HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
August 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 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 [_]

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

Large accelerated filer [_] Accelerated filer [_] Non-accelerated filer [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [_] 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 August 11, 2006

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

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Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Financial Condition

	June 30, 2006
Assets	
Cash and amounts due from depository institutions	$ 1,526,695
Interest-bearing deposits in other banks	7,769,333
Total cash and cash equivalents	9,296,028
Investment securities held to maturity (fair value - June 30, $108,927,000; September 30, $88,404,000)	110,915,724
Investment securities available-for-sale at fair value	4,567,051
Mortgage-backed securities held to maturity (fair value - June 30, $219,597,000; September 30, $259,994,000)	229,622,377
Mortgage-backed securities available-for-sale at fair value	807,343
Loans receivable (net of allowance for loan losses - June 30, $1,955,000; September 30, $1,968,000)	378,791,591
Accrued interest receivable	3,784,123
Federal Home Loan Bank stock - at cost	15,265,000
Office properties and equipment, net	8,058,890
Deferred income taxes	363,880
Prepaid expenses and other assets	13,709,369
TOTAL ASSETS	$ 775,181,376
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 433,683,617
Advances from Federal Home Loan Bank	286,241,566
Accrued interest payable	1,336,801
Advances from borrowers for taxes and insurance	5,029,316
Accounts payable and accrued expenses	876,204
Total liabilities	727,167,504
Commitments (Note 9)	
Stockholders' equity:	
Preferred Stock: $.01 par value; 12,500,000 shares authorized; none issued	

Common stock: $.01 par value; 25,000,000 shares authorized; issued June 2006, 3,921,177; Sept. 2005, 3,904,136 and outstanding, June 2006, 3,840,158; Sept. 2005, 3,900,881	39,212
Paid-in capital in excess of par	7,972,297
Treasury stock, at cost (June 2006, 81,019 shares; Sept. 2005, 3,255 shares)	(1,428,866
Retained earnings - partially restricted	41,469,370
Accumulated other comprehensive loss	(38,141
Total stockholders' equity	48,013,872
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 775,181,376

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 the Nine Mon June 30,	
	2006	2005	2006	
INTEREST INCOME:				
Interest and fees on mortgage loans	$ 4,029,498	$ 3,837,297	$11,914,305	$1
Interest on mortgage-backed securities	2,650,659	2,976,642	8,253,139	
Interest and fees on consumer and other loans	1,445,980	1,187,392	4,175,349	
Interest and dividends on tax-exempt investments	351,082	343,634	1,043,932	
Interest and dividends on taxable investments	1,445,645	821,684	3,641,547	
Total interest income	9,922,864	9,166,649	29,028,272	2
Interest Expense:				
Interest on deposits	3,340,338	2,640,489	9,657,080	
Interest on borrowings	3,280,298	3,215,587	9,756,035	
Total interest expense	6,620,636	5,856,076	19,413,115	1
Net Interest Income	3,302,228	3,310,573	9,615,157	
Provision for loan losses	--	--	--	
Net Interest Income after Provision for Loan Losses	3,302,228	3,310,573	9,615,157	
Non-interest Income:				
Net gain on sales of securities	18,005	24,260	27,395	
Net gain on sale of loans			16,672	
Other Non-interest income	322,459	338,382	916,954	
Total non-interest income	340,464	379,314	944,349	

Non-interest Expenses:				
Salaries and employee benefits	1,176,228	1,019,274	3,344,031	
Occupancy and equipment	384,656	372,118	1,137,674	
Deposit insurance premiums	13,656	14,416	41,132	
Other	582,595	611,092	1,638,625	
Total non-interest expenses	2,157,135	2,016,900	6,161,462	
Income before Income Taxes	1,485,557	1,672,987	4,398,044	
Income tax expense	386,000	428,500	1,056,177	
Net Income	$ 1,099,557	$ 1,244,487	$ 3,341,867	$
Basic Earnings Per Share	$ 0.29	$ 0.32	$ 0.86	$
Diluted Earnings Per Share	$ 0.28	$ 0.32	$ 0.85	$
Dividends Per Share	$ 0.16	$ 0.15	$ 0.48	$

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statement of Comprehensive Income

