HARLEYSVILLE SAVINGS FINANCIAL CORP
Form 10-K
December 21, 2007

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

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: September 30, 2007
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 Number)
271 Main Street, Harleysville, Pennsylvania	19438
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [_]

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

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 Act). YES [_] NO [X]

The aggregate market value of the 3,569,682 shares of the Registrant's Common Stock held by non-affiliates (3,869,816 shares outstanding less 300,134 shares held by affiliates), based upon the closing price of $16.75 for the Common Stock on March 31, 2007, as reported by the Nasdaq Stock Market, was approximately $59.8 million. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock outstanding as of December 12, 2007: 3,727,477

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of the definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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HARLEYSVILLE SAVINGS FINANICAL CORPORATION
2007 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Forward-Looking Statements

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

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

PART I

Item 1. Business.

General

Harleysville Savings Financial Corporation is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Savings Bank in connection with the holding company reorganization of the Bank in February 2000 (the "Reorganization"). In August 1987, the Bank's predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County, Pennsylvania. The Bank's primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2007, the Company had $773.5 million of total assets, $424.0

million of deposits and $47.0 million of stockholders' equity. The Company's stockholders' equity constituted 6.08% of total assets as of September 30, 2007.

The Bank'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 Bank's primary market area. The Bank also originates a variety of consumer loans, predominately home equity loans and lines of credit also secured by residential properties in the Bank's primary lending area. The Bank serves its customers through its full-service branch network as well as through remote ATM locations, the internet and telephone banking.

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

The Company's principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438 and its telephone number is (800) 243-8700.

Competition

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

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

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

Lending Activities

Loan Portfolio Composition. The Company's loan portfolio is predominantly comprised of loans secured by first mortgages on single-family residential properties. As of September 30, 2007, first mortgage loans on residential properties, including loans on single-family and multi-family residential properties and construction loans on such properties, amounted to $311.0 million or 50.3% of the Company's total loan and

2

mortgage-backed securities portfolio. Loans on the Company's residential properties are primarily long-term and are conventional (i.e., not insured or guaranteed by a federal agency). At September 30, 2007, mortgage-backed securities totaled $193.7 million and comprised 31.3% of the portfolio.

As of September 30, 2007, loans secured by commercial real estate comprised $15.3 million or 2.5% of the total loan and mortgage-backed securities portfolio. Consumer loans, including installment home equity loans, home equity lines of credit, automobile loans, loans on savings accounts and education loans, constituted $97.5 million or 15.1% of the total loan and mortgage-backed securities portfolio as of September 30, 2007.

As of September 30, 2007, the Company had $193.7 million, or 31.3%, of the total portfolio invested in Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA") or Federal National Mortgage Association ("FNMA") backed securities. FHLMC securities are guaranteed by the FHLMC, GNMA securities by the Federal Housing Administration and FNMA securities by the FNMA, which are an instrumentality of the United States government, and, pursuant to federal regulations, are deemed to be part of the Company's loan portfolio.

The following table sets forth information concerning the Company's loan and mortgage-backed securities portfolio by type of loan at the dates indicated.

	As of September 30,						
	2007		2006		2005		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount
					(Dollars in Thousands)		
Residential:							
Single-family	$302,271	49.6%	$283,595	45.4%	$268,546	41.8%	$256,52
Multi-family	2,589	0.4	2,933	0.5	2,893	0.5	91
Construction	6,093	1.0	6,987	1.1	7,640	1.2	7,97
Lot loans	483	0.1	626	0.1	801	0.1	57
Mortgage-backed securities	193,660	31.3	220,314	35.9	265,009	41.5	265,08
Commercial	15,314	2.5	920	1.0	702	0.3	64
Total real estate loans and mortgage-backed securities	520,410	84.9%	515,375	84.0%	545,591	85.4%	531,71
Consumer loans:							
Education loans	--	--	--	--	--	--	-
Installment equity loans	74,218	11.4%	70,515	11.5%	59,724	9.4%	46,25
Line of credit loans	21,385	3.6	25,500	4.3	31,580	5.0	32,32
Savings account loans	977	0.2	1,003	0.2	921	0.1	81
Automobile and other loans	903	0.1	812	0.1	772	0.1	73
Total consumer loans	97,483	15.1%	97,830	16.0%	92,997	14.6%	80,12
Total loans receivable and mortgage-backed securities	617,893	100.0%	613,205	100.0%	638,588	100.0%	611,84
Less:							
Loans in process	(2,795)		(4,941)		(4,934)		(5,23
Deferred loan fees	(453)		(544)		(671)		(95
Allowance for loan losses	(1,932)		(1,956)		(1,968)		(1,97
Total loans receivable and mortgage-backed securities, net	$612,713		$605,764		$631,015		$603,67

Contractual Maturities. The following table sets forth scheduled contractual maturities of the loan and mortgage-backed securities portfolio of the Company as of September 30, 2007 by categories of loans and securities. The principal balance of the loan is set forth in the period in which it is scheduled to mature. This table does not reflect loans in process or unamortized premiums, discounts and fees.

	Principal Balance at September 30, 2007	Principal Repayments Contractually Due in Year(s) End				
		2008	2009	2010-2012	2013-2016	
	(In Thousands)					
Real estate loans:						
Residential						
Single-family	$ 302,271	$ 4,594	$ 4,900	$ 16,539	$ 37,671	$
Multi-family	2,589	39	41	140	318	
Construction	6,093	91	97	329	749	
Lot loans	483	26	28	98	219	
Mortgage-backed Securities	193,660	2,905	3,292	10,845	24,401	
Commercial	15,314	551	597	2,098	4,855	
Consumer and other loans	97,483	11,498	12,340	42,792	21,034	
Total(1)	$ 617,893	$ 19,705	$ 21,297	$ 72,840	$ 89,247	$

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(1) With respect to the $598.2 million of loans with principal maturities contractually due after September 30, 2008, $584.2 million have fixed rates of interest and $14.0 million have adjustable or floating rates of interest.

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

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

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

The Company accepts loan applications through its branch network, and also accepts mortgage applications from mortgage brokers who are approved by the

Board of Directors to do business with the Company. The Company generally does not engage in the purchase of whole loans. The Company did engage in the sale and the acquisition of participations of Commercial Loans on a limited basis during fiscal year 2007.

The Company sold $921,000 of loans during fiscal 2005, resulting in a gain of approximately $17,000. During the years ended September 30, 2007 and 2006, the Company did not sell any loans.

The Company's total loan originations increased by $14.6 million or 13.6% in fiscal 2007 and decreased by $6.1 million or 5.4% in fiscal 2006. Of the $121.9 million and $107.3 million of total loans originated in fiscal 2007 and 2006, respectively, $5.7 million and $7.4 million, respectively, were loans originated to fund multi-family and construction properties, $58.6 million and $54.2 million, respectively, were loans to acquire residential property. During this period, the Company's originations of consumer loans amounted to $57.7 million and $45.7 million or 47.3% and 42.6% of total loan originations during fiscal 2007

4

and 2006, respectively. Management intends to continue to emphasize origination of consumer loans which may have adjustable rates, and generally have shorter terms than residential real estate loans.

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

	Year Ended September 30,		
	2007	2006	2005
	(In Thousands)		
Real estate loan originations:			
Residential:			
Single-family	$ 58,562	$ 54,249	$ 60,608
Multi-family	--	493	1,300
Construction	5,719	6,886	7,433
Lot loans	--	--	--
Total real estate loan originations	64,281	61,628	69,341
Consumer loan originations(1)	57,654	45,688	44,057
Total loan originations	121,935	107,316	113,398
Purchases of mortgage-backed securities	20,939	2,001	62,027
Total loan originations, and purchases	142,874	109,317	175,425
Principal loan and mortgage-backed securities repayments	138,186	134,700	147,757
Sales of loans and mortgage-backed securities	--	--	921
Total principal repayments and sales	138,186	134,700	148,678
Net (decrease) increase in loans	$ 4,688	$ (25,383)	$ 26,747

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

Loan Underwriting Policies. Each loan application received by the Company is underwritten to the standards of the Company's written underwriting policies as adopted by the Company's Board of Directors. The Company's Board of Directors has granted loan approval authority to several officers and employees of the Company, provided that the loan meets the guidelines set out in its written underwriting policies. Individual approval authority of $500,000 has been granted to the Company's Chief Executive Officer, the Company's Chief Financial Officer, and the Company's Chief Lending Officer. Joint approval authority of $1.0 million has been granted to a combination of at least two of the above named individuals. Individual lending authority of $250,000 has been granted to the Bank's Assistant Vice President/Loan Administration Manager, the Assistant Vice President/Loan Customer Service Manager and to the Bank's Consumer Loan and Residential Mortgage Underwriter, employed by the Company. Additional consumer loan lending authority of $50,000 has been granted to several delegated underwriters, employed by the Bank. Loans with policy exceptions require approval by the next highest approval authority. Loans over $1.0 million must be approved by the Company's Senior Loan Committee or the Board of Directors.

In the exercise of any loan approval authority, the officers of the Company will take into account the risk associated with the extension of credit to a single borrower, borrowing entity, or affiliation. The Company has an aggregate loans to one borrower limit of 15% of the Company's unimpaired capital and unimpaired surplus in accordance with federal regulations. At September 30, 2007, the largest aggregate amount of loans outstanding to any borrower, including related entities, was $2 million, which did not exceed the Company's loan to one borrower limitation.

Single Family Residential Real Estate Lending. The Company is permitted to lend up to 100% of the appraised value of the real property securing a loan. The Company will generally lend up to 95% of the lesser of the appraised value or the sale price for the purchase of single-family, owner-occupied dwellings

which conform to the secondary market underwriting standards. Refinancings are limited to 90% or less. Loans over $417,000 and other non-conforming loans, secured by 1-4 residential, owner-occupied dwellings, are limited to 90% of the lesser of the purchase price or appraised value. The purchase of non-owner occupied, 1-4 unit dwellings may be financed to 80% of the lower of the appraisal or sale price; a refinance is limited to 70% of the appraised value if the borrower's FICO score is less than 720 and the transaction's purpose is cash-out.

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

The Company presently originates fixed-rate loans on single-family residential properties pursuant to underwriting standards consistent with secondary market guidelines, and which may or may not be sold into the secondary mortgage market as conditions warrant. Adjustable rate mortgages ("ARMs"), as well as non-conforming and jumbo fixed-rate loans in amounts up to $1.0 million, are held in the portfolio. It is the Company's policy to originate both fixed-rate loans and ARMs for terms up to 30 years. As of September 30, 2007, $308.4 million or 49.9% and $2.6 million or 0.4% of the Company's total loan and mortgage-backed securities portfolio consisted of single-family (including construction loans) and multi-family residential loans, respectively. As of September 30, 2007, approximately $471.4 million or 90.6% of the Company's total mortgage loans and mortgage-backed securities portfolio consisted of fixed-rate, single-family residential mortgage loans. As of such date, $49.0 million or 9.4% of the total mortgage loan portfolio consisted of adjustable-rate single-family residential mortgage loans and mortgage-backed securities. Most of the Company's residential mortgage loans include "due on sale" clauses.

During the years ended September 30, 2007 and 2006, the Company originated $4.6 million and $9.1 million of ARM mortgages, respectively. ARMs represented 8.6% and 20.0% of the Company's total mortgage loan portfolio originations in fiscal 2007 and 2006, respectively. The ARM mortgages offered by the Company are originated with initial adjustment periods varying from one to 10 years, and provide for initial rates of interest below the rates which would prevail were the index used for repricing applied initially. The Company expects to emphasize the origination of ARMs as market conditions permit, in order to reduce the impact of rising interest rates in the market place. Such loans, however, may not adjust as rapidly as changes in the Company's cost of funds.

