HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
May 15, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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, 3,921,177 as of May 12, 2006

Harleysville Savings Financial Corporation
and Subsidiary
Index

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	March 31, 2006
	(Unaudited)
Assets	
Cash and amounts due from depository institutions	$ 1,158,384
Interest bearing deposits in other banks	6,789,049
Total cash and cash equivalents	7,947,433
Investment securities held to maturity (fair value - March 31, $106,996,000; September 30, $88,404,000)	107,996,371
Investment securities available-for-sale at fair value	3,042,319
Mortgage-backed securities held to maturity (fair value - March 31, $232,242,000; September 30, $259,994,000)	240,840,831
Mortgage-backed securities available-for-sale at fair value	791,675
Loans receivable (net of allowance for loan losses - March 31, $1,960,000; September 30, $1,968,000)	370,257,876
Accrued interest receivable	3,653,503
Federal Home Loan Bank stock - at cost	14,582,700
Office properties and equipment, net	7,128,822
Deferred income taxes	349,448
Prepaid expenses and other assets	13,333,428
TOTAL ASSETS	$ 769,924,406
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 431,865,902
Advances from Federal Home Loan Bank	284,890,772
Accrued interest payable	1,322,291
Advances from borrowers for taxes and insurance	3,488,043
Accounts payable and accrued expenses	402,585
Total liabilities	721,969,593
Commitments (Note 9)	
Stockholders' equity:	
Preferred Stock: $.01 par value; 12,500,000 shares authorized; none issued	
Common stock: $.01 par value; 15,000,000 shares authorized; issued and outstanding March 2006, 3,921,177; Sept. 2005, 3,904,136	39,212
Additional Paid-in capital	7,933,624
Treasury stock, at cost (March 2006, 56,512 shares; Sept. 2005, 3,255)	(996,057)
Retained earnings - partially restricted	40,988,160
Accumulated other comprehensive loss	(10,126)
Total stockholders' equity	47,954,813
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 769,924,406

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,		For the Six Mon March 31	
	2006	2005	2006	
INTEREST INCOME:				
Interest on mortgage loans	$ 3,943,558	$ 3,752,988	$ 7,884,807	$
Interest on mortgage-backed securities	2,754,221	2,937,716	5,602,480	
Interest on consumer and other loans	1,385,364	1,111,828	2,729,369	
Interest and dividends on tax-exempt investments	346,478	336,487	692,850	
Interest and dividends on taxable investments	1,205,099	709,526	2,195,901	
Total interest income	9,634,720	8,848,545	19,105,407	1
Interest Expense:				
Interest on deposits	3,203,365	2,474,723	6,316,741	
Interest on borrowings	3,167,082	3,028,392	6,475,737	
Total interest expense	6,370,447	5,503,115	12,792,478	1
Net Interest Income	3,264,273	3,345,430	6,312,929	
Provision for loan losses	--	--	--	
Net Interest Income after Provision for Loan Losses	3,264,273	3,345,430	6,312,929	
Other Income:				
Gain on sales of securities	8,914	--	8,914	
Other income	273,116	341,204	594,971	
Total other income	282,030	341,204	603,885	
Other Expenses:				
Salaries and employee benefits	1,129,574	1,054,636	2,167,803	
Occupancy and equipment	385,045	392,896	753,018	
Deposit insurance premiums	13,679	14,441	27,476	
Other	502,710	551,195	1,056,030	
Total other expenses	2,031,008	2,013,168	4,004,327	
Income before Income Taxes	1,515,295	1,673,466	2,912,487	
Income tax expense	354,177	431,500	670,177	
Net Income	$ 1,161,118	$ 1,241,966	$ 2,242,310	$

Basic Earnings Per Share	$ 0.30	$ 0.32	$ 0.58	$
Diluted Earnings Per Share	$ 0.29	$ 0.32	$ 0.57	$
Dividends Per Share	$ 0.16	$ 0.15	$ 0.31	$

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

	Thre
	2006
Net Income	$ 1,161,1
Other Comprehensive Income	
Unrealized gain (loss) on securities net of tax 2006, ($9,046); 2005, $29,099	24,8
Total Comprehensive Income	$ 1,185,9

(1) Disclosure of reclassification amount, net of tax for the three months ended:	2006
Net unrealized gain (loss) arising during the three months ended	$ 30,7
Less: Reclassification adjustment for net gains included in net income Net of tax expense -2006, $3,031; 2005, $0	5,8
Net unrealized gain (loss) on securities	$ 24,8