	Three M
	2006
Net Income	$ 1,099,557
Other Comprehensive Income	
Unrealized (loss) gain on securities net of tax	(29,841)(
Total Comprehensive Income	$ 1,069,716

(1) Disclosure of reclassification amount, net of tax for the three months ended:	2006
Net unrealized (loss) gain arising during the three months ended	$ (17,958)
Less: Reclassification adjustment for net gains included in net income	11,883
Net unrealized (loss) gain on securities	$ (29,841)

	Nine Mo 2006
Net Income	$ 3,341,867
Other Comprehensive Income	
Unrealized loss on securities net of tax	(28,928)(
Total Comprehensive Income	$ 3,312,939

(2) Disclosure of reclassification amount, net of tax for the nine months ended:	2006
Net unrealized (loss) gain arising during the nine months ended	$ (10,847)
Less: Reclassification adjustment for net gains included in net income	18,081
Net unrealized loss on securities	$ (28,928)

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retain Earnin Partial Restric
Balance at October 1, 2005	3,904,136	$ 39,041	$ 7,610,511	$ (60,107)	$ 39,995
Net Income					3,341
Issuance of Common Stock	17,041	171			
Dividends - $.48 per share					(1,868
Option Compensation			77,225		
Treasury stock purchased				(1,681,657)	
Stock delivered under employee stock plans			(19,526)	169,601	
Stock delivered under Dividend Reinvestment Plan			304,087	143,297	
Unrealized holding loss on available - for sale securities, net of tax					
Balance at June 30, 2006	3,921,177	$ 39,212	$ 7,972,297	$ (1,428,866)	$ 41,469

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retain Earnin Partial Restric
Balance at October 1, 2004	2,316,490	$ 23,165	$ 7,426,853	$ (414,430)	$ 37,244
Net Income					3,741
Issuance of Common Stock	35,282	356	170,045		
Stock Split	1,544,327	15,440	(15,440)		
Dividends - $.43 per share					(1,667
Treasury stock purchased				(204,100)	
Stock delivered under employee stock plans			(235,370)	514,174	
Stock delivered under Dividend Reinvestment Plan			168,715	104,356	
Unrealized holding gain on available - for sale securities, net of tax					
Balance at June 30, 2005	3,896,099	$ 38,961	$ 7,514,803	$ --	$ 39,318

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June	
	2006	200
Operating Activities:		
Net Income	$ 3,341,867	$ 3,74
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	332,440	15
Increase (decrease) in deferred income taxes	14,900	
Compensation charge on stock options	77,225	
Amortization of deferred loan fees	(35,195)	(18
Net gain on sale of loans		(1
Proceeds from the sale of loans held for sale		92
Origination of loans held for sale		(90
Realized loss on disposal of fixed assets	3,124	
Net gain on sale of securities	(27,395)	(8
Increase in cash surrender value	(324,000)	(33
Net amortization of premiums and discounts	255,198	53
Increase bank owned life insurance		(2,50
Changes in assets and liabilities which provided (used) cash:		
Increase in accounts payable and accrued expenses	204,080	2,02
Increase in prepaid expenses and other assets	(1,206,870)	(1,93
Decrease in accrued interest receivable	(352,069)	(37

(Decrease) increase in accrued interest payable	(22,152)	17
Net cash provided by operating activities	2,261,153	1,22
Investing Activities:		
Purchase of investment securities held to maturity	(23,749,535)	(30,46
Purchase of investment securities available for sale	(2,064,820)	(1,90
Purchase of mortgage-backed securities held to maturity	(2,011,250)	(50,13
Proceeds from maturities of investment securities held to maturity	316,618	16,30
Proceeds from sale of investment securities available for sale	327,357	5,01
Principal collected on long-term loans & mortgage-backed securities	100,099,282	109,13
Proceeds (purchase) of FHLB stock	770,900	(81
Long-term loans originated or acquired	(76,642,716)	(81,80
Purchases of premises and equipment	(2,564,760)	(31
Net cash used in investing activities	(5,518,924)	(34,99
Financing Activities:		
Net decrease in demand deposits, NOW accounts and savings accounts	(2,317,137)	(5,65
Net increase in certificates of deposit	17,021,099	13,09
Cash dividends	(1,868,081)	(1,66
Net (decrease) increase in FHLB advances	(11,026,922)	23,35
Treasury stock delivered under employee stock plans	150,075	27
Stock delivered under Dividend Reinvestment Plan	447,384	27
Purchase of treasury stock	(1,681,657)	(20
Net proceeds from issuance of stock	171	17
Net increase in advances from borrowers for taxes & insurance	3,893,887	3,73
Net cash provided by financing activities	4,618,819	33,37
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,361,048	(38
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,934,980	4,71
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,296,028	$ 4,33
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 1,066,927	$ 1,10
Interest expense	19,435,267	16,53