Multi-family Residential Real Estate Lending. Harleysville Savings Bank originates mortgage loans secured by multifamily dwelling unit. At September 30, 2007, $2.6 million, or 0.4% of our total loan and mortgage-backed securities portfolio consisted of loans secured by multifamily residential real estate. The majority of our multifamily residential real estate loans are secured by apartment buildings located in the Bank's local market area. The interest rates for our multifamily residential real estate loans generally adjust at five- to ten-year intervals, with the rate to be negotiated at the end of such term or to automatically convert to a floating interest rate. These loans generally have a five-year term with an amortization period of no more than twenty years. At September 30, 2007, the largest such loan had a balance of $537,000. At that date, we had no multifamily residential real estate loans that were delinquent in excess of 30 days.

Construction Loans. The Company offers fixed-rate and adjustable-rate construction loans on residential properties. Residential construction loans are originated for individuals who are building their primary residence as well as to selected local builders for construction of single-family dwellings. As of September 30, 2007, $6.1 million or 1.0% of the total loan and mortgage-backed securities portfolio consisted of construction loans.

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

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

The Company also offers mortgage loans on undeveloped single lots held for residential construction. These loans are generally fixed-rate loans with terms not exceeding 15 years; they are not a significant part of the Company's lending activities.

Commercial Real Estate Loans. Harleysville Savings Bank originates mortgage loans for the acquisition and refinancing of commercial real estate properties. At September 30, 2007, $15.3 million, or 2.5% of the Bank's total loan and mortgage-backed securities portfolio consisted of loans secured by commercial real estate properties, owner occupied commercial real estate loans and non-owner occupied commercial real estate loans. The majority of our commercial real estate loans are secured by office buildings, manufacturing facilities, distribution/warehouse facilities, and retail centers, which are generally located in our local market area. The interest rates for our commercial real estate loans generally adjust at one- to five-year intervals, and are typically renegotiated at the end of such period or automatically converted to a floating interest rate. The loans generally have a five-year term with an amortization period of no greater than twenty five years. At September 30, 2007, the largest such loan had a balance of $1.8 million. At that date we had no commercial real estate loans that were delinquent in excess of 30 days.

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

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

7

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

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

Consumer and Other Loans. The Company actively originates consumer loans to provide a wider range of financial services to its customers and to improve the interest rate sensitivity of its interest-earning assets. Originations of consumer loans as a percent of total loan originations amounted to 47.3% and 42.6% during fiscal 2007 and 2006, respectively. The shorter-term and normally higher interest rates on such loans help the Company to maintain a profitable spread between its average loan yield and its cost of funds. The Company's consumer loan department offers a variety of loans, including home equity installment loans and lines of credit, vehicle loans, personal loans and lines of credit. Loans secured by deposit accounts at the Company are also made to depositors in an amount up to 90% of their account balances with terms of up to 15 years.

Home equity loans and lines of credit continue to be a popular product and represented $95.6 million or 15.6% of the loan and mortgage-backed securities portfolio at September 30, 2007. After taking into account first mortgage balances, the Company will lend up to 80% of the value of owner-occupied property on fixed rate terms up to 15 years. This amount may be raised to 100% when considering other factors, such as excellent credit history and income stability. At September 30, 2007, the Company had outstanding 3,109 home equity loans of which 1,922 were installment equity loans and 1,187 were line of credit loans. As of such date, the Company had an outstanding balance on line of credit loans of approximately $21.4 million and there was approximately $41.1 million of unused credit available on such loans.

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

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

Loans fees generated on origination of loans under accounting principles generally accepted in the United States of America are deferred to the extent that they exceed the costs of originating such loans. Deferred loan fees and discounts on mortgage loans purchased are amortized to income as a yield adjustment over the estimated remaining terms of such loans using the interest method. The Company recorded servicing income of $8,000, $52,000 and $138,000 in deferred loan fees in fiscal 2007, 2006 and 2005, respectively.

In its real estate lending, the Company charges loan fees which are calculated as a percentage of the amount borrowed. The fees received in connection with the origination of residential real estate loans and commercial real estate loans generally do not exceed 3% of the principal amount. All origination fees in excess of loan origination costs are deferred and amortized into income over the estimated life of the related loans.

As of September 30, 2007, the Company was servicing $3.6 million of loans for others, which related to loans sold by the Company to the FHLMC and Federal Home Loan Bank of Pittsburgh in the amounts of $120,000 and $3.5 million, respectively. The Company receives a servicing fee of 0.25% on such loans.

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

All interest accrued but not collected for loans that are placed nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest income is recognized using the interest method when the collection is reasonably assured. The Company had no loans outstanding which were recorded as loans accounted for on a non-accrual basis as of the end of fiscal 2007 and 2006.

If foreclosure is effected, the property is sold at a public auction in which the Company may participate as a bidder. If the Company is the successful bidder, the acquired real estate property is then included in the Company's real estate owned ("REO") account until it is sold. When property is acquired, it is recorded at the market value at the date of acquisition less estimated cost to sell and any write-down resulting is charged to the allowance for loan losses. Interest accrual, if any, ceases on the date of acquisition and all costs incurred in maintaining the property from that date forward are expended. Costs incurred for the improvement or development of such property are capitalized. The Company is permitted under Department regulations to finance sales of real estate owned by "loans to facilitate," which may involve more favorable interest rates and terms than generally would be granted under the Company's underwriting guidelines. The Company had no REO at the end of fiscal 2007 and 2006.

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

	As of September 30,		
	2007	2006	2005
	(Dollars in Thousands)		
Residential real estate loans:			
Non-accrual loans	$ --	$ --	$ --
Accruing loans 90 days overdue	28	18	260
Troubled debt restructurings	--	--	--
Total	28	18	260
Consumer loans:			
Non-accrual loans	--	--	--
Accruing loans 90 days overdue	--	--	--
Troubled debt restructurings	--	--	--
Total	--	--	--
Total non-performing loans:			
Non-accrual loans	--	--	--
Accruing loans 90 days overdue	28	18	260
Troubled debt restructurings	--	--	--
Total	$ 28	$ 18	$ 260
Total non-performing loans to total loans	--	--	.07%
Total real estate owned, net of related reserves	--	--	--
Total non-performing loans and other real estate owned to total assets	n/m*	n/m*	.03%

* Not material

Management establishes reserves for losses on delinquent loans when it determines that losses are probable. The Company did not record a provision for general loan losses in fiscal 2007, 2006 or 2005 due to the overall performance of the loan portfolio and management's assessment of the overall adequacy of the allowance for loan losses. Although management believes that it uses the best information available to make determinations with respect to loan loss reserves, future adjustments to reserves may be necessary if economic conditions differ substantially from the assumptions used in making the initial determinations.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Consumer loans and commercial real estate loans generally involve more risk of collectibility because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish specific reserves for losses on delinquent consumer loans and commercial loans when it determines that losses are probable. In addition, consumer loans are charged against reserves if they are more than 120 days delinquent unless a satisfactory repayment schedule is arranged. Although management has currently established no specific reserves for losses, no assurance can be given as to whether future provisions may be required. The establishment of any such reserves could affect net income.

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

	Year Ended September 30,			
	2007	2006	2005	20
Allowances at beginning of year	$ 1,955,805	$ 1,967,607	$ 1,976,849	$ 1,9
Provision for loan losses charged to operating expenses	--	--	--	
Recoveries	12,824	8,524	83,707	
Loans charged off	(36,084)	(20,326)	(92,949)	(
Allowances at end of year	$ 1,932,545	$ 1,955,805	$ 1,967,607	$ 1,9
Ratio of net charge-offs to average loans outstanding	--	--	--	
Ratio of allowances to period-end loans	.46%	.50%	.54%	

Investment Activities

The Company is required to maintain certain liquidity ratios and does so by investing in securities that qualify as liquid assets under FDIC regulations. Such securities include obligations issued or fully guaranteed by the United States government, certain federal agency obligations, certain time deposits and certificates of deposit as well as other specified investments. See "Regulation - Federal Home Loan Bank System."

The Company's investment portfolio consists primarily of United States Treasury securities and obligations of United States government agencies. The other investments include interest-bearing deposits in other banks, tax-exempt obligations, money market mutual funds, and stock of the FHLB of Pittsburgh. The Company has primarily invested in instruments that reprice within five years; the amount of such investments as of September 30, 2007 was $48.6 million.

The following table sets forth the Company's investment portfolio at carrying value as of the dates indicated.

	2007	2006	2005
Interest-bearing deposits at other depository institutions	$ 6,670	$ 8,453	$ 6,742
Tax-exempt obligations	25,538	24,596	24,799
Money market mutual funds	576	7,110	1,976
Equities	1,334	997	859
U.S. Government and agency obligations held to maturity	83,155	86,503	62,566
FHLB of Pittsburgh stock	14,140	15,499	16,036
Total	$ 131,413	$ 143,158	$ 112,978

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

Sources of Funds

General. Deposits are the primary source of the Company's funds for use in lending and for other general business purposes. In addition to deposits, the

Company obtains funds from loan payments and prepayments, FHLB advances and other borrowings, and, to a lesser extent, sales of loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general market interest rates and economic conditions.

Deposits. The Company has a number of different programs designed to attract both short-term and long-term deposits from the general public by providing an assortment of accounts and rates consistent with FDIC regulations. These programs include passbook and club savings accounts, NOW and regular checking accounts, money market deposit accounts, retirement accounts, certificates of deposit ranging in terms from 90 days to 60 months and jumbo certificates of deposit in denominations of $98,000 or more. The interest rates on the Company's various accounts are determined weekly by the Interest Rate Risk Management Officer based on reports prepared by members of senior management. The Company attempts to control the flow of deposits by pricing its accounts to remain competitive with other financial institutions in its market area.

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

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

	As of September 30,				
	2007		2006		
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount
			(Dollars in Thousands)		
Passbook and club accounts	$ 2,864	0.7%	$ 3,325	0.8%	$ 3,80
NOW accounts	13,711	3.2	15,720	3.7	18,28
Checking accounts	37,491	8.8	30,749	7.2	18,72
Money market demand accounts	50,966	12.0	58,174	13.6	75,87
Certificates of deposit:					
6 month	2,697	0.6	5,019	1.2	8,12
9 month	55,684	13.1	25,508	5.9	10,63
12 month	6,269	1.5	22,747	5.3	10,11
15 month	10,989	2.6	45,565	10.6	17,06
17 month	56,257	13.3	1,215	0.3	1,48
18 month	4,336	1.0	6,443	1.5	11,12
20 month	971	0.2	7,810	1.8	9,68
24 month	2,574	0.6	4,796	1.1	7,74
27 month	728	0.2	4,112	1.0	4,96
36 month	5,099	1.2	24,892	5.8	29,30
48 month	60,381	14.2	71,565	16.7	82,40
60 month	15,464	3.6	32,321	7.5	38,43
Other	42,094	9.9	13,104	3.1	16,92

Retirement accounts:					
Money market deposit accounts	860	0.2	815	0.2	70
Certificates of deposit	54,600	12.9	55,374	12.9	53,59
Total deposits	$ 424,035	100.0%	$ 429,254	100.0%	$ 418,98

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

12

Company to attract and retain deposits and the Company's cost of funds have been, and will continue to be, significantly affected by money market conditions.

The following table presents certain information concerning the Company's deposit accounts as of September 30, 2007 and the scheduled quarterly maturities of its certificates of deposit.

	Amount	Percentage of Total Deposits	Weighted Average Nominal Rate
	(Dollars in Thousands)		
Passbook and club accounts	$ 2,864	0.7%	0.98%
NOW accounts	13,711	3.2	0.25
Checking accounts	37,491	8.8	1.66
Money market deposits accounts(1)	51,826	12.2	1.80
Total	$ 105,892	25.0%	1.53%
Certificate accounts maturing by quarter:			
December 31, 2007	$ 49,623	11.7%	4.59%
March 31, 2008	52,847	12.5	4.42
June 30, 2008	71,371	16.8	4.65
September 30, 2008	51,867	12.2	4.46
December 31, 2008	47,684	11.2	4.53
March 31, 2009	21,940	5.2	4.50
June 30, 2009	5,960	1.4	3.98
September 30, 2009	2,328	0.5	3.84
December 31, 2009	1,929	0.5	3.89
March 31, 2010	2,965	0.7	3.96
June 30, 2010	772	0.2	3.99
September 30, 2010	1,363	0.3	4.20

Thereafter	7,494	1.8	4.26
Total certificate accounts(1)	318,143	75.0	4.50
Total deposits	$ 424,035	100.0%	3.76%

(1) Includes retirement accounts.