	Six
	2006
Net Income	$ 2,242,3
Other Comprehensive Income	
Unrealized loss on securities net of tax benefit 2006, $332; 2005, $25,432	(9

Total Comprehensive Income	$ 2,241,3

(1) Disclosure of reclassification amount, net of tax for the six months ended:	2006
Net unrealized gain (loss) arising during the six months ended	$ 4,9
Less: Reclassification adjustment for net gains included in net income Net of tax expense -2006, $3,031; 2005, $21,673	5,8
Net unrealized loss on securities	$ (9

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

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retain Earnin Partia Restric
Balance at October 1, 2005	3,904,136	$ 39,041	$ 7,610,511	$ (60,107)	$ 39,995
Net Income					2,242
Issuance of Common Stock	17,041	171			
Dividends - $.31 per share					(1,249
Option Compensation			35,025		
Treasury stock purchased				(1,091,072)	
Stock delivered under employee stock plans			(12,339)	155,122	
Stock delivered under Dividend Reinvestment Plan			300,427		
Unrealized holding loss on available - for- sale securities, net of tax					
Balance at March 31, 2006	3,921,177	$ 39,212	$ 7,933,624	$ (996,057)	$ 40,988

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retain Earnin Partia Restric
Balance at October 1, 2004	2,316,490	$ 23,165	$ 7,426,853	$ (414,430)	$ 37,244
Net Income					2,497
Issuance of Common Stock	24,530	246	155,152		
Stock Split	1,544,327	15,442	(15,442)		
Dividends - $.20 per share					(1,084

Treasury stock purchased				(204,100)	
Stock delivered under employee stock plans			(159,703)	419,339	
Stock delivered under Dividend Reinvestment Plan			19,028	104,356	
Unrealized holding gain on available - for- sale s ecurities, net of tax					
Balance at March 31, 2005	3,885,347	$ 38,853	$ 7,425,888	$ (94,835)	$ 38,656

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended March 31, 2006	2005
Operating Activities:		
Net Income	$ 2,242,310	$ 2,497,46
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	219,793	159,80
Increase (decrese) in deferred income taxes	471	(6,75
Compensation charge on stock options	35,025	
Amortization of deferred loan fees	(31,295)	(120,25
Gain on sale of securities	(8,914)	(63,74
Increase in cash surrender value	(215,000)	(222,00
Net amortization of premiums and discounts	258,300	214,22
Changes in assets and liabilities which provided (used) cash:		
(Decrease) increase in accounts payable and accrued expenses	(269,539)	19,06
Increase in prepaid expenses and other assets	(915,636)	(409,76
Increase in bank owned life insurance	(2,500,000)	
Decrease in accrued interest receivable	(221,449)	(216,87
(Decrease) increase in accrued interest payable	(36,662)	114,85
Net cash provided by (used in) operating activities	1,057,404	(533,99
Investing Activities:		
Purchase of investment securities held to maturity	(20,795,000)	(21,500,00
Purchase of investment securities available for sale	(280,181)	(1,804,59
Purchase of mortgage-backed securities held to maturity	(2,011,250)	(40,210,27
Proceeds from maturities of investment securities held to maturity	163,074	11,237,65
Proceeds from sale of investment securities available for sale	73,106	4,539,54
Principal collected on long-term loans & mortgage-backed securities	67,748,680	69,283,27
Proceeds (purchase) of FHLB stock	1,453,200	(547,80
Long-term loans originated	(46,838,255)	(49,426,49
Purchases of premises and equipment	(1,522,045)	(298,98
Net cash used in investing activities	(2,008,671)	(28,727,68

Financing Activities:		
Net decrease in demand deposits, NOW accounts and savings accounts	(1,482,196)	(1,822,43
Net increase in certificates of deposit	14,368,443	8,443,84
Cash dividends	(1,249,734)	(1,084,73
Net (decrease) increase in FHLB advances	(12,377,716)	19,261,25
Treasury stock delivered under employee stock plans	142,783	259,63
Stock delivered under Dividend Reinvestment Plan	300,427	123,38
Purchase of treasury stock	(1,091,072)	(204,10
Net proceeds from issuance of stock	171	155,39
Net increase in advances from borrowers for taxes & insurance	2,352,614	2,500,14
Net cash provided by financing activities	963,720	27,632,39
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,453	(1,629,28
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,934,980	4,718,78
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,947,433	$ 3,089,50
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 670,000	$ 621,11
Interest expense	12,829,140	10,968,61

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -The unaudited condensed consolidated financial statements include the accounts of Harleysville Savings Financial Corporation and its subsidiary (the "Company"). Harleysville Savings Bank (the "Bank") is the wholly owned subsidiary of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three and six months ended March 31, 2006 are not necessarily indicative of the results which may be expected for the entire fiscal year ending September 30, 2006 or any other period. The financial information should be read in conjunction with the Annual Report on Form 10-K for the period ended September 30, 2005.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant of these estimates is the allowance for loan losses. Actual results could differ from those estimates.

