HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

OR

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

For the transition period from _____________ to _____________

Commission file number 0-29709

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

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

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

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

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

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

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

Common Stock, $.01 Par Value, 2,316,490 as of May 9, 2003

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
AND SUBSIDIARY

Index

Harleysville Savings Financial Corporation & Subsidiary
Unaudited Condensed Consolidated Statements of Financial Condition

	March 31, 2003
Assets	
Cash and amounts due from depository institutions	$ 1,375,28
Interest bearing deposits in other banks	2,920,37
Total cash and cash equivalents	4,295,65
Investment securities held to maturity (fair value - March 31, $66,327,000; September 30, $57,555,000)	64,544,11
Investment securities available-for-sale at fair value	7,486,30
Mortgage-backed securities held to maturity (fair value - March 31, $241,691,000; September 30, $168,529,000)	236,933,46
Mortgage-backed securities available-for-sale at fair value	23,712,33
Loans receivable (net of allowance for loan losses -	

March 31, $1,991,000; September 30, $2,035,000)	291,797,91
Accrued interest receivable	2,850,33
Federal Home Loan Bank stock - at cost	13,012,70
Office properties and equipment	5,040,32
Deferred income taxes	408,35
Prepaid expenses and other assets	9,229,73
TOTAL ASSETS	$ 659,311,22
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits	$ 381,420,33
Advances from Federal Home Loan Bank	233,497,31
Accrued interest payable	1,071,80
Advances from borrowers for taxes and insurance	2,978,21
Accounts payable and accrued expenses	769,66
Total liabilities	619,737,33
Commitments	
Stockholders' equity:	
Preferred Stock: $.01 par value; 7,500,000 shares authorized; none issued	
Common stock: $.01 par value; 15,000,000 shares authorized; issued and outstanding, Mar. 2003, 2,316,490; Sept. 2002, 2,316,490	23,16
Paid-in capital in excess of par	7,558,38
Treasury stock, at cost (Mar. 2003, 39,149 shares; Sept. 2002, 55,912 shares)	(671,26
Retained earnings - partially restricted	32,722,80
Accumulated other comprehensive (loss) income	(59,18
Total stockholders' equity	39,573,89
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 659,311,22

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation & Subsidiary
Unaudited Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,		For t
	2003	2002	2
INTEREST INCOME:			
Interest on mortgage loans	$ 4,170,228	$ 4,398,502	$ 8,64
Interest on mortgage-backed securities	2,512,549	2,389,599	4,89
Interest on consumer and other loans	876,367	980,560	1,79
Interest and dividends on tax-exempt investments	113,404	113,583	69
Interest and dividends on taxable investments	718,588	763,794	1,04

Total interest income	8,391,136	8,646,038	17,08
Interest Expense:			
Interest on deposits	2,691,004	3,390,498	5,63
Interest on borrowings	2,738,027	2,595,594	5,51
Total interest expense	5,429,031	5,986,092	11,15
Net Interest Income	2,962,105	2,659,946	5,93
Provision for loan losses	--	--	
Net Interest Income after Provision for Loan Losses	2,962,105	2,659,946	5,93
Other Income:			
Loss on sales of securities	--	(23,894)	
Gain on sale of loans	--	728	
Other income	299,725	259,370	61
Total other income	299,725	236,204	61
Other Expenses:			
Salaries and employee benefits	916,149	860,238	1,76
Occupancy and equipment	377,237	311,538	76
Deposit insurance premiums	15,470	15,795	3
Other	429,554	384,557	86
Total other expenses	1,738,410	1,572,128	3,42
Income before Income Taxes	1,523,420	1,324,022	3,11
Income tax expense	379,285	264,150	79
Net Income	$ 1,144,135	$ 1,059,872	$ 2,32
Basic Earnings Per Share	$ 0.50	$ 0.47	$
Diluted Earnings Per Share	$ 0.49	$ 0.46	$
Dividends Per Share	$ 0.16	$ 0.13	$

See notes to unaudited condensed consolidated financial statements.