Management of the Company expects, based on historical experience and its pricing policies, to retain a significant portion of the $225.7 million of certificates of deposit which mature during the 12 months ending September 30, 2008.

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

	Year Ended September 30,		
	2007	2006	2005
	(In Thousands)		
Increase (decrease) before interest credited	$ (19,514)	$ (978)	$ 5,112
Interest credited	14,295	11,252	8,637
Net deposit (decrease) increase	$ (5,219)	$ 10,274	$ 13,749

The following table presents by various interest rate categories the amounts of certificate accounts as of the dates indicated and the amounts of certificate accounts as of September 30, 2007 which mature during the periods indicated.

	As of September 30, 2007	Amounts at September 30, 2007 Maturing			
		One Year or Less	Two Years	Three Years	
	(In Thousands)				
Certificate accounts:					
0.01% to 2.00%	$ 205	$ 85	$ 120	$ --	$
2.01% to 4.00%	68,140	44,025	19,688	4,231	
4.01% to 6.00%	249,798	181,599	58,104	2,798	
Total certificate accounts(1)	$ 318,143	$ 225,709	$ 77,912	$ 7,029	$

(1) Includes retirement accounts.

The following table sets forth the maturity of certificate deposits of $100,000 or more as of September 30, 2007.

	Amount (In Thousands)
1 to 3 months	$ 9,175
4 to 6 months	9,621
7 to 12 months	19,626
Thereafter	15,204
Total	$ 53,626

Borrowings. The Bank obtains advances from the FHLB of Pittsburgh upon the security of its capital stock in the FHLB of Pittsburgh and a portion of its first mortgages. See "Regulation - Regulation of the Bank - Federal Home Loan Bank System." At September 30, 2007, the Bank had advances with maturities of one year or less totaling $69.2 million at an interest rate of 5.07% and FHLB advances with maturities of 13 months to 10 years totaling $189.4 million at interest-rates ranging from 2.92% to 5.60%. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $40.0 million at interest-rates ranging from 4.5% to 4.97%.

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

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

	September 30,				
	2007		2006		20
	Balance	Weighted Average Rate	Balance	Weighted Average Rate	Balance
	(Dollars in Thousands)				
Advances	$ 298,609	4.65%	$ 294,611	4.67%	$ 297,268

14

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

	Year Ended September 30,		
	2007	2006	2005

	(Dollars in Thousands)		
Advances:			
Average balance outstanding	$ 48,172	$ 29,278	$ 29,355
Maximum amount outstanding at any month-end during the period	67,400	59,400	36,100
Weighted average interest rate during the period	5.36%	4.89%	2.98%

Employees

The Company had 69 full-time employees and 48 part-time employees as of September 30, 2007. None of these employees is represented by a collective bargaining agent, and the Company believes that it enjoys good relations with its personnel.

Regulation

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

Regulation of the Company

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

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

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the Federal Reserve Board is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the Federal Reserve Board is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The 1999 Act permits a bank holding company to elect to be considered a financial holding company ("FHC"). A bank holding company that

makes an FHC election is permitted to engage in activities that are financial in nature or incidental to such financial activities. The 1999 Act lists certain activities that are considered financial in nature and permits the Federal Reserve Board to expand that list to include other activities that are complementary to the activities on the preapproved list. The preapproved activities include (1) securities underwriting, dealing and market making; (2) insurance underwriting; (3) merchant banking; and (4) insurance company portfolio investments. The Company has not made the FHC election.

The Federal Reserve Board has by regulation determined that certain activities are closely related to banking within the meaning of the BHCA. These activities include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. The Federal Reserve Board also has determined that certain other activities, including real estate brokerage and syndication, land development, property management and underwriting of life insurance not related to credit transactions, are not closely related to banking and a proper incident thereto. However, under the 1999 Act certain of these activities are permissible for a bank holding company that becomes an FHC.

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

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

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8%

of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of

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

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

Financial Support of Affiliated Institutions. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances when it might not do so absent such policy. The Congress attempted to clarify the application of this "source-of-strength" doctrine by an amendment to Section 18 of the Federal Deposit Insurance Act ("FDIA") that was included in the Gramm-Leach-Bliley Act of 1999. The amendment describes the circumstances under which a Federal banking agency would be protected from a claim by an affiliate or a controlling shareholder of an insured depository institution seeking the return of assets of such an affiliate or controlling shareholder. Under the amended provision, a claim would not be permitted if (1) the insured depository institution was under a written Federal directive to raise capital, (2) the institution was undercapitalized, and (3) the subject Federal banking agency followed the procedures set forth in Section 5(g) of the BHCA.

Sarbanes-Oxley Act of 2002. On July 30, 2002, President George W. Bush signed into law the Sarbanes-Oxley Act of 2002, which generally establishes a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors. Among other things, the new legislation (i) created a public company accounting oversight board which is empowered to set auditing, quality control and ethics standards, to inspect registered public accounting firms, to conduct investigations and to take disciplinary actions, subject to SEC oversight and review; (ii) strengthened auditor independence from corporate management by, among other things, limiting the scope of consulting services that auditors can offer their public company audit clients; (iii) heightened the responsibility of public company directors and senior managers for the quality of the financial reporting and disclosure made by their companies; (iv) adopted a number of provisions to deter wrongdoing by corporate management; (v) imposed a number of new corporate disclosure requirements; (vi) adopted provisions which generally seek to limit and expose to public view possible conflicts of interest affecting securities analysts; and (vii) imposed a range of new criminal penalties for fraud and other wrongful acts, as well as extended the period during which certain types of lawsuits can be brought against a company or its insiders.

Regulation of the Bank

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

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

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

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

Interstate Acquisitions. The Interstate Banking Act allows federal regulators to approve mergers between adequately capitalized banks from different states regardless of whether the transaction is prohibited under any state law, unless one of the banks' home states has enacted a law expressly prohibiting out-of-state mergers before June 1997. This act also allows a state to permit out-of-state banks to establish and operate new branches in this state. The Commonwealth of Pennsylvania has "opted in" to this interstate merger provision. Therefore, the prior requirement that interstate acquisitions would only be permitted when another state had "reciprocal" legislation that allowed acquisitions by Pennsylvania-based bank holding companies has been eliminated. The new Pennsylvania legislation, however, retained the requirement that an acquisition of a Pennsylvania institution by a Pennsylvania or a non-Pennsylvania-based holding company must be approved by the Banking Department.

FDIC Insurance Premiums. The deposits of the Bank are insured by the Deposit Insurance Fund, which is administered by the FDIC. Under current FDIC regulations, insured institutions are assigned to one

of three capital groups which are based solely on the level of an institution's capital. Deposit Insurance Fund assessment rates are then tied to the level of an institution's supervisory concern based on risk classifications derived from the capital groups. Rates during the last six months of 2007 ranged from zero for well capitalized, healthy institutions, such as the Bank, to 27 basis points for undercapitalized institutions with substantial supervisory concerns.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize a predecessor to the Deposit Insurance Fund. The assessment rate for the third quarter of 2007 was .00285% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance. At September 30, 2007, the Bank's regulatory capital exceeded all of its capital requirements.

Deposit Insurance Reform. On February 8, 2006, President George W. Bush signed into law legislation that merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund, eliminated any disparities in bank and thrift risk-based premium assessments, reduced the administrative burden of maintaining and operating two separate funds and established certain new insurance coverage limits and a mechanism for possible periodic increases. The legislation also gave the Federal Deposit Insurance Corporation greater discretion to identify the relative risks all institutions present to the Deposit Insurance Fund and set risk-based premiums.

Major provisions in the legislation include:

- merging the Savings Association Insurance Fund and Bank Insurance Fund, which became effective March 31, 2006;

- maintaining basic deposit and municipal account insurance coverage at $100,000 but providing for a new basic insurance coverage for retirement accounts of $250,000. Insurance coverage for basic deposit and retirement accounts could be increased for inflation every five years in $10,000 increments beginning in 2011;

- providing the Federal Deposit Insurance Corporation with the ability to set the designated reserve ratio within a range of between 1.15% and 1.50%, rather than maintaining 1.25% at all times regardless of prevailing economic conditions;

- providing a one-time assessment credit of $4.7 billion to banks and savings associations in existence on December 31, 1996, which may be used to offset future premiums with certain limitations; and

- requiring the payment of dividends of 100% of the amount that the insurance fund exceeds 1.5% of the estimated insured deposits and the payment of 50% of the amount that the insurance fund exceeds 1.35% of the estimated insured deposits (when the reserve is greater than 1.35% but no more than 1.5%).

Capital Requirements. The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks which, like the Bank, are not members of the Federal Reserve System. The FDIC's capital regulations establish a minimum 3.0% Tier I leverage capital requirement

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

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

The components of Tier I capital are equivalent to those discussed above under the 3% leverage standard. The components of supplementary (Tier 2) capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan losses. Allowance for loan losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets.

Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At September 30, 2007, the Bank met each of its capital requirements.

A bank which has less than the minimum leverage capital requirement shall, within 60 days of the date as of which it fails to comply with such requirement, submit to its FDIC regional director for review and approval a reasonable plan describing the means and timing by which the bank shall achieve its minimum leverage capital requirement. A bank which fails to file such plan with the FDIC is deemed to be operating in an unsafe and unsound manner, and could subject the bank to a cease-and-desist order from the FDIC. The FDIC's regulation also provides that any insured depository institution with a ratio of Tier I capital to total assets that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the FDIA and is subject to potential termination of deposit insurance. However, such an institution will not be subject to an enforcement proceeding thereunder solely on account of its capital ratios if it has entered into and is in compliance with a written agreement with the FDIC to increase its Tier I leverage capital ratio to such level as the FDIC deems appropriate and to take such other action as may be necessary for the institution to be operated in a safe and sound manner. The FDIC capital regulation also provides, among other things, for the issuance by the FDIC or its designee(s) of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital to restore its capital to the minimum leverage capital requirement within a specified time period. Such directive is enforceable in the same manner as a final cease-and-desist order.

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

Loans-to-One Borrower Limitation. Under federal regulations, with certain limited exceptions, a Pennsylvania chartered savings bank may lend to a single or related group of borrowers on an "unsecured" basis an amount equal to 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if such loan is secured by readily-marketable collateral, which is defined to include certain securities and bullion, but generally does not include real estate.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA, as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991, generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

The FDIC has adopted final regulations pertaining to the other activity restrictions imposed upon insured savings banks and their subsidiaries by Section 24. Pursuant to such regulations, insured savings banks engaging in impermissible activities may seek approval from the FDIC to continue such activities. Savings banks not engaging in such activities but that desire to engage in otherwise impermissible activities may apply for approval from the FDIC to do so; however, if such bank fails to meet the minimum capital requirements or the activities present a significant risk to the FDIC insurance funds, such application will not be approved by the FDIC. The FDIC has authorized the bank's subsidiary HARL, LLC, to invest up to 15% of its capital in the equity securities of bank holding companies, banks or thrifts. $1.334 million was invested by HARL, LLC as of September 30, 2007 in such equity securities.

Regulatory Enforcement Authority. FIRREA included substantial enhancement to the enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. FIRREA significantly increased the amount of and grounds for civil money penalties and requires, except under certain circumstances, public disclosure of final enforcement actions by the federal banking agencies.

Federal and State Taxation

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

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

21

Bad Debt Reserves. The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2007 and 2006 includes approximately $1.3 million representing bad debt deductions for which no deferred income taxes have been provided.

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

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

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding three taxable years and forward to the succeeding 15 taxable years. Effective for net operating losses arising in tax years beginning after October 1, 1997, the carryback period is reduced from three years to two years and the carryforward period is extended from 15 years to 20 years. At September 30, 2007, the Bank had no net operating loss carryforwards for federal income tax purposes.

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

Other Matters. The Company's federal income tax returns for its tax years 1993 and beyond are open under the statute of limitations and are subject to review by the Internal Revenue Service ("IRS").