Accounting for Stock Options - In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123R (revised 2004), "Share-Based Payment", which revises SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Statement requires an entity to recognize 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. The Company adopted the modified prospective method provisions of SFAS No. 123R. Effective October 1, 2005, the Company was required to recognize compensation expense for the fair value of stock options that were granted or vest after that date. Upon adoption of SFAS No. 123R, the Company was required to recognize through earnings, the fair value of the remaining unvested portion of options granted prior to January 1, 2002. For fiscal year 2006, the Company expects to recognize approximately $113,000 of pre-tax expense relating to the options. 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, using Binomial Option Pricing Model, to stock-based employee compensation for the six months ended March 2005 and the actual impact for the six months ended March 2006.

	For the Six Months Ended March 31, 2006	March 31, 2005
Net income available to shareholders	$ 2,242,310	$ 2,497,460
Add: Total stock-based employee compensation expense included in reported net income (net of tax)	26,966	
Deduct: Total stock-based employee compensation expensed determined under fair value method (net of tax)	(26,966)	(37,773)
Proforma net income	$ 2,242,310	$ 2,459,687
Earnings per share:		
Basic - as reported	$ 0.58	$ 0.65
Basic - pro forma	$ 0.57	$ 0.64
Diluted - as reported	$ 0.58	$ 0.64
Diluted - pro forma	$ 0.57	$ 0.63

In June 2005, the FASB has issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No.3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 improves financial reporting because its requirements enhance the consistency of financial information between periods. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this new pronouncement will depend on the Company changing an accounting principle and will be evaluated at that time.

In November 2005, the FASB issued FASB Staff Position (FSP) 115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss in earnings. Specifically, the guidance clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Company is applying the guidance in this FSP in fiscal 2006 and there was no material affect to the results of operations or the statement of financial position.

On December 19, 2005, the FASB issued FSP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk". FSP 94-6-1 addresses whether, under existing guidance, non-traditional loan products represent a concentration of credit risk and what disclosures are required for entities that originate, hold, guarantee, service, or invest in loan products whose terms may give rise to a concentration of credit risk. Non-traditional loan products expose the originator, holder, investor, guarantor, or servicer to higher credit risk than traditional loan products. Typical features of non-traditional loan products may include high loan-to-value ratios and interest or principal repayments that are less than the repayments for fully amortizing loans of an equivalent term. FSP 94-6-1 was effective upon its issuance and it did not have a material impact on the Company's financial position or disclosures.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is still continuing to evaluate the impact of this pronouncement and does not expect that the guidance will have a material effect on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 ("SFAS 140" and "SFAS 156"). SFAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. SFAS 156 amends SFAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption, the Company will apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions. The Company will adopt SFAS 156 for the fiscal year beginning October 1, 2006 and is evaluating the impact of this pronouncement.

Reclassification - Certain items in the 2005 financial statements have been reclassified to conform with the presentation in the 2006 consolidated financial statements.

2. INVESTMENT SECURITIES HELD TO MATURITY

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

	March 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approxi Fair V
U.S. Government Agencies				
Due after 1 years through 5 years	$ 12,000,000		$ (320,000)	$ 11,68
Due after 5 years through 10 years	26,487,638	$ 11,978	(656,616)	25,84
Due after 10 years through 15 years	44,664,734		(1,511,734)	43,15
Tax-Exempt Obligations				
Due after 15 years	24,843,999	1,421,001		26,26
Total Investment Securities	$107,996,371	$ 1,432,979	$ (2,488,350)	$106,94

A summary of investment with unrealized losses, aggregated by category, at March 31, 2006 is as follows:

	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	F
US Government agencies	$ 50,304,465	$ (1,242,866)	$ 27,723,410	$ (1,245,484)	$
Total	$ 50,304,465	$ (1,242,866)	$ 27,723,410	$ (1,245,484)	$

At March 31, 2006, investment securities in a gross unrealized loss position for twelve months or longer consisted of 10 US Government Agency Securities that at such date had an aggregate depreciation of 4.3% 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 market value has been less than cost; the financial condition and near term prospects of the issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers. 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 March 31, 2006 represents an other-than-temporary impairment.