page -2-

Harleysville Savings Financial Corporation & Subsidiary
Unaudited Condensed Consolidated Statement of Comprehensive Income

Three Months Ended

	2003	2002
Net Income	$ 1,144,135	$ 1,059,872
Other Comprehensive Income		
Unrealized loss on securities net of tax benefit	(176,701)	(9,043)
Total Comprehensive Income	$ 967,434	$ 1,050,829

	Six Months Ended 2003	2002
Net Income	$ 2,324,295	$ 2,065,051
Other Comprehensive Income		
Unrealized loss on securities net of tax benefit	(108,998)	(11,076)
Total Comprehensive Income	$ 2,215,297	$ 2,053,975

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

	Common Stock	Paid-in Capital in Excess of Par	Treasury Stock	Retained Earnings- Partially Restricted
Balance at October 1, 2002	$ 23,165	$ 7,551,849	$ (881,227)	$31,124,03
Net Income				2,324,29
Issuance of Common Stock:	--	--	--	
Dividends - $.16 per share				(725,52
Treasury stock purchased			(154,392)	
Treasury stock delivered under Dividend Reinvestment Plan		78,722	153,111	
Treasury stock delivered under employee stock plan		(72,191)	211,239	
Unrealized holding loss on available-for-sale securities, net of tax benefit				
Balance at March 31, 2003	$ 23,165	$ 7,558,380	$ (671,269)	$32,722,80

See notes to unaudited condensed consolidated financial statements.

Harleysville Savings Financial Corporation & Subsidiary
Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended March	
	2003	20
Operating Activities:		
Net Income	$ 2,324,295	$ 2,
Adjustments to reconcile net income to net cash provided by (used by) operating activities:		
Depreciation	159,132	
Amortization of deferred loan fees	(780,101)	(
Gain on sale of loans	702	
Loss on sale of securities available for sale	--	
Proceeds from the sale of loans held for sale	146,000	
Changes in assets and liabilities which provided (used) cash:		
Decrease in accounts payable and accrued expenses and income taxes payable	(152,856)	(
(Increase) decrease in deferred income taxes	(117,012)	
Decrease (increase) in prepaid expenses and other assets	97,307	
(Increase) decrease in accrued interest receivable	(13,884)	
Increase in accrued interest payable	29,913	
Net cash provided by operating activities	1,693,496	2,
Investing Activities:		
Purchase of investment securities held to maturity	(19,222,095)	(25,
Proceeds from maturities of investment securities held to maturity	10,343,379	27,
Purchase of investment securities available for sale	--	(2,
Proceeds from sale of investment securities available for sale	--	3,
Purchase of FHLB stock	(2,516,200)	(
Long-term loans originated or acquired	(77,402,590)	(66,
Purchase of mortgage-backed securities available for sale	(20,686,030)	(11,
Purchase of mortgage-backed securities held to maturity	(155,113,926)	(29,
Principal collected on long-term loans & mortgage-backed securities	194,122,193	85,
Purchases of premises and equipment	(186,424)	(
Net cash used in investing activities	(70,661,693)	(18,
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	12,156,575	15,
Net decrease in certificates of deposit	(2,683,219)	(11,
Cash dividends	(725,524)	(
Net increase in FHLB advances	25,994,967	17,
Use of treasury stock	443,072	
Purchase of treasury stock	(226,583)	(
Net proceeds from issuance of stock	6,531	
Net increase in advances from borrowers for taxes & insurance	1,995,130	1,
Net cash provided by financing activities	36,960,949	23,
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(32,007,248)	7,
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,302,904	8,

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,295,656	$ 16,
	=============	======
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 811,201	$
Interest expense	11,124,830	12,

See notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and six months ended March 31, 2003 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period.

New Accounting Pronouncements

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

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

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No.

123. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ending after December 15, 2002. The Company has provided the required disclosures in the table below.