Pennsylvania Taxation. The Bank is subject to tax under the Pennsylvania Mutual Thrift Institutions Tax Act, which imposes a tax at the rate of 11.5% on the Bank's net earnings, determined in accordance with accounting principles generally accepted in the United States of America, as shown on its books. For fiscal years beginning in 1983, and thereafter, net operating losses may be carried forward and

allowed as a deduction for three succeeding years. This Act exempts the Bank from all other corporate taxes imposed by Pennsylvania for state tax purposes, and from all local taxes imposed by political subdivisions thereof, except taxes on real estate and real estate transfers.

Subsidiary

The Bank is the only direct wholly owned subsidiary of the Company. The Bank formed HSB, Inc., a Delaware company, as a wholly owned subsidiary of the Bank during fiscal 1997. HSB, Inc. was formed in order to accommodate the transfer of certain assets that are legal investments for the Bank and to provide for a greater degree of protection to claims of creditors. The laws of the State of Delaware and the court system create a more favorable environment for the proposed business affairs of the subsidiary. HSB, Inc. currently manages the investment securities for the Bank, which as of September 30, 2007 amounted to approximately $152.7 million. The Bank formed two limited liability companies in 2002, Freedom Financial Solutions LLC ("FFS") and HARL, LLC. FFS was established to engage in the sale of insurance products through a third party. HARL, LLC was established for the purpose of investing in FDIC insured financial institutions/holding company equity securities.

Item 1A. Risk Factors.

In analyzing whether to make or to continue an investment in our securities, investors should consider, among other factors, the following risk factors.

Our results of operations are significantly dependent on economic conditions and related uncertainties.

Commercial banking is affected, directly and indirectly, by domestic and international economic and political conditions and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, real estate values, government monetary policy, international conflicts, the actions of terrorists and other factors beyond our control may adversely affect our results of operations. Changes in interest rates, in particular, could adversely affect our net interest income and have a number of other adverse effects on our operations, as discussed in the immediately succeeding risk factor. Adverse economic conditions also could result in an increase in loan delinquencies, foreclosures and nonperforming assets and a decrease in the value of the property or other collateral which secures our loans, all of which could adversely affect our results of operations. We are particularly sensitive to changes in economic conditions and related uncertainties in Eastern Pennsylvania because we derive substantially all of our loans, deposits and other business from this area. Accordingly, we remain subject to the risks associated with prolonged declines in national or local economies.

Changes in interest rates could have a material adverse effect on our operations.

The operations of financial institutions such as ours are dependent to a large extent on net interest income, which is the difference between the interest income earned on interest-earning assets such as loans and investment securities and the interest expense paid on interest-bearing liabilities such as deposits and borrowings. Changes in the general level of interest rates can affect our net interest income by affecting the difference between the weighted average yield earned on our interest-earning assets and the weighted average rate paid on our interest-bearing liabilities, or interest rate spread, and the average life of our interest-earning assets and interest-bearing liabilities. Changes in interest rates also can affect our ability to originate loans; the value of our interest-earning assets and our ability to realize gains from the sale of such assets; our ability to obtain and retain deposits in competition with other available investment alternatives; the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we believe that the estimated maturities of our interest-earning assets currently are well balanced in relation to the estimated maturities of our interest-bearing liabilities (which involves various estimates as to how changes in the general level of interest rates will impact these assets and liabilities), there can be no assurance that our profitability would not be adversely affected during any period of changes in interest rates.

There are increased risks involved with multi-family residential, commercial real estate, commercial business and consumer lending activities.

Our lending activities include loans secured by existing multi-family residential and commercial real estate. In addition, from time to time we originate loans for the construction of multi-family residential real estate and land acquisition and development loans. Multi-family residential, commercial real estate and construction lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances, the dependency on successful completion or operation of the project for repayment, the difficulties in estimating construction costs and loan terms which often do not require full amortization of the loan over its term and, instead, provide for a balloon payment at stated maturity. Our lending activities also include commercial business loans and leases to small to medium businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home improvement loans, home equity loans, education loans and loans secured by automobiles, boats, mobile homes, recreational vehicles and other personal property. Although commercial business loans and leases and consumer loans generally have shorter terms and higher interests rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

We are subject to extensive regulation which could adversely affect our business and operations.

We and our subsidiaries are subject to extensive federal and state governmental supervision and regulation, which are intended primarily for the protection of depositors. In addition, we and our subsidiaries are subject to changes in federal and state laws, as well as changes in regulations, governmental policies and accounting principles. The effects of any such potential changes cannot be predicted but could adversely affect the business and operations of us and our subsidiaries in the future.

We face strong competition which may adversely affect our profitability.

We are subject to vigorous competition in all aspects and areas of our business from banks and other financial institutions, including savings and loan associations, savings banks, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies and insurance companies. We also compete with non-financial institutions, including retail stores that maintain their own credit programs and governmental agencies that make available low cost or guaranteed loans to certain borrowers. Certain of our competitors are larger financial institutions with substantially greater resources, lending limits, larger branch systems and a wider array of commercial banking services. Competition from both bank and non-bank organizations will continue.

Our ability to successfully compete may be reduced if we are unable to make technological advances.

The banking industry is experiencing rapid changes in technology. In addition to improving customer services, effective use of technology increases efficiency and enables financial institutions to reduce costs. As a result, our future success will depend in part on our ability to address our customers' needs by using technology. We cannot assure you that we will be able to effectively develop new technology-driven

products and services or be successful in marketing these products to our customers. Many of our competitors have far greater resources than we have to invest in technology.

We and our banking subsidiary are subject to capital and other requirements which restrict our ability to pay dividends.

Our ability to pay dividends to our shareholders depends to a large extent upon the dividends we receive from Harleysville Savings Bank. Dividends paid by the Bank are subject to restrictions under Pennsylvania and federal laws and regulations. In addition, Harleysville Savings Bank must maintain certain capital levels, which may restrict the ability of the Bank to pay dividends to us and our ability to pay dividends to our shareholders.

Holders of our common stock have no preemptive rights and are subject to potential dilution.

Our articles of incorporation do not provide any shareholder with a preemptive right to subscribe for additional shares of common stock upon any increase thereof. Thus, upon the issuance of any additional shares of common stock or other voting securities of the Company or securities convertible into common stock or other voting securities, shareholders may be unable to maintain their pro rata voting or ownership interest in us.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of September 30, 2007, the Company conducted its business from its main office in Harleysville, Pennsylvania and five other full service branch offices. The Company is also part of the STAR ATM System, which provides customers with access to their deposits at locations worldwide.

County	Address	Owned or Leased	Lease Expiration Date	Net Book Value of Property and Leaseho Improvements at September 30, 200
				(In Tho
Montgomery	1889 Ridge Park Royersford, Pennsylvania	Owned	--	$ 3,210
Montgomery	271 Main Street Harleysville, Pennsylvania	Owned	--	1,038
Montgomery	640 East Main Street Lansdale, Pennsylvania	Leased	May 2043(1)	880
Montgomery	1550 Hatfield Valley Road Hatfield, Pennsylvania	Leased	January 2064(1)	815

Montgomery	2301 West Main Street Norristown, Pennsylvania	Owned	--	528
Montgomery	3090 Main Street Sumneytown, Pennsylvania	Owned	--	299
	Total			$ 6,770

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

Item 3. Legal Proceedings.

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

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

Not Applicable.

PART II

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

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

Performance Graph. The following graph compares the yearly cumulative total return on the Company's common stock over the past five years with (i) the yearly cumulative total return on the stocks included in the Nasdaq Stock Market Index and (ii) the yearly cumulative total return on the stocks included in the Nasdaq Banks Index (all banks listed on the Nasdaq Stock Market). The cumulative returns are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

[GRAPH]

	2002	2003	2004	2005	2006	2007
Harleysville Savings	$ 100.00	$ 186.41	$ 205.22	$ 209.97	$ 213.83	$ 189.00
Nasdaq Market Index	100.00	176.31	187.30	213.78	225.45	266.83
Nasdaq Banks Index	100.00	326.79	381.40	398.54	435.60	409.65
Book Value Per Share	10.05	10.81	11.56	12.20	12.59	12.65
Market Value Per Share	12.07	15.83	17.25	17.15	16.90	13.71

Harleysville Savings Financial Corporation's Common Stock is listed on the Nasdaq Global Market under the symbol "HARL". The Common Stock was issued at an adjusted price of $1.45 per share in connection with the Company's conversion from mutual to stock form and the Common Stock commenced trading on the NASDAQ Stock Market on September 3, 1987. Prices shown below reflect the prices reported by the NASDAQ systems. The closing price on September 28, 2007 was $13.71 per share. There were 3,717,519 shares outstanding as of September 30, 2007, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
December 31, 2005	$ 18.44	$ 17.01	$ 17.98	$ 0.16
March 31, 2006	18.00	17.20	17.45	0.16
June 30, 2006	17.95	17.08	17.22	0.16
September 30, 2006	17.35	14.81	16.90	0.16
December 31, 2006	19.93	15.60	18.48	0.17
March 31, 2007	19.25	16.02	16.75	0.17
June 30, 2007	17.59	16.00	16.20	0.17
September 30, 2007	16.72	13.30	13.71	0.17

(b) Not applicable.

(c) The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of Common Stock of the Company during the fourth quarter of fiscal 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximu Shares th Purchased or Pr
July 1-31, 2007	32,500	16.10	32,500	
August 1-31, 2007	111,000	15.65	111,000	
September 1-30, 2007 ..	--	--	--	
Total	143,500	$ 15.75	143,500	

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(1) On June 18, 2003, the Company announced its program to repurchase up to 5.0% of the outstanding shares of Common Stock of the Company, or 191,667 shares. The program was completed on July 26, 2007.

(2) On June 20, 2007, the Company announced its current program to repurchase up to 5.0% of the outstanding shares of Common Stock of the Company, or 196,000 shares. The program commenced immediately following the completion of the 2003 program. The program does not have an expiration date and all shares are purchased in the open market.

Item 6. Selected Financial Data.

Selected Balance Sheet Data:
(Dollars in thousands except per share data)

	As of Septe		
	2007	2006	2005
Total Assets	$ 773,544	$ 775,638	$ 76
Mortgage-backed securities held to maturity	192,843	219,494	26
Mortgage-backed securities available-for-sale	818	820	
Consumer loans receivable - net	403,739	384,530	36
Commercial loans	15,314	920	
Investment securities held to maturity	108,693	111,099	8
Investment securities available-for-sale	1,910	8,108	
Other investments (1)	22,457	25,549	2
Deposits	424,035	429,254	41
FHLB advances and other borrowings	298,609	294,611	29
Total stockholders' equity	47,041	48,471	4
Book value per share (3)	12.65	12.59	

Selected Operations Data:

	Year Ended Sep		
	2007	2006	2005
Interest income	$ 40,289	$ 39,091	$ 35
Interest expense	28,806	26,366	22
Net interest income	11,483	12,725	13
Provision for loan losses	--	--	
Net interest income after provision for loan losses	11,483	12,725	13
Gain on sales of loans and securities	160	27	
Other income	1,730	1,273	1
Other expense	9,216	8,568	7
Income before taxes	4,157	5,457	6
Income tax expense	911	1,255	1
Net income	$ 3,246	$ 4,202	$ 5
Earnings per share - basic (3)	$ 0.85	$ 1.09	$
Earnings per share - diluted (3)	0.83	1.08	
Dividends per share (3)	0.68	0.64	

Selected Other Data:

	Year Ended S		
	2007	2006	20
Return on average assets (2)	0.42%	0.55%	0.
Return on average equity (2)	6.71%	8.76%	10.

Dividend payout ratio	80.02%	58.72%	44.
Average equity to average assets (2)	6.13%	6.21%	6.
Interest rate spread (2)	1.32%	1.51%	1.
Net yield on interest-earning assets (2)	1.57%	1.71%	1.
Ratio of non-performing assets to total assets at end of period	0.00%	0.00%	0.
Ratio of interest-earning assets to interest-bearing liabilities at end of period	104.7%	105.6%	105
Full service banking offices at end of period	6	6	5

(1) Includes interest-bearing deposits at other depository institutions & stock of the Federal Home Loan Bank of Pittsburgh.