	September 30, 2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approxima Fair Valu
U.S. Government Agencies				
Due after 1 years through 5 years	$12,000,000		$ (197,000)	$11,803,00
Due after 5 years through 10 years	25,703,340	$ 77,445	(207,785)	25,573,00
Due after 10 years through 15 years	24,862,533	5,200	(497,733)	24,370,00
Tax-Exempt Obligations				
Due after 10 years through 15 years	13,050,956	949,044		14,000,00
Due after 15 years	11,747,616	910,384		12,658,00
Total Investment Securities	$87,364,445	$ 1,942,073	$ (902,518)	$88,404,00

A summary of investment with unrealized losses, aggregated by category, at September 30, 2005 is as follows:

	Less than 12 Months		12 Months or Longer		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Val
US Government agencies	$31,567,124	$ (284,269)	$ 21,339,33	$ (618,249)	$52,906,
Total	$31,567,124	$ (284,269)	$ 21,339,33	$ (618,249)	$52,906,

At September 30, 2005, investment securities in a gross unrealized loss position for twelve months or longer consisted of 8 US Government Agency Securities that at such date had an aggregate depreciation of 2.8% 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 market value has been less than cost; the financial condition and near term prospects of the issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers. 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, 2005 represented an other-than-temporary impairment.

page -7-

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

March 31, 2006

	Amortized	Gross Unrealized	Gross Unrealized	Approximate

	Cost	Gains	Losses	Fair Value
Equity Securities	$1,009,735	$ 12,875	$ (34,705)	$ 987,905
Mutual Funds	2,054,414			2,054,414
Total Investment Securities	$3,064,149	$ 12,875	$ (34,705)	$3,042,319

A summary of investment with unrealized losses, aggregated by category, at March 31, 2006 is as follows:

	Less than 12 Months		12 Months or Longer		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Equity Securities	$ 637,650	$ (34,705)	$ --	$ --	$ 637,65
Total	$ 637,650	$ (34,705)	$ --	$ --	$ 637,65

There were no securities in a loss position greater than twelve months. For 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 issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers 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 March 31, 2006 represents an other-than-temporary impairment.

	September 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Equity Securities	$ 906,113	$ 9,830	$ (56,723)	$ 859,220
Money Market Mutual Funds	1,976,024			1,976,024
Total Investment Securities	$2,882,137	$ 9,830	$ (56,723)	$2,835,244

There were no securities in a loss position greater than twelve months. For 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 issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers 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, 2005 represented an other-than-temporary impairment.

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	March 31,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 16,006,461	$ 55,926	$ (487,387)	$ 15,575,000
FHLMC pass-through certificates	108,398,106	72,435	(3,402,541)	105,068,000
FNMA pass-through certificates	111,005,340	97,157	(5,080,497)	106,022,000
GNMA pass-through certificates	5,430,924	146,076	--	5,577,000
Total Mortgage-Backed Securities	$240,840,831	$ 371,594	$ (8,970,425)	$232,242,000

A summary of investment with unrealized losses, aggregated by category, at March 31, 2006 is as follows:

	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	F
Mortgage-backed securities held to maturity	$ 75,572,303	$ (2,419,758)	$140,664,983	$ (6,550,667)	$2
Total	$ 75,572,303	$ (2,419,758)	$140,664,983	$ (6,550,667)	$2

At March 31, 2006, mortgage-related securities in a gross unrealized loss position for twelve months or longer consisted of 60 securities that at such date had an aggregate depreciation of 4.4% from the Company's amortized cost basis. For 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 issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers. 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 March 31, 2006 represents an other-than-temporary impairment.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 17,089,874	$ 36,738	$ (278,612)	$ 16,848,000
FHLMC pass-through certificates	118,663,486	128,502	(2,047,988)	116,744,000
FNMA pass-through certificates	121,596,729	161,648	(2,216,377)	119,542,000

GNMA pass-through certificates	6,613,676	246,324		6,860,000
Total Mortgage-Backed Securities	$263,963,765	$ 573,212	$ (4,542,977)	$259,994,000