	For the Three Months Ended March 31, 2003	For the Three Months Ended March 31, 2002	For the Six Mo March 31, 2003
Net income	$ 2,324,295	$ 1,059,872	$ 2,324,296
Less: Stock based compensation expense	30,531	17,644	30,531
Proforma net income	$ 2,293,764	$ 1,042,228	$ 2,293,765
Earnings per share:			
Basic - as reported	$ 0.50	$ 0.47	$ 1.02
Basic - pro forma	0.49	0.46	1.01
Diluted - as reported	$ 0.49	$ 0.46	$ 1.00
Deluted - pro forma	0.48	0.45	0.99

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, except for the provision of this statement that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 and for hedging relationships designated after June 30, 2003. All provisions are to be applied prospectively except for the provision of this statement that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003. These provisions are to be applied in accordance with their respective effective dates. Management of the Company will evaluate the impact, if any, the adoption of this statement might have on the Company's results of operations or financial condition for contracts entered into or modified after June 30, 2003.

2. INVESTMENT SECURITIES HELD TO MATURITY

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

	March 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Ap F

U.S. Government agencies				
Due after 1 years through 5 years	$ 3,000,000	$ 18,000		$
Due after 5 years through 10 years	12,000,000	103,000		
Due after 10 years through 15 years	23,642,959	281,041		
Tax Exempt Obligations				
Due after 10 years through 15 years	2,858,084	184,916		
Due after 15 years	23,043,072	1,201,430	$ (5,502)	
Total Investment Securities	$ 64,544,115	$ 1,788,387	$ (5,502)	$

	September 30, 2002		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agencies			
Due after 1 years through 5 years	$ 7,026,952	$ 26,048	
Due after 5 years through 10 years	2,000,000	75,000	
Due after 10 years through 15 years	21,757,858	415,571	$ (117,429)
Tax Exempt Obligations			
Due after 10 years through 15 years	3,235,924	124,076	
Due after 15 years	21,644,665	1,406,010	(39,675)
Total Investment Securities	$ 55,665,399	$ 2,046,705	$ (157,104)

The Company has the positive intent and the ability to hold these securities to maturity. At March 31, 2003, neither a disposal, nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

page -6-

3. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	March 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Equites	$ 618,821	$ 24,147	$ (5,308)	$ 637,660
ARM Mutual Funds	6,848,645	--	--	6,848,645
Total Investment Securities	$ 7,467,466	$ 24,147	$ (5,308)	$ 7,486,305

	September 30, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
ARM Mutual Funds	$ 11,999,611	$ --	$ --	$ 11,999,611
Total Investment Securities	$ 11,999,611	$ --	$ --	$ 11,999,611

4. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	March 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	$ 58,040,164	$ 185,770	$ (77,934)	$ 58,
FHLMC pass-through certificates	61,868,051	1,279,261	(16,312)	63,
FNMA pass-through certificates	79,431,670	1,610,819	(489)	81,
GNMA pass-through certificates	37,593,576	1,776,052	372	39,
Total Mortgage-backed Securities	$236,933,461	$ 4,851,902	$ (94,363)	$241,

	September 30, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
Collateralized mortgage obligations	$ 45,143,747	$ 255,218	$ (5,965)	$ 45,
FHLMC pass-through certificates	33,697,029	1,166,921	(4,950)	34,
FNMA pass-through certificates	29,674,733	1,062,267	--	30,
GNMA pass-through certificates	55,299,461	2,240,539	--	57,
Total Mortgage-backed Securities	$163,814,970	$ 4,724,945	$ (10,915)	$168,

5. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	March 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approxima Fair Val
FNMA pass-through certificates	$ 12,757,254		$ (114,788)	$ 12,642,
FHLMC pass-through certificates	11,063,594	$ 6,372	(95)	11,069,
Total Mortgage-backed Securities	$ 23,820,848	$ 6,372	$ (114,883)	$ 23,712,