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

(3) The number of shares and per share information for all periods presented has been restated to reflect the five for three stock split as of February 24, 2005.

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

The following discussion is intended to assist in understanding our financial condition, and the results of operations for Harleysville Savings Financial Corporation, and its subsidiary Harleysville Savings Bank, for the fiscal years ended September 30, 2007, 2006 and 2005. The information in this section should be read in conjunction with the Company's financial statements and the accompanying notes included elsewhere herein.

Critical Accounting Policies and Judgments

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

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

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

Specific Allowance Required for Certain Impaired or Collateral-Dependent Loans: We establish an allowance for certain impaired loans for the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. Under current accounting guidelines, a loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement.

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

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

duration of the current business cycle, and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

Overview

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

The Company's total assets at September 30, 2007, amounted to $773.5 million, compared to $775.6 million as of September 30, 2006. The decrease in assets was due to a decrease in mortgage backed securities, investment securities available for sale, investment securities held to maturity and

Federal Home Loan Bank stock of $26.7 million, $6.2 million, $2.4 million and $1.4 million, respectively. These decreases were offset by an increase in loans receivable of $33.6 million. Total liabilities at September 30, 2007 were $726.5 million compared to $727.2 million at September 30, 2006. The decrease in liabilities was due to a decrease in short term borrowing and deposits of $26.7 million and $5.2 million, respectively. These decreases were offset by an increase in long-term debt of $30.7 million. Stockholders' equity totaled $47.0 million as of September 30, 2007, compared to $48.5 million at September 30, 2006.

During fiscal 2007, net interest income after provision for loan losses decreased $1.2 million or 9.8% from the prior fiscal year. This decrease was the result of a 2.4% decrease in the average interest-earning assets, which was offset by a 1.6% decrease in average interest-bearing liabilities, and a decrease in the interest rate spread from 1.51% in fiscal 2006 to 1.39% in fiscal 2007. Earnings for fiscal 2007 were $3.2 million compared to $4.2 million and $5.0 million for the years ended September 30, 2006 and 2005, respectively. The Company's return on average assets (net income divided by average total assets) was 0.42% during fiscal 2007 compared to 0.55% and 0.67% during fiscal 2006 and 2005, respectively. Return on average equity (net income divided by average equity) was 6.71% during fiscal 2007 compared to 8.76% during fiscal 2006 and 10.91% during fiscal 2005. This decline in return on average assets and return on average equity during the three-year period was a direct result of the continued compression of long and short term interest rates.

Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis.

	As of Sept 30, 2007	For The Year Ended Septembe					
		2007			2006		
	Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yie Ra
Interest-earning assets:							
Mortgage loans (2) (3)	5.94%	$294,013	$ 17,270	5.87%	$277,359	$ 16,101	
Mortgage-backed securities	4.72%	204,546	9,339	4.57%	241,751	10,801	
Consumer and other loans (3)	6.33%	105,320	6,709	6.37%	94,987	5,675	
Investments	5.32%	122,748	6,971	5.68%	130,425	6,514	
Total interest-earning assets	5.56%	726,627	40,289	5.54%	744,522	39,091	
Interest-bearing liabilities:							
Deposits	3.87%	418,268	15,472	3.70%	418,506	13,165	
Borrowings	4.65%	275,429	13,334	4.84%	286,500	13,201	

Total interest-bearing liabilities	4.19%	693,697	28,806	4.15%	705,006	26,366	
Net interest income/interest rate spread	1.37%		$ 11,483	1.39%		$ 12,725	
Net interest-earning assets/ net yield on interest-earning assets (1)		$ 32,930		1.58%	$ 39,516		
Ratio of interest-earning assets to interest-bearing liabilities				104.7%			1

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(1) Net interest income divided by average interest-earning assets.
(2) Loan fee income is immaterial to this analysis.
(3) There were no non-accruing loans at September 30, 2007, 2006 and 2005.

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

	Fiscal 2007 Compared to Fiscal 2006 Increase (Decrease)			Fiscal 200 to Fisc Increase (	
	Volume	Rate	Total	Volume	Ra
Interest income on interest-earning assets:					
Mortgage loans (1)	$ 976	$ 193	$ 1,169	$ 810	$
Mortgage-backed securities	(1,694)	232	(1,462)	(1,317)	
Consumer and other loans (1)	643	390	1,034	492	
Investments	(398)	856	457	1,392	
Total	(473)	1,671	1,198	1,377	
Interest expense on interest-bearing liabilities:					
Deposits	(7)	2,314	2,307	441	

Borrowings	(521)	654	133	131	
Total	(528)	2,968	2,440	572	
Net change in net interest income	$ 55	$ (1,297)	$ (1,242)	$ 805	$ (

(1) There were no non-accruing loans at September 30, 2007 and 2006.

32

Net Interest Income

Net interest income after provision for loan losses decreased by $1.2 million or 9.76% in fiscal 2007, and decreased by $471,000 or 3.57% in fiscal 2006 over the respective prior periods. The decrease in the net interest income after provision for loan losses for this two year period was due to a decrease in the interest rate spread between interest bearing assets and interest earning liabilities. The driving factors will be discussed below in Interest Income and Interest Expense.

Interest Income

Interest income on mortgage loans increased by $1.2 or 7.3% in fiscal 2007 and increased by $761,000 or 5.0% in fiscal 2006 from the respective prior years. During fiscal 2007, the average balance of mortgage loans increased $16.7 million or 6.0% and the yield increased by 6 basis points. The combined increase in yield on mortgage loans and the higher loan volume increased income for the period. During fiscal 2006, the average balance of mortgage loans increased $14.0 million or 5.3% and the yield decreased by 1 basis point. The increase in volume during 2006 had a greater impact on interest income than the decrease in yield. The majority of loans originated during both years were fixed rate mortgages. The decrease in interest income on mortgage-backed securities during fiscal 2007 reflected a decrease of $37.2 million or 15.4% in the average balance. There was, however, an increase in yield earned by 10 basis points during fiscal 2007. During fiscal 2006, the decrease in interest income on mortgage-backed securities reflected a decrease of $29.8 million or 11.0% in the average balance. There was, however, an increase in yield earned by 17 basis points during fiscal 2006. In 2007, the increase in interest income on consumer and other loans reflected an increase of $10.3 million or 10.9% in the average balance. This increase is primarily due to growth in commercial mortgages of $14.4 million and increase in the average yield to 6.37%. In 2006, the increase in interest income on consumer and other loans reflected an increase in the average balance due to growth in home equity loans of $10.8 million or 18.1%, and an increase in the yield to 5.97%.

Interest and dividends on investments increased by $457,000 or 7.0% in fiscal 2007 over the respective prior year. During fiscal 2007, the increase resulted from a 69 basis point increase in yield, even though the average balance of investments decreased $7.7 million or 5.9%. The decrease in the average balance in 2007 reflects funds that were redeployed from normal cash flows to pay down borrowings. Interest and dividends on investments increased by $2.2 million or 51.8% in fiscal 2006 over the respective prior years. During fiscal 2006, the increase resulted from the average balance of investments increasing $29.5 million or 29.2% and a 74 basis point increase in yield. The increase in the average balance in 2006 reflects funds that were redeployed from normal cash flows.

Interest Expense

Interest expense on deposits increased $2.3 million or 17.5% in fiscal 2007 and increased by $2.8 million or 27.4% in fiscal 2006 as compared to the respective prior years. In fiscal 2007, the average balance of deposits decreased $238,000 or 0.1% with a 55 basis point increase in the average rate paid. The decrease in the average balance reflects additional competition in a challenging rate environment. In fiscal 2006, the average balance of deposits increased $16.6 million or 4.1% with a 58 basis point increase in the average rate paid. The average rate paid on deposits was 3.7% for the year ended September 30, 2007, compared to 3.2% for the year ended September 30, 2006 and 2.6% for 2005. The average rate paid on deposits, is a direct reflection of the rising interest rate environment.

Interest expense on borrowings increased by $133,000 or 1.0% in fiscal 2007 and increased by $791,000 or 6.4% in fiscal 2006 as compared to the respective prior years. Even though there was a decrease in the average balance of borrowings of $11.1 million or 3.9%, the increase in the average rate paid of 23 basis points increased the interest expense in 2007. The increase in interest expense during fiscal 2006 was the result of a $3.0 million or 1.1% increase in the average balance of borrowings and an increase of 23 basis points in the average rate paid. Borrowings were primarily obtained during fiscal 2006 and 2005 to fund the purchase of mortgage-backed securities and long-term fixed-rate mortgages. Long-term FHLB advances were used to match the expected maturity terms of these mortgage products.

Provision for Loan Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of loan loss reserves is based upon a regular monthly review of loan delinquencies and "classified assets", as well as local and national economic trends. Although management has currently established no specific reserves for losses, no assurance can be given as to whether future provision may be required. The allowance for loan losses totaled $1.9 million and $2.0 million at September 30, 2007 and 2006 or 0.5% and 0.5% of total loans at September 30, 2007 and 2006, respectively. Due to the Company's loan portfolio status and its analysis of quantitative and qualitative factors, no provision was made in 2007, 2006 and 2005.

Other Income

The Company's total other operating income increased to $1.9 million in fiscal 2007 and decreased to $1.3 million in fiscal 2006 compared to the respective prior year periods. The increase from 2006 to 2007 is primarily attributed to a gain on the sale of investments and mortgage backed securities available for sale of $160,000 in fiscal 2007 as compared to a gain of $27,000 in fiscal 2006. The decrease from 2005 to 2006 is primarily attributed to a gain on the sale of an investment available for sale of $27,000 in fiscal 2006 as compared to a gain of $100,000 in fiscal 2005.

Customer service fees were $564,000, $369,000 and $414,000 in 2007, 2006 and 2005, respectively. The increases were due to more NFS fees during the periods.

Bank Owned Life Insurance ("BOLI") income was $475,000, $436,000 and $451,000 in 2007, 2006 and 2005, respectively.

Other income, which consists primarily of loan servicing fees, the sale of non-deposit products and insurance commissions, increased by $223,000 or 47.5% during fiscal year 2007. During fiscal 2006, other income decreased by $18,000 or 3.6%. The fees, which comprise other income, are set by the Company at a level, which is intended to cover the cost of providing the related services and expenses to customers and employees. Components of other income in 2007 increased relatively consistent with the results of 2006 considering we had a full year of activity in commercial lending and business deposit accounts in 2007

34

compared to 2006. Based on the current services offered by the Company, we anticipate other income to grow consistently in fiscal year 2008.

Other Expenses

Salaries and employee benefits increased by $365,000 or 7.9% in fiscal 2007 and by $471,000 or 11.4% in fiscal 2006 as compared to prior respective fiscal years. The increased expenses of salaries and employee benefits during the periods are attributable to the increased staffing needs due to additional branch, normal growth, normal salary increases and increased employee benefit expenses. The Company anticipates normal increase in salaries and employee benefits in fiscal year 2008 due to additional staffing needs, normal salary increases and stock option expense.

Occupancy and equipment expense increased by $154,000 or 15.9% in fiscal 2007 and increased by $31,000 or 3.3% in fiscal 2006 as compared to the prior respective fiscal years. Data processing costs decreased by $11,000 in fiscal 2007 and increased by $27,000 in fiscal 2006. The increase in occupancy and equipment in 2007 and 2006 were attributable to the normal activity of the Company and a full year operation of a new branch in 2007.

The Company anticipates normal increase in occupancy and equipment expenses due to normal growth, normal technology needs and inflationary effects in fiscal year 2008.

Other expenses, which consist primarily of advertising expenses, directors' fees, ATM network fees, professional fees, checking account costs, stockholders expense, and insurance premiums, increased by $142,000 or 6.0% in fiscal 2007 and increased by $78,000 or 3.4% in fiscal 2006 over the prior respective fiscal years. The increases in other expenses are primarily attributable to a full year of commercial lending and business deposits in 2007.