A summary of investment with unrealized losses, aggregated by category, at September 30, 2005 is as follows:

	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	F
Mortgage-backed securities held to maturity	$ 178,406,095	$ (2,751,178)	$ 58,493,074	$ (1,791,799)	
Total	$ 178,406,095	$ (2,751,178)	$ 58,493,074	$ (1,791,799)	

At September 30, 2005, mortgage-related securities in a gross unrealized loss position for twelve months or longer consisted of 27 securities that at such date had an aggregate depreciation of 3.0% from the Company's amortized cost basis. For 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 issuers, including any specific events which may influence the operations of the issuers such as changes in technology that may impair the earnings potential of the issuers. 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, 2005 represented an other-than-temporary impairment.

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	March 31,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 785,187	$ 6,488	$ --	$ 791,675
Total Mortgage-Backed Securities	$ 785,187	$ 6,488	$ --	$ 791,675

	September 30,2005		
	Amortized	Gross Unrealized	Gross Unrealized

	Cost	Gains	Losses	Fair Value
FNMA pass-through certificates	$1,012,154	$ 32,933	$ --	$1,045,087
Total Mortgage-Backed Securities	$1,012,154	$ 32,933	$ --	$1,045,087

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2006	September 30, 2005
Residential Mortgages	$ 273,358,353	$ 270,940,562
Commercial Mortgages	2,093,613	2,003,219
Construction	6,781,993	7,639,300
Savings Account	956,072	921,400
Home Equity	64,897,304	59,724,004
Automobile and other	725,785	771,538
Line of Credit	28,319,081	31,579,680
Total	377,132,201	373,579,703
Undisbursed portion of loans in process	(4,324,211)	(4,933,753)
Deferred loan fees	(589,810)	(671,426)
Allowance for loan losses	(1,960,304)	(1,967,607)
Loans receivable - net	$ 370,257,876	$ 366,006,917

The total amount of loans being serviced for the benefit of others was approximately $4.1 million and $4.7 million at March 31, 2006 and September 30, 2005, respectively. Commercial mortgage loans consist of five or more units.

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

	Six Months Ended March 31, 2006	Year Ended September 30, 2005
Balance, beginning of period	$ 1,967,607	$ 1,976,849
Amounts charged-off	(10,164)	(92,949)
Loan recoveries	2,861	83,707
Balance, end of period	$ 1,960,304	$ 1,967,607

The activity in the recoveries and charge off accounts was primarily the result of the Company's Bounce protection program. This program extends credit automatically to our depositors. If the account is not brought current by the depositor the loan is charged off. If the customer subsequently brings the account current, a recovery is recognized.

page -10-

7. OFFICE PROPERTIES AND EQUIPMENT

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

March 31, 2006 September 30, 2005

Land	$ 184,788	$ 184,788
Buildings	7,693,338	6,383,356
Furniture, fixtures and equipment	3,464,490	3,433,247
Automobiles	24,896	24,896
Total	11,367,512	10,026,287
Less accumulated depreciation	(4,238,690)	(4,196,593)
Net	$ 7,128,822	$ 5,829,694

8. DEPOSITS

Deposits are summarized as follows:

	March 31, 2006	September 30, 2005
Non-interest bearing checking	$ 11,245,359	$ 9,618,764
NOW accounts	17,441,582	18,282,489
Checking accounts	16,067,471	9,102,649
Money Market Demand accounts	67,626,456	76,581,019
Passbook and Club accounts	3,528,458	3,806,599
Certificate accounts	315,956,576	301,588,135
Total deposits	$ 431,865,902	$ 418,979,655

The aggregate amount of certificate accounts in denominations of more than $100,000 at March 31, 2006 and September 30, 2005 amounted to approximately $42.4 million and $39.7 million, respectively. Amounts in excess of $100,000 may not be federally insured.

9. COMMITMENTS

At March 31, 2006, the following commitments were outstanding:

Origination of mortgage loans	$ 9,223,861
Unused line of credit loans	41,402,895
Loans in process	4,324,211
Total	$54,950,967

10. DIVIDENDS

On April 19, 2006, the Company's Board of Directors declared a cash dividend of $.16 per share payable on May 24, 2006 to the stockholders of record at the close of business on May 10, 2006.