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 (the "Company") and its subsidiary. 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 nine months ended June 30, 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 nine months ended June 2005 and the actual impact for the nine months ended June 2006.

	For the Nine Months Ended June 30, 2006	June 30, 2005
Net income available to shareholders	$ 3,341,867	$ 3,741,946
Add: Total stock-based employee compensation expense included in reported net income (net of tax)	50,969	
Deduct: Total stock-based employee compensation expensed determined under fair value method (net of tax)	(50,969)	(41,693)
Proforma net income	$ 3,341,867	$ 3,700,253

Earnings per share:

Basic - as reported	$	0.86	$	0.97
Basic - pro forma	$	0.86	$	0.96
Diluted - as reported	$	0.85	$	0.95
Diluted - pro forma	$	0.85	$	0.94

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 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.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No.109" ("FIN 48"). FIN 48 clarifies the recognition threshold and measurement of a tax position taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes. We are currently evaluating the requirements of FIN 48 and the impact this interpretation may have on our financial statements.

Reclassification - Certain items in the 2005 financial statements have been reclassified to conform with the presentation in the 2006 consolidated financial statements. Such reclassifications did not have a material impact on the overall presentation of the financial statements.

2. INVESTMENT SECURITIES HELD TO MATURITY

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

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approx Fair V
U.S. Government Agencies				
Due after 1 years through 5 years	$ 12,000,000		$ (369,000)	$ 11,63
Due after 5 years through 10 years	26,426,513	$ 2,213	(825,726)	25,60
Due after 10 years through 20 years	47,622,290		(1,990,290)	45,63
Tax-Exempt Obligations				
Due after 10 years through 15 years	16,879,780	803,220		17,68
Due after 15 years	7,987,141	390,859		8,37
Total Investment Securities	$110,915,724	$ 1,196,292	$ (3,185,016)	$108,92

A summary of investment securities with unrealized losses, aggregated by category, at June 30, 2006 is as follows:

	Less than 12 Months		12 Months or Longer		To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair
US Government agencies	$ 51,761,320	$ (1,651,659)	$ 30,441,530	$ (1,533,357)	$ 82,
Total	$ 51,761,320	$ (1,651,659)	$ 30,441,530	$ (1,533,357)	$ 82,

At June 30, 2006, investment securities in a gross unrealized loss position for twelve months or longer consisted of 11 U.S. Government Agency Securities that at such date had an aggregate depreciation of 4.8% 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 June 30, 2006 represents an other-than-temporary impairment.

	September 30, 2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
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 securities with unrealized losses, aggregated by category, at September 30, 2005 is as follows:

	Less than 12 Months		12 Months or Longer		To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair
US Government agencies	$ 31,567,124	$ (284,269)	$ 21,339,331	$ (618,249)	$ 52,
Total	$ 31,567,124	$ (284,269)	$ 21,339,331	$ (618,249)	$ 52,

At September 30, 2005, investment securities in a gross unrealized loss position for twelve months or longer consisted of eight 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.

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equity Securities	$ 1,050,664		$ (79,944)	$ 970,720
Mutual Funds	3,596,331			3,596,331
Total Investment Securities	$ 4,646,995		$ (79,944)	$ 4,567,051

There were no securities in a loss position greater than twelve months.

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

	Less than 12 Months		12 Months or Longer		Total	T
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unreali
Equities	$ 970,720	$ (79,944)	$ --	$ --	$ 970,720	$
Total	$ 970,720	$ (79,944)	$ --	$ --	$ 970,720	$

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. 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 believes that the securities are temporarily impaired.

	September 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	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.

