap would positively affect net interest income. However, the following table does not necessarily indicate the impact of general interest rate movements on Harleysville Savings' net interest income because the repricing of certain categories of assets and

liabilities is discretionary and is subject to competitive and other pressures. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different rate levels.

	1 Year or less	1 to 3 Years	3 Ye
Interest-earning assets			
Mortgage loans	$ 29,481	$ 35,757	$ 2
Mortgage-backed securities	75,883	34,424	2
Consumer and other loans	39,498	12,373	
Investment securities and other investments	63,111	8,648	
Total interest-earning assets	207,973	91,202	6
Interest-bearing liabilities			
Passbook and Club accounts	--	--	
NOW and Checking accounts	--	--	
Money Market Deposit accounts	30,824	--	
Certificate accounts	121,588	69,728	6
Borrowed money	44,129	36,772	3
Total interest-bearing liabilities	196,541	106,500	10
Repricing GAP during the period	$ 11,432	$ (15,298)	$ (3
Cumulative GAP	$ 11,432	$ (3,866)	$ (4
Ratio of GAP during the period to total assets	1.76%	-2.36%	-
Ratio of cumulative GAP to total assets	1.76%	-0.60%	-

Item 4. Controls and Procedures

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

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

Part II OTHER INFORMATION

Item 1-5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

None