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

page -7-

6. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2003	September 30, 2002
Residential Mortgages	$ 229,603,676	$ 235,359,382
Commercial Mortgages	485,422	495,647
Construction	7,983,379	8,607,450
Education	398,509	334,271
Savings Account	533,114	478,969
Home Equity	36,535,090	41,451,058
Automobile and other	691,832	725,883
Line of Credit	25,106,620	18,529,734
Total	301,337,642	305,982,394
Undisbursed portion of loans in process	(5,523,843)	(6,502,564)
Deferred loan fees	(2,024,712)	(2,091,264)
Allowance for loan losses	(1,991,174)	(2,034,832)
Loans receivable - net	$ 291,797,913	$ 295,353,734

The total amount of loans being serviced for the benefit of others was approximately $2.0 million and $3.5 million at March 31, 2003 and September 30, 2002, respectively.

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

	Six Months Ended March 31, 2003	Six Months Ended March 31, 2002
Balance, beginning of period	$ 2,034,832	$ 2,036,188
Amounts charged off	(43,658)	--
Loan recoveries	--	5,113
Balance, end of period	$ 1,991,174	$ 2,041,301

7. OFFICE PROPERTIES AND EQUIPMENT

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

	March 31, 2003	September 30, 2002
Land and buildings	$ 5,343,042	$ 5,190,758
Construction in progress	14,686	--
Furniture, fixtures and equipment	3,549,435	3,406,672
Automobiles	24,896	81,059
Total	8,932,059	8,678,489
Less accumulated depreciation	(3,891,736)	(3,665,458)
Net	$ 5,040,323	$ 5,013,031

8. DEPOSITS

Deposits are summarized as follows:

	March 31, 2003	September 30, 2002
NOW accounts	$ 17,454,287	$ 14,051,771
Checking accounts	9,949,368	8,572,256
Money Market Demand accounts	90,649,283	83,464,010
Passbook and Club accounts	3,519,012	3,327,338
Certificate accounts	259,848,384	262,531,603
Total deposits	$381,420,334	$371,946,978

The aggregate amount of certificate accounts in denominations of more than $100,000 at March 31, 2003 amounted to approximately $21.4 million.

9. COMMITMENTS

At March 31, 2003, the following commitments were outstanding:

Origination of fixed-rate mortgage loans	$ 9,725,635
Unused line of credit loans	26,614,752
Loans in process	5,523,873

Total	$41,864,260

10. DIVIDEND

On April 16, 2003, the Board of Directors declared a cash dividend of $.16 per share payable on May 21, 2003 to the stockholders' of record at the close of business on May 7, 2003.

11. EARNINGS PER SHARE

The calculations of earnings per share were based on the number of common stock and common stock equivalents outstanding for the six months ended March 31, 2003 and 2002.

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2003	2002	2003	2002
Basic	2,276,057	2,249,887	2,269,718	2,241,456
Diluted	2,327,309	2,292,752	2,318,359	2,281,545

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.

Changes in Financial Position for the Six Month Period Ended March 31, 2003

Total assets at March 31, 2003 were $659.3 million, an increase of $39.0 million or 6.30% for the six month period. This increase was primarily the result of an increase in mortgage-backed securities held to maturity and in investment securities held to maturity of approximately $73.1 million and $8.9 million, respectively. The remainder was due to an increase in Federal Home Loan Bank stock, deferred income taxes, other assets, office properties and equipment and accrued interest receivable of approximately $2.5 million, $273,000, $97,000, $27,000 and $14,000, respectively. These increases were partially offset by decreases in cash and cash equivalents, mortgage backed securities available for sale, investment securities available for sale and loans receivable of approximately $32.0 million, $5.8 million, $4.5 million and $3.6 million, respectively.

During the six-month period ended March 31, 2003, total deposits increased by $9.5 million to $381.4 million. Advances from borrowers for taxes and insurance also increased by $2.0 million. This is a seasonal increase as the majority of taxes the Company escrows for are disbursed in the month of August. There was also an increase in advances from Federal Home Loan Bank of $26.0 million, which was used to fund the purchase of mortgage-backed securities and investment securities held to maturity. Accrued interest payable increased $30,000 and accounts payable and accrued expenses decreased by $153,000.