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4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	June 30,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 15,529,796	$ 68,356	$ (538,152)	$ 15,060,000
FHLMC pass-through certificates	103,617,348	39,029	(4,884,377)	98,772,000
FNMA pass-through certificates	105,465,058	49,651	(4,831,709)	100,683,000
GNMA pass-through certificates	5,010,175	71,825		5,082,000
Total Mortgage-Backed Securities	$229,622,377	$ 228,861	$(10,254,238)	$219,597,000

A summary of mortgage-backed securities with unrealized losses, aggregated by category, at June 30, 2006 is as follows:

	Less than 12 Months		12 Months or Longer		F
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	F
Mortgage-backed securities					

held to maturity	$ 69,556,220	$ (2,977,393)	$ 135,780,606	$ (7,276,845)	$
Total	$ 69,556,220	$ (2,977,393)	$ 135,780,606	$ (7,276,845)	$

At June 30, 2006, mortgage-related securities in a gross unrealized loss position for twelve months or longer consisted of 61 securities that at such date had an aggregate depreciation of 5.1% from the Company's amortized cost basis. Management does not believe any individual unrealized loss as of June 30, 2006 represents an other-than-temporary impairment. The unrealized losses reported for mortgage-related securities relate primarily to securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and private institutions. The majority of the unrealized losses associated with mortgage-related securities are primarily attributable to changes in interest rates and not due to the deterioration of the creditworthiness of the issuer. The Company has the ability and intent to hold these securities until the securities mature.

September 30,2005

	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 mortgage-backed securities 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)	$ 2
Total	$ 178,406,095	$ (2,751,178)	$ 58,493,074	$ (1,791,799)	$ 2

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 available-for-sale with gross unrealized gains and losses is as follows:

	June 30,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 785,187	$ 22,156		$ 807,343
Total Mortgage-Backed Securities	$ 785,187	$ 22,156		$ 807,343

	September 30,2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized 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:

	June 30, 2006	September 30, 2005
Residential Mortgages	$ 278,826,159	$ 270,940,562
Commercial Mortgages	5,143,610	2,003,219
Construction	4,621,175	7,639,300
Savings Account	986,247	921,400
Home Equity	67,344,574	59,724,004
Automobile and other	730,005	771,538
Line of Credit	26,598,411	31,579,680
Total	384,250,181	373,579,703
Undisbursed portion of loans in process	(2,912,593)	(4,933,753)
Deferred loan fees	(591,053)	(671,426)
Allowance for loan losses	(1,954,944)	(1,967,607)
Loans receivable - net	$ 378,791,591	$ 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 June 30, 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:

	Nine Months Ended June 30, 2006	Year Ended September 30, 2005
Balance, beginning of period	$ 1,967,607	$ 1,976,849
Provision for loan losses	--	--
Amounts charged-off	(16,377)	(92,949)
Loan recoveries	3,714	83,707
Balance, end of period	$ 1,954,944	$ 1,967,607

he 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.

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7. OFFICE PROPERTIES AND EQUIPMENT

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

	June 30, 2006	September 30, 2005
Land	$ 1,159,031	$ 184,788
Buildings	7,553,703	6,383,356
Furniture, fixtures and equipment	3,596,123	3,433,247
Automobiles	24,896	24,896
Total	12,333,753	10,026,287
Less accumulated depreciation	(4,274,863)	(4,196,593)
Net	$ 8,058,890	$ 5,829,694

8. DEPOSITS

Deposits are summarized as follows:

	June 30, 2006	September 30, 2005
Non-interest bearing checking	$ 10,015,087	$ 9,618,764
NOW accounts	17,127,643	18,282,489
Checking accounts	20,137,856	9,102,649
Money Market Demand accounts	64,311,230	76,581,019
Passbook and Club accounts	3,482,567	3,806,599
Certificate accounts	318,609,234	301,588,135
Total deposits	$ 433,683,617	$ 418,979,655

The aggregate amount of certificate accounts in denominations of more than $100,000 at June 30, 2006 and September 30, 2005 amounted to approximately $42.1 million and $39.7 million, respectively. Amounts in excess of $100,000 may not be federally insured.