11. EARNINGS PER SHARE

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

For the Three Months Ended March 31,		For the Six Months Ended March 31,	
2006	2005	2006	2005

Basic	3,893,428	3,854,294	3,898,099	3,857,206
Diluted	3,953,751	3,926,205	3,949,506	3,915,365

The difference between the number of shares used for computation of basic earnings per share and diluted earnings per share represents the dilutive effect of stock options.

12. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank consists of the following:

	March 31, 2006		September 30, 2005	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 52,739,787	4.27%	$ 36,043,911	3.73%
13 to 24 months	31,505,628	4.45%	25,446,061	3.66%
25 to 36 months	59,398,215	4.45%	69,114,248	4.83%
37 to 48 months	16,326,985	4.42%	31,484,966	3.89%
49 to 60 months	30,000,000	5.67%	9,302,331	3.97%
61 to 72 months	31,500,223	4.43%	40,208,732	5.35%
73 to 84 months	43,419,934	4.42%	60,668,239	4.47%
85 to 120 months	20,000,000	3.80%	25,000,000	3.80%
Total	$284,890,772	4.49%	$297,268,488	4.38%

The advances are collateralized by Federal Home Loan Bank ("FHLB") stock and substantially all first mortgage loans. The Company has a line of credit with the FHLB of which $23.0 million out of $40.0 million was used at March 31, 2006 and $21.0 million was used as of September 30, 2005, for general purposes. Included in the table above at March 31, 2006 and September 30, 2005 are convertible advances whereby the FHLB has the option at a predetermined strike rate to convert the fixed interest rate to an adjustable rate tied to London Interbank Offered Rate ("LIBOR"). The Company then has the option to repay these advances if the FHLB converts the interest rate. These advances are included in the periods in which they mature. The Company has a total FHLB borrowing capacity of $563.8 million of which $284.9 million was used as of March 31, 2006.

13. REGULATORY CAPITAL REQUIREMENTS

Harleysville Savings Bank (the "Bank") is subject to various regulatory capital requirements administered by the federal Banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of March 31, 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2006, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

		Actual		For Ca Adequacy
		Amount	Ratio	Amount
As of March 31, 2006				
	Tier 1 Capital (to assets)	$ 47,804,526	6.25%	$30,597,440
	Tier 1 Capital (to risk weighted assets)	47,804,526	13.23%	14,454,080
	Total Capital (to risk weighted assets)	49,764,625	13.77%	28,908,160
As of September 30, 2005				
	Tier 1 Capital (to assets)	$ 47,524,213	6.26%	$30,376,680
	Tier 1 Capital (to risk weighted assets)	47,524,213	13.31%	14,283,160
	Total Capital (to risk weighted assets)	49,491,820	13.86%	28,566,320

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

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

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

Critical Accounting Policies and Judgments

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

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

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

Specific Allowance Required for Certain Impaired or Collateral-Dependent Loans: We establish an allowance for certain impaired loans for the amounts by which the collateral value or observable market price are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. At March 31, 2006, no loans were considered impaired.

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

General Valuation Allowance on the Remainder of the Loan Portfolio - We establish another general allowance for loans that are not classified to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectibility of the loan portfolio. The allowance may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures,

changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

Changes in Financial Position for the Six-Month Period Ended March 31, 2006

Total assets at March 31, 2006 were $769.9 million, an increase of $2.9 million for the six-month period then ended. The increase was primarily the result of an increase in investment securities held to maturity of $20.6 million, loans receivable of $4.3 million, office property and equipment of $1.3 million and prepaid expense and other assets of $1.1 million. These increases were partially offset by a decrease in mortgage-backed securities of $23.1 million and Federal Home Loan Bank stock of $1.5 million.

As of March 31, 2006, total deposits increased by $12.9 million to $431.9 million. Advances from borrowers for taxes and insurance also increased by $2.4 million. There was also a decrease in advances from Federal Home Loan Bank of $12.4 million due to the growth of deposits and normal cash flows.

Comparisons of Results of Operations for the Three and Six Month Period Ended March 31, 2006 with the Three and Six Month Period Ended March 31, 2005.

Net Interest Income

Net interest income was $3.26 million for the three-month period ended March 31, 2006 compared to $3.35 million for the comparable period in 2005. The decrease in the net interest income for the three-month period ended March 31, 2006 when compared to the same period in 2005 is attributed to the decrease in interest rate spread to 1.56% in 2006 from 1.71% in 2005. The decrease in net interest income was also a result of an increase in the average rate paid on interest-bearing liabilities to 3.62% in 2006 from 3.24% in 2005 and an increase in the average balance to $704.6 million in 2006 from $678.6 million in 2005. This was partially offset by an increase in the yield earned on assets to 5.18% in 2006 from 4.95% in 2005 along with an increase in the average balance to $743.4 million in 2006 from $715.0 million in 2005.