Income Taxes

The Company recorded income tax provisions of $911,000, $1.3 million and $1.7 million for fiscal years 2007, 2006 and 2005, respectively. The primary reason for the decrease in the income tax provision in fiscal 2007 and 2006 was a decrease in pretax income. See Note 11 of the "Notes to Financial Statements" which provides an analysis of the provision for income taxes.

Commitments and Off-Balance Sheet Arrangements

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and the unused portions of lines of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. Commitments to extend credit and lines of credit are not recorded as an asset or liability by us until the instrument is exercised. At September 30, 2007 and 2006, we had no commitments to originate loans for sale.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. The amount and type of collateral required varies, but may include accounts receivable, inventory, equipment, real estate and income-producing commercial properties. At September 30, 2007 and 2006, commitments to originate loans and commitments under unused lines of

credit, including undisbursed portions of construction loans in process, for which the Company is obligated amounted to approximately $63.4 million and $53.4 million, respectively.

Letters of credit are conditional commitments issued by the Company guaranteeing payments of drafts in accordance with the terms of the letter of credit agreements. Commercial letters of credit are used primarily to facilitate trade or commerce and are also issued to support public and private borrowing arrangements, bond financings and similar transactions. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Collateral may be required to support letters of credit based upon management's evaluation of the creditworthiness of each customer. The credit risk involved in issuing letters of credit is substantially the same as that involved in extending loan facilities to customers. Most letters of credit expire within one year. At September 30, 2007 and September 30, 2006, the Company had letters of credit outstanding of approximately $292,000 and $228,000, respectively, of which all are standby letters of credit. At September 30, 2007 and 2006, the uncollateralized portion of the letters of credit extended by the Company was approximately $26,000 and $0, respectively, of which $26,000 was for standby letters of credit in current year.

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

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

The following tables summarize our outstanding commitments to originate loans and to advance additional amounts pursuant to outstanding Letters of credit, lines of credit and under our construction loans at September 30, 2007.

	Total Amounts Committed in thousands
Letters of credit	$ 292
Commitments to originate loans	17,361
Unused portion of home equity lines of credit	41,055
Unused portion of commercial lines of credit	2,077
Undisbursed portion of construction loans in process	2,873

Total commitments	$63,658

Contractual Obligations

The Company's contractual cash obligations at September 30, 2007 were as follows:

	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
Lease agreements	$ 531,185	$ 98,407	$ 211,310	$ 221,468	$ -
Borrowings	298,608,627	69,227,457	37,452,369	81,928,801	110,000,00
Certificates of deposit	318,142,918	225,708,981	84,941,067	7,492,870	-
	$617,282,730	$295,034,845	$122,604,746	$ 89,643,139	$110,000,00

36

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

Asset and Liability Management

The Company has instituted programs designed to decrease the sensitivity of its earnings to material and prolonged increases or decreases in interest rates. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the repricing or maturity of the Company's interest-earning assets and the repricing or maturity of its interest-bearing liabilities. If the maturities of such assets and liabilities were perfectly matched, and if the interest rates borne by its assets and liabilities were equally flexible and moved concurrently, neither of which is the case, the impact on net interest income of rapid increases or decreases in interest rates would be minimized. The Company's asset and liability management policies seek to 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 Financial Officer implements the Board of Directors' policies during the day-to-day operations of the Company. Each month, the Chief Financial Officer presents the Board of Directors with a report, which outlines the Company's asset and liability "gap" position in various time periods. The "gap" is the difference between interest-earning assets and interest-bearing liabilities which mature or reprice over a given time period. The Chief Financial Officer also meets weekly with the Company's other senior officers to review and establish policies and strategies designed to regulate the Company's flow of funds and coordinate the sources, uses and pricing of such funds. The first priority in structuring and pricing the

Company's assets and liabilities is to maintain an acceptable interest rate spread while reducing the effects of changes in interest rates and maintaining the quality of the Company's assets.

The following table summarizes the amount of interest-earning assets and interest-bearing liabilities outstanding as of September 30, 2007, which are expected to mature, prepay or reprice in each of the future time periods shown. Except as stated below, the amounts of assets or liabilities shown which mature or reprice during a particular period were determined in accordance with the contractual terms of the asset or liability. Adjustable and floating-rate assets are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed-rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid. However, many of our assets can prepay at any time without a penalty unlike many of our liabilities that have a contractual maturity.

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

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

37

	1 Year or less	1 to 3 Years	3 to 5 Years
Interest-earning assets:			
Mortgage loans	$ 57,084	$ 51,463	$ 40,643
Commercial Mortgage loans	6,594	1,655	706
Mortgage-backed securities	65,716	65,251	31,974
Consumer and other loans	44,693	27,332	12,984
Investment securities and other investments	62,693	17,756	38,729
Total interest-earning assets	236,780	163,457	125,036
Interest-bearing liabilities:			
Passbook and Club accounts	--	--	--

NOW accounts	--	--	--
Consumer Money Market Deposit accounts	17,540	--	--
Business Money Market Deposit accounts	4,613	--	--
Certificate accounts	225,873	84,776	7,494
Borrowed money	78,319	34,927	75,363
Total interest-bearing liabilities	326,345	119,703	82,857
Repricing GAP during the period	$ (89,565)	$ 43,754	$ 42,179
Cumulative GAP	$ (89,565)	$ (45,811)	$ (3,632)
Ratio of GAP during the period to total assets	-11.58%	5.66%	5.45%
Ratio of cumulative GAP to total assets	-11.58%	-5.92%	-0.47%

Liquidity and Capital Resources

The Company's assets decreased to $773.5 million as of September 30, 2007, from $775.6 million as of September 30, 2006. Stockholders' equity decreased to $47.0 million as of September 30, 2007, from $48.5 million as of September 30, 2006. As of September 30, 2007, stockholders' equity amounted to 6.1% of the Bank's total assets under accounting principles generally accepted in the United States of America ("GAAP"). For a financial institution, liquidity is a measure of the ability to fund customers' needs for loans, deposit withdrawals and repayment of borrowings. Harleysville Savings regularly evaluates economic conditions in order to maintain a strong liquidity position. One of the most significant factors considered by management when evaluating liquidity requirements is the stability of the Company's core deposit base. In addition to cash, the Company maintains a portfolio of cash flows generating investments to meet its liquidity requirements. The Company also relies upon cash flow from operations and other financing activities, generally short-term and long-term debt. Liquidity is also provided by investing activities including the repayment and maturity of loans and investment securities as well as the management of asset sales when considered necessary. The Company also has access to and sufficient assets to secure lines of credit and other borrowings in amounts adequate to fund any unexpected cash requirements.

As of September 30, 2007, the Company had a remaining borrowing capacity with the Federal Home Loan Bank of Pittsburgh of approximately $266.9 million. To the extent that the Company cannot meet its liquidity needs with normal cash flows and deposit growth, the Company will be able to utilize the available borrowing capacity provided by the Federal Home Loan Bank of Pittsburgh to fund asset growth and loan commitments. At September 30, 2007 the Company had exposures to limited recourse arrangements with respect to the Company's sale of whole loans. At September 30, 2007, the exposure, which represents a

portion of credit risk associated with the sold interests, amounted to $73,000. The exposure is for the life of the related loans and payable, on our proportional share, as losses are incurred.

Impact of Inflation and Changing Prices

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

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

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statement of financial condition of Harleysville Savings Financial Corporation and subsidiary ("the Company") as of September 30, 2007, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements for the years ended September 30, 2006 and 2005 were audited by other auditors whose report, dated December 8, 2006, expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harleysville Savings Financial Corporation and subsidiary as of September 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United

States of America.

/s/ Beard Miller Company LLP

Beard Miller Company LLP
Allentown, Pennsylvania
December 7, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statement of financial condition of Harleysville Savings Financial Corporation and Subsidiary (the "Company") as of September 30, 2006, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Harleysville Savings Financial Corporation and Subsidiary as of September 30, 2006, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, on October 1, 2005 the Company adopted the fair value method of accounting for stock based compensation.

/s/ Deloitte & Touche, LLP

Philadelphia, Pennsylvania
December 8, 2006

Consolidated Statements of Financial Condition

	September 30	
	2007	
Assets		
Cash and amounts due from depository institutions	$ 1,647,273	$ 1
Interest bearing deposits	6,669,666	8
Total cash and cash equivalents	8,316,939	10
Investment securities held to maturity (fair value - 2007, $109,306,000; 2006, $111,248,000)	108,693,247	111
Investment securities available-for-sale at fair value	1,909,949	8
Mortgage-backed securities held to maturity (fair value - 2007, $188,612,000; 2006, $213,913,000)	192,842,505	219
Mortgage-backed securities available-for-sale at fair value	817,524	
Loans receivable (net of allowance for loan losses - 2007, $1,933,000; 2006, $1,956,000)	419,052,750	385
Accrued interest receivable	4,046,947	3
Federal Home Loan Bank stock - at cost	14,140,100	15
Office properties and equipment, net	9,916,548	8
Prepaid expenses and other assets	13,807,507	13
TOTAL ASSETS	$ 773,544,016	$ 775
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 424,035,072	$ 429
Short-term borrowings	31,500,000	58
Long-term debt	267,108,628	236
Accrued interest payable	1,556,225	1
Advances from borrowers for taxes and insurance	1,247,399	1
Accounts payable and accrued expenses	1,055,789	
Total liabilities	726,503,113	727
Commitments and contingencies (Note 16 & 17)		
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 3,921,177 shares	39,212	
Additional Paid-in capital	8,043,698	7
Treasury stock, at cost (2007, 203,658 shares; 2006, 71,441 shares)	(3,316,127)	(1
Retained earnings - partially restricted	42,363,307	41
Accumulated other comprehensive loss	(89,187)	
Total stockholders' equity	47,040,903	48
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 773,544,016	$ 775

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year Ended September 30,		
	2007	2006	
Interest Income:			
Interest and fees on mortgage loans	$ 17,269,866	$ 16,092,641	$ 1
Interest on mortgage-backed securities	9,338,744	10,801,029	1
Interest on consumer and other loans	6,708,965	5,683,386	
Interest on taxable investments	5,411,431	5,066,939	
Interest on tax-exempt investments	1,497,002	1,408,484	
Dividends on investment securities	62,689	38,085	
Total interest and dividend income	40,288,697	39,090,564	3
Interest Expense:			
Interest on deposits	15,471,662	13,164,538	1
Interest on borrowings	13,333,917	13,201,226	1
Total interest expense	28,805,579	26,365,764	2
Net Interest Income	11,483,118	12,724,800	1
Provision (Credit) for Loan Losses	--	--	
Net Interest Income, after Provision (Credit) for Loan Losses	11,483,118	12,724,800	1
Other Income:			
Customer service fees	563,671	368,559	
Gain on sales of loans	--	--	
Realized gains on investments and mortgage-backed securities	159,888	26,920	
Income on bank-owned life insurance	475,000	436,000	
Other income	691,405	468,905	
Total other income	1,889,964	1,300,384	
Other Expenses:			
Salaries and employee benefits	4,981,910	4,617,167	
Occupancy and equipment	1,121,902	967,990	
Deposit insurance premiums	51,908	54,656	
Data processing	578,934	589,558	
Other	2,481,485	2,339,098	

Total other expenses	9,216,139	8,568,469	
Income before Income Taxes	4,156,943	5,456,715	
Provision for income taxes	911,000	1,255,177	
Net Income	$ 3,245,943	$ 4,201,538	$
Earnings Per Share:			
Basic	$ 0.85	$ 1.09	$
Diluted	$ 0.83	$ 1.08	$
Weighted Average Shares Outstanding:			
Basic	3,834,518	3,872,655	
Diluted	3,896,317	3,903,291	

See notes to consolidated financial statements.