Comparisons of Results of Operations for the Three and Six Month Period Ended March 31, 2003 with the Three and Six Month Period Ended March 31, 2002.

Net Interest Income

The increase in the net interest income for the three and six month periods ended March 31, 2003 when compared to the same periods in 2002 can be attributed to the increase in the average balance of interest-earning assets to $617.4 million and $610.3 million from $561.2 million and $554.6 million, respectively. These increases were partially offset by a smaller increase in the average balance of interest-bearing liabilities to $584.3 million and $578.5 million for the three and six month periods ended March 31, 2003, respectably, when compared to $533.4 million, and $527.9 million the same periods in 2002.

Total interest income was $8.4 million for the three-month period ended March 31, 2003 compared to $8.6 million for the comparable period in 2002. For the six month period ended March 31, 2003, total interest income was $17.1 million compared to $17.6 million for the comparable period in 2002. The decrease is the result of the decreased average yield for the interest-earning assets to 5.44% and 5.60% for the three and six-month period ended March 31, 2003, respectively, from 6.16% and 6.34% for the comparable periods in 2002.

Total interest expense decreased to $5.4 million for the three-month period ended March 31, 2003 from $6.0 million for the comparable period in 2002. For the six-month period ended March 31, 2003, total interest expense decreased to $11.2 million from $12.4 million for the comparable period in 2002. These decreases occurred as a result of a decrease in the average rate paid on interest-bearing liabilities to 3.72% and 3.86% for the three and six month periods ended March 31, 2003, respectively, from 4.49% and 4.71% for the comparable period ended March 31, 2002.

Other Income

Other income increased to $300,000 for the three-month period ended March 31, 2003 from $236,000 for the comparable period in 2002. For the six-month period ended March 31, 2003, other income increased to $612,000 from $505,000 for the comparable period in 2002. The three and six-month increase is due to an increase of deposit account fees and Mac fees due to additional transaction accounts. The current three and six month balances also include an increase in income from the sale of non-deposit products. These gains were partially offset by a nonrecurring loss on the sale of securities of approximately $24,000 in 2002.

Other Expenses

During the quarter ended March 31, 2003, other expenses increased by $166,000 or 10.6% to $1.7 million when compared to the same period in 2002. For the six month period ended March 31, 2003, other expenses increased by $330,000 or 10.7%

compared to the comparable period in 2002. Management believes these are normal increases in the cost of operations after considering the effects of inflation and the impact of the growth in the assets of the Company when compared to the same periods in 2002. The annualized ratio of expenses to average assets for the three and six month periods ended March 31, 2003 was 1.09%.

Income Taxes

The Company made provisions for income taxes of $379,000 and $792,000 for the three and six-month periods ended March 31, 2003, respectively, compared to $264,000 and $493,000 for the comparable periods in 2002. These provisions are based on the levels of taxable income.

Liquidity and Capital Resources

The Company's net income for the quarter ended March 31, 2003 of $1,144,000 increased stockholder's equity to $39.6 million or 6.3% of total assets. This amount is well in excess of the Company's minimum regulatory capital requirements as illustrated below:

	(in thousands) Leveraged		Risk-based	
Actual regulatory capital	$39,687	6.3%	$41,686	14.9%
Minimum required regulatory capital	25,263	4.0%	22,457	8.0%
Excess capital	$14,424	2.3%	$19,229	6.9%

The liquidity of the Company's operations, measured by the ratio of the cash and securities balances to total assets, equaled 51.1% at March 31, 2003 compared to 47.9% at September 30, 2002.

As of March 31, 2003, the Company had $26.6 million in commitments to fund loan originations, disburse loans in process and meet other obligations. Management anticipates that the majority of these commitments will be funded within the next six months by means of normal cash flows and net new deposits. In addition, the amount of certificate accounts which are scheduled to mature during the 12 months ending March 31, 2003 is $122.3 million. Management expects that a substantial portion of these maturing deposits will remain as accounts in the Company. The Company invests excess funds in overnight deposits and other short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also has available borrowings with the Federal Home Loan Bank of Pittsburgh ("FHLB") up to the Company's maximum borrowing capacity which was $443.5 million at March 31, 2003, of which $233.5 million was outstanding at March 31, 2003.