Total interest income was $9.6 million for the three-month period ended March 31, 2006 compared to $8.8 million for the comparable period in 2005. For the six month period ended March 31, 2006, total interest income was $19.1 million compared to $17.4 million for the comparable period in 2005. The increase is the result of the increased average yield for the interest-earning assets to 5.18% and 5.14% for the three and six-month period ended March 31, 2006, respectively, from 4.95% and 4.92% for the comparable periods in 2005.

Total interest expense increased to $6.4 million for the three-month period ended March 31, 2006 from $5.5 million for the comparable period in 2005. For the six-month period ended March 31, 2006, total interest expense increased to $12.8 million from $10.9 million for the comparable period in 2005. These increases occurred as a result of a increase in the average balance and a increase in the average rate paid on interest-bearing liabilities to 3.62% and 3.63% for the three and six month periods ended March 31, 2006, respectively, from 3.24% and 3.22% for the comparable period ended March 31, 2005.

Other Income

Other income decreased to $282,000 for the three-month period ended March 31, 2006 from $341,000 for the comparable period in 2005. For the six-month period ended March 31, 2005, other income decreased to $604,000 from $755,000 for the comparable period in 2005. The three month decrease was due to a decrease in bank owned life insurance income, non-deposit product income and less non-sufficient funds fee income. The six-month decrease was due to the fact that the Company had a $9,000 gain on investments available for sale in 2006 compared to $64,000 in 2005 and a decrease in non-sufficient funds fee to $146,000 in

2006 from $163,000 in 2005.

Other Expenses

During the quarter ended March 31, 2006, other expenses increased by $18,000 or 0.9% to $2.03 million when compared to the same period in 2005. For the six month period ended March 31, 2006, other expenses increased by $32,000 or 0.8% compared to the comparable period in 2005. Management believes these are normal increases in the cost of operations after considering the effects of inflation and the impact of the 2.9% growth in the assets of the Company when compared to the same periods in 2005. The annualized ratio of expenses to average assets for

the three and six month periods ended March 31, 2006 were 1.06% and 1.04%, respectively.

Income Taxes

The Company made provisions for income taxes of $354,000 and $670,000 for the three and six-month periods ended March 31, 2006, respectively, compared to $432,000 and $859,000 for the comparable periods in 2005. These provisions are based on the levels of taxable income.

Liquidity and Capital Recourses

As of March 31, 2006, the Company had $55.0 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, FHLB borrowings and new deposits. The amount of certificate accounts, which are scheduled to mature during the 12 months ending March 31, 2007, is $184.8 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company. The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh up to the Company's maximum borrowing capacity, which was $563.8 million at March 31, 2006 of which $284.9 million was outstanding at March 31, 2006.

The Bank's net income for the six months ended March 31, 2006 of $2.2 million increased the Bank's stockholders' equity to $48.0 million or 6.2% of total assets. This amount is well in excess of the Bank's minimum regulatory capital requirement.

Recent Accounting Pronouncements

In June 2005, the FASB has issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No.3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 improves financial reporting because its requirements enhance the consistency of financial information between periods. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this new pronouncement will depend on the Company changing an accounting principle and

will be evaluated at that time.

In November 2005, the FASB issued FASB Staff Position (FSP) 115-1/124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss in earnings. Specifically, the guidance clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Company is applying the guidance in this FSP in fiscal 2005 and there was no material affect to the results of operations or the statement of financial position. On December 19, 2005, the FASB issued FSP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk". FSP 94-6-1 addresses whether, under existing guidance, non-traditional loan products represent a concentration of credit risk and what disclosures are required for entities that originate, hold, guarantee, service, or invest in loan products whose terms may give rise to a concentration of credit risk. Non-traditional loan products expose the originator, holder, investor, guarantor, or servicer to higher credit risk than traditional loan products. Typical features of non-traditional loan products may include high loan-to-value ratios and interest or principal repayments that are less than the repayments for fully amortizing loans of an equivalent term. FSP 94-6-1 was effective upon its issuance and it did not have a material impact on the Company's financial position or disclosures.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. This Statement is effective for all financial instruments acquired or

issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is still continuing to evaluate the impact of this pronouncement and does not expect that the guidance will have a material effect on the Company's financial position or results of operations. In March 2006, the FASB issued SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 ("SFAS 140" and "SFAS 156"). SFAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. SFAS 156 amends SFAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption, the Company will apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions. The Company will adopt SFAS 156 for the fiscal year beginning October 1, 2006 and is evaluating the impact of this pronouncement.