9. COMMITMENTS

At June 30, 2006, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$10,865,903
Unused line of credit loans	41,441,541
Loans in process	2,912,593
Total	$55,220,037

10. DIVIDENDS

On July 19, 2006, the Company's Board of Directors declared a cash dividend of $.16 per share payable on August 23, 2006 to the stockholders of record at the close of business on August 9, 2006.

11. EARNINGS PER SHARE

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,	
	2006	2005	2006	2005
Basic	3,850,573	3,890,153	3,882,257	3,872,400
Diluted	3,884,694	3,936,829	3,914,062	3,936,929

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:

	June 30, 2006		September 30, 2005	
Maturing Period	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
1 to 12 months	$ 56,865,731	4.70%	$ 36,043,911	3.73%
13 to 24 months	41,761,302	4.84%	25,446,061	3.66%
25 to 36 months	42,255,788	4.20%	69,114,248	4.83%
37 to 48 months	15,924,422	4.43%	31,484,966	3.89%
49 to 60 months	30,000,000	5.67%	9,302,331	3.97%
61 to 72 months	53,236,213	4.58%	40,208,732	5.35%
73 to 84 months	21,198,109	4.04%	60,668,239	4.47%
85 to 120 months	25,000,000	4.01%	25,000,000	3.80%
Total	$ 286,241,566	4.60%	$ 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 $33.5 million out of $40.0 million was used at June 30, 2006 and $21.0 million was used as of September 30, 2005. Included in the table above at June 30, 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 $559.9 million of which $286.2 million was used as of June 30, 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 June 30, 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 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 following 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 following table.

	Actual		For Cap Adequacy P
	Amount	Ratio	Amount
As of June 30, 2006			
Tier 1 Capital (to assets)	$ 47,824,555	6.23%	$30,720,320
Tier 1 Capital (to risk weighted assets)	47,824,555	13.08%	14,628,960
Total Capital (to risk weighted assets)	49,779,789	13.61%	29,257,920
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 June 30, 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 Nine-Month Period Ended June 30, 2006

Total assets at June 30, 2006 were $775.2 million, an increase of $8.2 million for the nine-month period then ended. The increase was primarily the result of increases in investment securities held to maturity of $23.6 million, loans receivable of $12.8 million, office property and equipment of $2.2 million and prepaid expense and other assets of $1.5 million. These increases were partially offset by a decrease in mortgage-backed securities held to maturity of $34.3 million and Federal Home Loan Bank stock of $771,000.

As of June 30, 2006, total deposits increased by $14.7 million to $433.7 million. Advances from borrowers for taxes and insurance also increased by $3.9 million. There was also a decrease in advances from Federal Home Loan Bank of $11.0 million due to the growth of deposits and normal cash flows.

Comparisons of Results of Operations for the Three and Nine Month Period Ended June 30, 2006 with the Three and Nine Month Period Ended June 30, 2005.

Net Interest Income

Net interest income was $3.30 million for the three-month period ended June 30, 2006 compared to $3.31 million for the comparable period in 2005. The decrease in the net interest income for the three-month period ended June 30, 2006 when compared to the same period in 2005 is attributed to the decrease in interest rate spread to 1.58% in 2006 from 1.63% 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 3.75% in 2006 from 3.37% in 2005 and an increase in the average balance of interest bearing liabilities to $706.4 million in 2006 from $695.0 million in 2005. This was partially offset by an increase in the yield earned on assets to 5.33% in 2006 from 5.00% in 2005 along with an increase in the average balance of interest earning assets to $744.6 million in 2006 from $733.2 million in 2005.

Total interest income was $9.9 million for the three-month period ended June 30, 2006 compared to $9.2 million for the comparable period in 2005. For the nine month period ended June 30, 2006, total interest income was $29.0 million compared to $26.6 million for the comparable period in 2005. The increase is primarily the result of the increased average yield for the interest-earning assets to 5.33% and 5.20% for the three and nine-month period ended June 30, 2006, respectively, from 5.00% and 4.95% for the comparable periods in 2005. The increase is also attributed to an increase in the average balance of interest earning assets to $744.6 million and $743.8 million for the three and nine-month period ended June 30, 2006, respectively, from $733.2 million and $716.9 million for the comparable periods in 2005.