43

Consolidated Statements of Comprehensive Income

	Year En	
	2007	
Net Income	$ 3,245,943	$
Other Comprehensive (Loss) Income		
Unrealized loss on securities net of tax (benefit) or expense -- 2007, $(39,733); 2006, $(1,744); 2005, $(25,930)	(77,127)(1)	
Total Comprehensive Income	$ 3,168,816	$

(1) Disclosure of reclassification amount, net of tax for the years ended:	2007	
Net unrealized gain (loss) arising during the year	$ (77,127)	$
Less: Reclassification adjustment for net gains included in net income Net of tax expense -- 2007,$0; 2006,$9,153; 2005,$33,288	--	
Net unrealized loss on securities	$ (77,127)	$

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accu O Compr Inco
Balance at September 30, 2004	2,316,500	$ 23,165	$ 7,426,853	$37,244,200	$
Net Income				5,003,720	
Issuance of Common Stock	15,876	436	459,995		
Stock split	1,571,760	15,440	(15,440)		
Dividends - $.58 per share				(2,252,336)	
Treasury stock purchased (17,000 shares)					
Treasury stock delivered under employee stock plans (21,162 shares)			(272,586)		
Treasury stock delivered under Dividend Reinvestment Plan (4,366 shares)			11,689		
Change in unrealized holding gain on available-for-sale securities, net of tax					(
Balance at September 30, 2005	3,904,136	39,041	7,610,511	39,995,584	
Net Income				4,201,538	
Issuance of Common Stock	17,041	171	300,428		
Dividends - $.64 per share				(2,482,506)	
Option Compensation			109,025		
Treasury stock purchased (95,880 shares)					
Treasury stock delivered under employee stock plans (11,121 shares)			(26,694)		
Treasury stock delivered under Dividend Reinvestment Plan (16,572 shares)			(1,256)		
Change in unrealized holding loss on available-for-sale securities, net of tax					
Balance at September 30, 2006	3,921,177	$ 39,212	$ 7,992,014	$41,714,616	$ (
Net Income				3,245,943	
Dividends - $.68 per share				(2,597,252)	
Option Compensation			96,650		
Treasury stock purchased (169,496 shares)					
Treasury stock delivered under employee stock plans (3,751 shares)			(16,001)		
Treasury stock delivered under Dividend Reinvestment Plan (33,528 shares)			(28,965)		
Change in unrealized holding loss on available-for-sale securities, net of tax					(

Balance at September 30, 2007	3,921,177	$ 39,212	$ 8,043,698	$42,363,307	$ (
	=========	========	===========	===========	===

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended Septe	
	2007	2006
Operating Activities:		
Net Income	$ 3,245,943	$ 4,201,
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	510,980	466,
Deferred income taxes	55,777	10,
Realized gain on sales of loans	--	
Net realized gain on investment and mortgage-backed securities	(159,888)	(18,
Realized loss on disposal of fixed assets	--	3,
Origination of loans held for sale	--	
Proceeds from the sale of loans held for sale	--	
Amortization of deferred loan fees	(19,235)	(52,
Net amortization of premiums and discounts	205,960	309,
Purchase of bank owned life insurance	--	
Increase in cash surrender value	(475,000)	(436,
Compensation charge on stock options	96,650	109,
Changes in assets and liabilities which provided (used) cash:		
Increase in accounts payable and accrued expenses	344,775	38,
(Increase) decrease in prepaid expenses and other assets	(227,435)	(145,
Increase in accrued interest receivable	(77,337)	(537,
Increase in accrued interest payable	150,064	47,
Net cash provided by operating activities	3,651,254	3,996,
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	(20,939,437)	(2,011,
Purchase of investment securities held to maturity	(19,917,941)	(28,748,
Purchase of investment securities available-for-sale	(466,003)	(5,578,
Proceeds from (purchase) of FHLB stock	1,358,500	537,
Proceeds from the sale of investment securities available-for-sale	--	327,
Proceeds from maturities of investment securities	28,987,189	4,595,
Principal collected on long-term loans & mortgage-backed securities	135,795,508	134,713,
Long-term loans originated or acquired	(121,934,589)	(107,316,
Purchases of premises and equipment	(2,413,560)	(2,653,
Net cash provided by (used in) investing activities	469,667	(6,134,

Financing Activities:		
Net (decrease) increase in demand deposits, NOW accounts and savings accounts	(2,923,840)	(8,608,
Net (decrease) increase in certificates of deposit	(2,295,135)	18,882,
Cash dividends	(2,597,252)	(2,482,
Net increase (decrease) in short-term borrowings	(26,700,000)	37,200,
Proceeds from long-term debt	63,000,000	10,000,
Repayment of long-term debt	(32,302,534)	(49,857,
Purchase of treasury stock	(2,693,853)	(1,681,
Treasury stock delivered under Dividend Reinvestment and employee stock plans	595,172	451,
Net proceeds from issuance of stock	--	300,
Net increase in advances from borrowers for taxes and insurance	63,310	48,
Net cash (used in) provided by financing activities	(5,854,132)	4,253,
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,733,211)	2,115,
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,050,150	7,934,
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,316,939	$ 10,050,
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	$ 28,655,515	$ 26,318,
Income Tax	665,290	1,378,

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

On February 25, 2000, Harleysville Savings Bank (the "Bank") completed its Agreement and Plan of Reorganization ("Agreement") pursuant to which the Bank was reorganized into a holding company form of ownership. The Agreement was subject to approval by the Pennsylvania Department of Banking, the Board of Governors of the Federal Reserve System and approved by the stockholders of the Bank. Harleysville Savings Financial Corporation (the "Company") was incorporated under the laws of the Commonwealth of Pennsylvania. It was formed for the purpose of becoming the bank holding company of the Bank through the issuance and exchange of its stock pursuant to the Agreement and the concurrent acquisition of 100% of the common stock of the Bank. In connection with the Reorganization, each share of the Bank's common stock, ("Bank Common Stock"), was converted into one share of the Company's common stock, ("Company Common Stock"). The result of the Reorganization of the Bank was that the Company became the owner of all of the outstanding shares of Bank Common Stock and each stockholder of the Bank became the owner of one share of the Company Common Stock for each share of bank Common Stock held by him or her immediately prior thereto.

The Company is a bank holding company that is regulated by the Federal Reserve

Bank of Philadelphia. The Bank is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential and consumer loans. The Bank's customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiary, HSB Inc a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions LLC that allows the Company to offer non deposit products and HARL, LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Significant Group Concentrations of Credit Risk - Most of the Company's activities are with customers located within the southeastern region of Pennsylvania. Notes 3, 4, 5 and 6 discuss types of securities that the Company invests in. Note 7 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks.

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

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

47

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

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

For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security's fair value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security until its fair value has recovered to a level at least equal to the amortized cost. When the Company determines that a security's unrealized loss is other-than-temporary, a realized loss is recognized in the period in which the decline in value is determined to be other-than-temporary. The write-downs are measured based on public market prices of the security at the time the Company determines the decline in value was other-than-temporary.

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

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

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

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

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

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that

management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, status of nonperforming loans, general economic conditions as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio.

The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned to each category based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio.

The general allowance for loans that are not classified is established 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 non-classified loans by loan category and assigning allowance percentages to each category. The allowance percentages have been derived using percentages commonly applied under the regulatory framework for the Company and similarly sized institutions. The percentages are adjusted for significant factors that, in management's judgment, could affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, loss experience in particular segments of the portfolio, duration of the current business cycle, and bank regulatory examination results. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

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

Large groups of smaller balances homogenous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Foreclosed Real Estate - Real estate acquired through, or in lieu of, loan foreclosures are carried at the fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense.

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

FHLB Stock - The Company reports its investment in Federal Home Loan Bank (FHLB) stock at cost in the consolidated statements of financial condition. Federal law requires a member of the FHLB to hold stock according to a predetermined formula.

Cash Surrender Value Of Bank Owned Life Insurance (BOLI) - The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the consolidated statements of income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the consolidated statements of financial condition.

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

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -The Company accounts for transfers and servicing of financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (a replacement of FASB Statement No. 125). This Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125 provisions without reconsideration.

The Statement requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred, derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. It requires that servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the asset sold, if any, and retained interest, if any, based on their relative fair values at the date of transfer. It also provides implementation guidance for servicing of financial assets, securitizations, loan syndications and participations and transfers of loan receivables with recourse.

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

Accounting for Stock Options - The Company currently has several stock option plans in place for employees and directors of the Company. 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

50

compensation expense for the fair value of stock options that were granted or vest after that date. Stock-based compensation expense related to stock options for the years ended September 30, 2007 and 2006 was $96,650 and $109,025, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2007 and 2006 was $4,541 and $3,406, respectively.

Prior to October 1, 2005, the Company accounted for it's stock option plans, under the recognition and measurement provision of APB Opinion No 25, "Accounting for Stock Issued to Employees," and the related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation". No stock-based employee compensation cost was recognized in the Company's consolidated statements of income through September 30, 2005, as all options granted under the Company's plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation for the year ended September 30, 2005:

	Year Ended September 30, 2005
Net income: as reported	$ 5,003,720
Add: Total stock-based employee compensation expense included in reported net income (net of tax)	--
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(42,594)
Pro forma net income	$ 4,961,126
Earnings per share:	
Basic-as reported	$ 1.29
Basic-pro forma	$ 1.28
Diluted-as reported	$ 1.27
Diluted-pro forma	$ 1.26

The fair value of options granted in the years ended September 30, 2007, 2006 and 2005 were estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions:

	Year Ended September 30, 2007	2006	2005
Risk free interest rate of return	4.77%	4.36%	1%
Expected option life	84 months	84 months	84 months
Expected volatility	17%	17%	10%
Expected dividends	3.9%	3.0%	3.0%

51

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

Stock Split - On January 26, 2005, the Board of Directors declared a cash dividend of $.25 ($.15 post split) per share and a five for three stock split payable on February 23, 2005 to the stockholders of record at the close of business on February 9, 2005. The number of shares and per share information has been restated to reflect the five for three stock split. The shares of Harleysville Savings Financial Corporation traded on February 24, 2005 on a post split basis.

Earnings Per Share - Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by the number of common shares that are assumed to have been purchased with the proceeds from the exercise of stock options (treasury stock method). These purchases were assumed to have been made at the average market price of the common stock. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30, 2007	2006	2005
Weighted average shares outstanding - basic	3,834,518	3,872,655	3,871,255
Increase in shares due to dilutive options	61,799	30,636	69,446
Weighted average shares outstanding - diluted	3,896,317	3,903,291	3,940,701

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

Interest Rate Risk - The Company is engaged principally in providing first mortgage loans to individuals and commercial enterprises. At September 30, 2007, the Company's assets that earned interest at fixed and variable interest rates were funded primarily with long-term liabilities that have interest rates that are fixed. The Company is vulnerable to a decrease in interest rates to the extent that interest-earning assets mature or reprice more rapidly than interest-bearing liabilities. In the current market, the Company primarily originates long-term fixed rate loans secured by single-

52

family residences and purchases short-term investments. The source of these funds has been long-term advances.

Recent Accounting Pronouncements - In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an

Interpretation of SFAS Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must presume the tax position will be examined by the relevant tax authority and determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years begining after December 15, 2006. The cumulative effect of applying the provisions of FIN 48 represents a change in accounting principle and shall be reported as an adjustment to the opening balance of retained earnings. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Company is currently evaluating the impact of adopting FIN 48 and FIN-48-1 on its Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for certain financial instruments which require retrospective application as of the beginning of the fiscal year of initial application (a limited form of retrospective application). The transition adjustment, measured as the difference between the carrying amounts and the fair values of those financial instruments at the date SFAS No. 157 is initially applied, should be recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the impact of adopting SFAS No. 157 on its Consolidated Financial Statements and whether to adopt its provisions prior to the required effective date.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 108. This release expresses the staff's views regarding the process of quantifying financial statement misstatements and addresses diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company has reviewed the SAB in connection with our consolidated financial statements for the current and prior periods, and has determined that its adoption did not have an impact on any of these financial statements.

In September 2006, the Emerging Issues Task Force (EITF) of FASB issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" (EITF 06-04). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The disclosures are required in fiscal years beginning after December 15, 2007, with early adoption permitted. The Company is continuing to evaluate the impact of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for our Company October 1, 2008. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons". The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company does not expect it to have a material impact on the Company's consolidated financial statements.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements: (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

Reclassification - Certain items in the 2006 and 2005 financial statements have been reclassified to conform with the presentation in the 2007 consolidated financial statements.