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 or decreases in interest rates. The principal determinant of the exposure of Harleysville Savings' 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. Harleysville Savings' 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 and decreases in interest rates, the Company remains vulnerable to material and

prolonged increases and decreases in interest rates during periods in which its interest rate sensitive liabilities exceed its interest rate sensitive assets and interest rate sensitive assets exceed interest rate sensitive liabilities, respectively.

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

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of March 31, 2003, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid.

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

Generally, during a period of rising interest rates, a positive gap would result in an increase in net interest income while a negative gap would adversely affect net interest income. Conversely, during a period of falling interest rates, a positive gap would result in a decrease in net interest income while a negative gap would positively affect net interest income. However, the following table does not necessarily indicate the impact of general interest rate movements on Harleysville Savings' net interest income because the repricing of certain categories of assets and liabilities is discretionary and is subject to competitive and other pressures. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different rate levels.

	1 Year or less	1 to 3 Years	3 to 5 Years	
Interest-earning assets				
Mortgage loans	$ 32,407	$ 35,414	$ 28,512	$

Mortgage-backed securities	102,507	30,047	25,619
Consumer and other loans	38,846	13,469	7,625
Investment securities and other investments	52,997	13,000	--
Total interest-earning assets	226,757	91,930	61,756
Interest-bearing liabilities			
Passbook and Club accounts	--	--	--
NOW accounts	--	--	--
Money Market Deposit accounts	31,247	--	--
Certificate accounts	122,346	71,775	65,727
Borrowed money	43,898	41,909	34,703
Total interest-bearing liabilities	197,491	113,684	100,430
Repricing GAP during the period	$ 29,266	$ (21,754)	$ (38,674)
Cumulative GAP	$ 29,266	$ 7,512	$ (31,162)
Ratio of GAP during the period to total assets	4.50%	-3.35%	-5.95%
Ratio of cumulative GAP to total assets	4.50%	1.16%	-4.80%

Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and based on their evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange commission's rules and forms. Disclosure controls and procedure include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Critical Accounting Policies and Judgments

The Company's condensed consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1, Summary of Significant Accounting Policies. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company's reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company's future financial condition and results of operations.

Allowance for Loan Losses - The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). The Bank's periodic evaluation of the allowance is based on known and inherent risks in the portfolio, past loan loss experience, current economic conditions, trends within the Company's market area and other relevant factors. The first step in determining the allowance for loan losses is recognizing a specific allowance on individual impaired loans. Special mention, nonaccrual, substandard and doubtful residential and other consumer loans are considered for impairment. An allowance is recognized for loan losses in the remainder of the loan portfolio based on known and inherent risk characteristics in the portfolio, past loss experience and prevailing market conditions. Because evaluating losses involves a high degree of management judgment, a margin is included for the imprecision inherent in making these estimates. While management believes that the allowance is adequate to absorb estimated credit losses in its existing loan portfolio, future adjustments may be necessary in circumstances that differ substantially form the assumptions used in evaluating the adequacy of the allowance for loan losses.

Part II OTHER INFORMATION

Item 1-5. Not applicable.

Item 6. Exhibits and Reports on Form 8-K

None

Signatures

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of Harleysville Savings Financial Corporation hereby certifies that the Registrant's Form 10-Q for the six months ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Edward J. Molnar
Chief Executive Officer

Date: May 9, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned executive officer of Harleysville Savings Financial Corporation hereby certifies that the Registrant's Form 10-Q for the six months ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Brendan J. McGill
Chief Financial Officer

Date: May 9, 2003

SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Edward J. Molnar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Savings Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003
Edward J. Molnar
Chief Executive Officer

SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brendan J. McGill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Savings Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003
Brendan J. McGill
Chief Financial Officer