Total interest expense increased to $6.6 million for the three-month period ended June 30, 2006 from $5.9 million for the comparable period in 2005. For the nine-month period ended June 30, 2006, total interest expense increased to $19.4 million from $16.7 million for the comparable period in 2005. These increases occurred primarily as a result of a increase in the average rate paid on interest-bearing liabilities to 3.75% and 3.67% for the three and nine-month periods ended June 30, 2006, respectively, from 3.37% and 3.27% for the comparable periods ended June 30, 2005. The increase is also attributed to an increase in the average balance of interest bearing liabilities to $706.4 million and $705.7 million for the three and nine-month periods ended June 30, 2006, respectively, from $695.0 million and $680.6 million for the comparable periods in 2005.

Non-interest Income

Non-interest income decreased to $340,000 for the three-month period ended June 30, 2006 from $379,000 for the comparable period in 2005. For the nine-month period ended June 30, 2006, non-interest income decreased to $944,000 from $1.1 million for the comparable period in 2005. The three-month and the nine-month decrease are due to lower gains from the sale of investments and loans available for sale.

Non-interest Expenses

During the quarter ended June 30, 2006, non-interest expenses increased by $140,000 or 6.9% to $2.2 million when compared to the same period in 2005. For the nine-month period ended June 30, 2006, non-interest expenses increased by $172,000 or 2.9% 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 2.6% growth in average assets of the Company when compared to the same periods in 2005. The annualized ratio of expenses to average assets for the three and nine month periods ended June 30, 2006 was 1.12% and 1.07%, respectively.

Income Taxes

The Company made provisions for income taxes of $386,000 and $1.1 million for the three and nine-month periods ended June 30, 2006, respectively, compared to $429,000 and $1.3 million for the comparable periods in 2005. These provisions are based on the levels of taxable income which decreased for the three and nine months ended June 30, 2006 when compared to the same periods in 2005.

Liquidity and Capital Recourses

As of June 30, 2006, the Company had $55.2 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows, FHLB borrowings and new deposits. The amount of certificate accounts, which are scheduled to mature during the 12 months ending June 30, 2007, is $189.0 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 $559.9 million at June 30, 2006 of which $286.2 million was outstanding at June 30, 2006.

The Bank's net income for the nine months ended June 30, 2006 of $3.3 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.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No.109" ("FIN 48"). FIN 48 clarifies the recognition threshold and measurement of a tax position taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes. We are currently evaluating the requirements of FIN 48 and the impact this interpretation may have on our financial statements.

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 June 30, 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	$ 37,564	$ 58,471	$ 44,299	$ 138,49
Mortgage-backed securities	77,984	77,746	38,097	36,60
Consumer and other loans	58,350	26,798	9,309	10,96
Investment securities and other investments	35,935	2,292	24,529	87,58
Total interest-earning assets	209,833	165,307	116,234	273,64
Interest-bearing liabilities				
Passbook and Club accounts	--	--	--	3,48
NOW and checking accounts	--	--	--	37,26
Money Market Deposit accounts	17,182	--	--	37,84

Choice Savings	2,322			6,96
Certificate accounts	188,952	123,691	5,966	-
Borrowed money	80,725	71,542	45,385	88,59
Total interest-bearing liabilities	289,181	195,233	51,351	174,14
Repricing GAP during the period	$ (79,348)	$ (29,926)	$ 64,883	$ 99,49
Cumulative GAP	$ (79,348)	$(109,274)	$ (44,391)	$ 55,10
Ratio of GAP during the period to total assets	-10.24%	-3.86%	8.37%	12.8
Ratio of cumulative GAP to total assets	-10.24%	-14.10%	-5.73%	7.1

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 quarter ended June 30, 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
April 1 - 30, 2006	--	--	--	73,373
May 1 - 31, 2006	33,586	17.58	33,586	39,787
June 1 - 30, 2006				
Total	33,586	17.58	33,586	39,787

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 have been purchased in the open market.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable

Item 5. Other information.

Not applicable.

Item 6. <u>Exhibits and Reports on Form 8-K</u>

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: August 11, 2006 By: /s/ Edward J. Molnar

Edward J. Molnar
Chief Executive Officer

Date: August 11, 2006 By: /s/ Brendan J. McGill

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