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 Financial Officer ("CFO") presents the Board of Directors with a report, which outlines the Company's asset and liability "gap" position in various time periods. The "gap" is the difference between interest- earning assets and interest-bearing liabilities which mature or reprice over a given time period.

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

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of March 31, 2006, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

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

Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income. Conversely, during a period of falling interest rates, a positive gap would result in a decrease in net interest income while a negative gap would positively affect net

interest income. However, the following table does not necessarily indicate the impact of general interest rate movements on the Company's' net interest income because the repricing of certain categories of assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different rate levels.

	1 Year or less	1 to 3 Years	3 to 5 Years	Over 5 Years
Interest-earning assets				
Mortgage loans	$ 36,744	$ 56,918	$ 43,132	$ 136,56
Mortgage-backed securities	81,751	81,539	39,955	38,38
Consumer and other loans	64,637	25,835	8,971	5,04
Investment securities and other investments	31,381	2,725	24,625	85,39
Total interest-earning assets	214,513	167,017	116,683	265,38
Interest-bearing liabilities				
Passbook and Club accounts	--	--	--	3,52
NOW and checking accounts	--	--	--	33,50
Money Market Deposit accounts	17,390	--	--	39,73
Choice Savings	2,627	7,880	10,507	
Certificate accounts	184,845	119,868	11,244	-
Borrowed money	78,038	78,691	40,924	87,23
Total interest-bearing liabilities	282,900	198,559	52,168	171,88
Repricing GAP during the period	$ (68,387)	$ (31,542)	$ 64,515	$ 93,50
Cumulative GAP	$ (68,387)	$ (99,929)	$ (35,414)	$ 58,08
Ratio of GAP during the period to total assets	-8.96%	-4.13%	8.45%	12.2
Ratio of cumulative GAP to total assets	-8.96%	-13.09%	-4.64%	7.6

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. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents the repurchasing activity of the stock repurchase program during the first six months of fiscal 2006:

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
October 1-31, 2005				135,667
November 1-30, 2005	3,000	$ 17.40	3,000	132,667
December 1-31, 2005				
January 1-31, 2006				
February 1-28, 2006	6,527	17.68	6,527	126,140
March 1-31, 2006	52,767	17.50	52,767	73,373
Total	62,294	17.51	62,294	73,373

Notes to this table:

(a) On June 18, 2003, the Company announced its current program to repurchase up to 5.0% of the outstanding shares of Common Stock of the Company, or 191,667 shares.

(b) The program does not have an expiration date and all shares are purchased in the open market.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Submission of Matters to a Vote of Security Holders

(a) The annual meeting of Stockholders was held on January 25, 2006.

(c) There were 3,906,278 shares of Common Stock of the Company eligible to be voted at the Annual Meeting and 3,348,115 shares were represented at the meeting by the holders thereof, which constituted a quorum. The items voted upon at the Annual Meeting and the vote for each proposal were as follows:

1. Election of directors for a three-year term:

	FOR	WITHHELD
David J. Friesen	3,334,148	13,967
George W. Meschter	3,329,385	18,730
James L. Rittenhouse	3,335,793	12,322

Name of each director whose term of office continued:

Sanford L. Alderfer
Mark R. Cummins
Phillip A. Clemens
Ronald B. Geib
Charlotte A. Hunsberger, Esq.
Edward J. Molnar

2. To consider and approve the Harleysville Savings Financial Corporation 2005 Stock Option Plan.

FOR	AGAINST	ABSTAIN	NON-VOTE
2,707,913	139,689	21,577	478,936

3. Proposal to ratify the appointment by the board of Deloitte & Touche, LLP as the Company's independent auditors for the year ending September 30, 2006.

FOR	AGAINST	ABSTAIN
3,336,358	6,083	5,674

Each of the proposals were adopted by the stockholders of the Company.

Item 5. Other information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

No.	
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

Signatures

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

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

Date: May 15, 2006 By: /s/ Edward J. Molnar

Edward J. Molnar
Chief Executive Officer

Date: May 15, 2006 By: /s/ Brendan J. McGill

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