3. INVESTMENT SECURITIES HELD TO MATURITY

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

	September 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
U.S. Government Agencies				
Due after 1 year through 5 years	$ 5,000,000		$ (26,880)	$ 4,9
Due after 5 years through 10 years	20,918,747	$ 37,242	(114,168)	20,8
Due after 10 years through 15 years	48,421,750	87,118	(341,677)	48,1
Due after 15 years	8,814,462	87,194	(49,905)	8,8
Tax Exempt Obligations				
Due after 10 years through 15 years	15,853,732	717,040	--	16,5
Due after 15 years	9,684,556	383,866	(167,588)	9,9
Total Investment Securities	$108,693,247	$ 1,312,460	$ (700,218)	$109,3

A summary of investments with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Valu
US Government agencies	$ 4,446,141	$ (26,541)	$ 56,849,408	$ (506,089)	$ 61,295,5
Tax Exempt Obligations	2,848,983	(167,588)	--	--	
Total	$ 7,295,124	$ (194,129)	$ 56,849,408	$ (506,089)	$ 61,295,5

At September 30, 2007, investment securities in a gross unrealized loss position for twelve months or longer consisted of 23 US Government Agency securities and state and municipal securities that at such date had an aggregate depreciation of 0.9% 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 issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of September 30, 2007 represents an other-than-temporary impairment.

	September 30, 2006 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Appro Fair
U.S. Government Agencies				
Due after 1 year through 5 years	$ 12,000,000		$ (146,000)	$ 11,8
Due after 5 years through 10 years	21,878,790	$ 24,290	(386,080)	21,5
Due after 10 years through 15 years	46,237,147	45,273	(769,420)	45,5
Due after 15 years	6,386,754		(97,754)	6,2
Tax Exempt Obligations				
Due after 10 years through 15 years	17,981,750	997,250	--	18,9
Due after 15 years	6,614,241	481,759	--	7,0
Total Investment Securities	$111,098,682	$ 1,548,572	$ (1,399,254)	$111,2

A summary of investments with unrealized losses, aggregated by category, at September 30, 2006 is as follows:

	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Longer Fair Value	12 Months or Longer Unrealized Losses	Total Fair Valu
US Government agencies	$ 26,578,627	$ (216,285)	$ 50,655,619	$ (1,182,969)	$ 77,234,2
Total	$ 26,578,627	$ (216,285)	$ 50,655,619	$ (1,182,969)	$ 77,234,2

4. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

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

	September 30, 2007 Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equity Securities	$1,501,552	$ 5,810	$ (173,280)	$1,334,082
Money Market Mutual Funds	575,867	--	--	575,867
Total Investment Securities	$2,077,419	$ 5,810	$ (173,280)	$1,909,949

A summary of investments with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
Equity Securities	$ 792,970	$ (89,038)	$ 254,637	$ (84,242)	$ 1,047,607	
Total	$ 792,970	$ (89,038)	$ 254,637	$ (84,242)	$ 1,047,607	

As of September 30,2007 there has been one investment security in a loss position greater than twelve months. Management evaluated the length of time and the extent to which the market value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may effect the future earnings potential. The Company has the ability and intent to hold these securities until the anticipated recovery of fair value occurs. Management does not believe any individual unrealized loss as of September 30, 2007 represents an other-than-temporary impairment.

	September 30, 2006			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
Equity Securities	$ 1,050,664	$ 13,802	$ (67,143)	$ 997,323
Money Market Mutual Funds	7,110,436	--	--	7,110,436
Total Investment Securities	$ 8,161,100	$ 13,802	$ (67,143)	$ 8,107,759

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
Equity Securities	$ 582,873	$ (67,143)	$ --	$ --	$ 582,873	$
Total	$ 582,873	$ (67,143)	$ --	$ --	$ 582,873	$

There were no sales of investment securities available for sale for the year ended September 30, 2007. Proceeds from the sale of investment securities available for sale during the year ended September 30, 2006 were $327,000 resulting in a gross gain of $27,000 and an after tax gain of $18,000. Proceeds from the sale of investments available for sale during the year ended September 30, 2005 were $5,650,000 resulting in a gross gain of $98,000 and an after tax gain of $65,000.

5. MORTGAGE-BACKED SECURITIES HELD TO MATURITY

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

	September 30,2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 16,470,836	$ 96,904	$ (298,787)	$ 16,268,953
FHLMC pass-through certificates	89,532,845	164,145	(2,198,243)	$ 87,498,747
FNMA pass-through certificates	86,586,624	11,268	(2,007,620)	$ 84,590,272
GNMA pass-through certificates	252,200	2,298	--	$ 254,498
Total Mortgage-Backed Securities	$192,842,505	$ 274,615	$ (4,504,650)	$188,612,470

A summary of securities with unrealized losses, aggregated by category, at September 30, 2007 is as follows:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities held to maturity	$ 11,829,093	$ (94,682)	$162,007,873	$ (4,409,968)
Total	$ 11,829,093	$ (94,682)	$162,007,873	$ (4,409,968)

At September 30, 2007, mortgage-related securities in a gross unrealized loss position for twelve months or longer consisted of 88 securities that at such date had an aggregate depreciation of 2.7% 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

57

and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer. 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, 2007 represents another-than-temporary impairment.

Proceeds from the sales of mortgage-backed securities during the year ended September 30, 2007 were $10,281,000 resulting in a gross gain of $160,000 and an after tax gain of $106,000. The Company sold securities held to maturity in accordance with provisions of SFAS No. 115 allowing such securities to be sold if principal reductions on such securities were at least 85%.

	September 30,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Collateralized mortgage obligations	$ 15,088,964	$ 88,867	$ (319,831)	$ 14,858,000
FHLMC pass-through certificates	98,855,830	70,407	(2,793,237)	96,133,000
FNMA pass-through certificates	100,287,098	83,203	(2,825,301)	97,545,000
GNMA pass-through certificates	5,261,926	115,074	--	5,377,000
Total Mortgage-Backed Securities	$219,493,818	$ 357,551	$ (5,938,369)	$213,913,000

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

	Less than 12 Months		12 Months or Longer		To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair
Mortgage-backed securities held to maturity	$ 6,898,645	$ (68,773)	$191,950,265	$ (5,869,596)	$198,8
Total	$ 6,898,645	$ (68,773)	$191,950,265	$ (5,869,596)	$198,8

6. MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

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

	September 30,2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA pass-through certificates	$ 785,187	$ 32,337	$ --	$ 817,524
Total Mortgage-Backed Securities	$ 785,187	$ 32,337	$ --	$ 817,524

	September 30,2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

FNMA pass-through certificates	$ 785,187	$ 35,068	$ --	$ 820,255
Total Mortgage-Backed Securities	$ 785,187	$ 35,068	$ --	$ 820,255

58

7. LOANS RECEIVABLE

Loans receivable consists of the following:

	September 30, 2007	2006
Residential Mortgages	$ 305,340,840	$ 287,155,808
Commercial Mortgages	15,314,312	919,603
Construction	6,092,667	6,986,632
Savings Account	977,255	1,002,672
Home Equity	74,218,316	70,515,174
Home Equity Line of Credit	21,385,435	25,499,895
Automobile and other	903,921	811,963
Total	424,232,746	392,891,747
Undisbursed portion of loans in process	(2,794,545)	(4,941,266)
Deferred loan fees	(452,906)	(544,301)
Allowance for loan losses	(1,932,545)	(1,955,805)
Loans Receivable - net	$ 419,052,750	$ 385,450,375

The Company originates both adjustable and fixed interest rate loans and purchases both adjustable and fixed interest rate mortgage-backed securities. At September 30, 2007, the maturity of these loans and mortgage-backed securities, in thousands, is as follows (in thousands):

Fixed-Rate Term to Maturity	Book Value	Adjustable-Rate Term to Maturity	Book Value
1 year or less	$ 25,728	1 year or less	$ 8,451
1-3 years	29,760	1-3 years	2,534
3-5 years	20,650	3-5 years	3,494
5-15 years	235,152		
over 15 years	292,124		
	$ 603,414		$ 14,479

The adjustable rate loans have interest rate adjustment limitations and are generally indexed to the 1-year U.S. Treasury Securities rate. Future market factors may affect the correlation of the interest rate adjustment with the rates the Company pays on the short-term deposits that have been primarily utilized to fund these loans.

At September 30, 2007 and 2006, the Company was servicing loans for others amounting to approximately $3,642,000 and $3,928,000 respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. In connection with the loans serviced for others, the Company held borrowers' escrow balances of approximately $18,300, and $21,000, at September 30, 2007 and 2006, respectively.

Loans to officers and directors at September 30, 2007 and 2006, were approximately $582,000 and $648,000, respectively. Additional loans and repayments for the year ended September 30, 2007, were $74,000 and $140,000, respectively.

59

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

	Year Ended September 30, 2007	2006	2005
Balance, beginning of year	$ 1,955,805	$ 1,967,607	$ 1,976,849
Recoveries	12,824	8,524	83,707
Charged off	(36,084)	(20,326)	(92,949)
Balance, end of year	$ 1,932,545	$ 1,955,805	$ 1,967,607

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

The provision for loan losses charged to expense is based upon past loss experiences and an evaluation of potential losses in the current loan portfolio, including the evaluation of impaired loans under SFAS No. 114. A loan is considered to be impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. An insignificant delay or insignificant shortfall in amount of payments does not necessarily result in the loan being identified as impaired. For this purpose, delays less than 90 days are considered to be insignificant. As of September 30, 2007, 100% of the impaired loan balance was measured for impairment based on the fair value of the loans' collateral. Impairment losses are included in the provision for loan losses. SFAS No. 114 does not apply to large groups of smaller balance homogeneous loans that are collectively evaluated for impairment, except for those loans restructured under a troubled debt restructuring. Loans collectively evaluated for impairment include consumer loans and residential real estate loans. At September 30, 2007 and 2006, the Company's impaired loans consisted of smaller balance residential mortgage loans collectively evaluated for impairment. Non-performing loans (which include loans in excess of 90 days delinquent) at September 30, 2007 and 2006, amounted to approximately $28,000 and $18,000, respectively. The non-performing loans are still accruing interest. The loans were collectively evaluated for impairment.

8. OFFICE PROPERTIES AND EQUIPMENT

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

	September 30, 2007	2006

Land	$ 1,159,031	$ 1,159,031
Buildings	7,548,837	7,543,587
Branch office in construction	2,192,847	--
Furniture, fixtures and equipment	3,903,790	3,694,898
Automobiles	24,896	24,896
Total	14,829,401	12,422,412
Less accumulated depreciation	(4,912,853)	(4,408,443)
Net	$ 9,916,548	$ 8,013,969

Depreciation expense for the years ended September 30, 2007, 2006, and 2005 amounted to approximately $511,000, $466,000, and $436,000, respectively.

9. DEPOSITS

Deposits are summarized as follows:

	September 30, 2007		2006	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
NOW accounts	$ 13,710,669	0.25%	$ 15,719,531	0.25%
Non-interest Checking accounts	11,740,589	0.00%	10,338,951	0.00%
Interest Checking accounts	25,750,545	2.41%	20,410,198	2.46%
Money Market Deposit accounts	51,826,626	1.80%	58,989,416	1.58%
Passbook and Club accounts	2,863,725	0.98%	3,325,151	0.96%
Certificate accounts	318,142,918	4.50%	320,470,800	4.01%
Total Deposits	$424,035,072	3.76%	$429,254,047	3.34%

At September 30, 2007, the amounts of scheduled maturities of certificate accounts were as follows:

For the year ended September 30:	2008	225,708,981
	2009	77,911,934
	2010	7,029,133
	2011	4,543,301
	2012	2,949,569
Total		$318,142,918

The aggregate amount of certificate accounts in denominations of $100,000 or more at September 30, 2007 and 2006 amounted to approximately $53.6 million and

$47.6 million, respectively. Deposits in excess of $100,000 are not generally federally insured.

Interest expense on savings deposits is composed of the following:

	Year Ended September 30, 2007	2006	2005
NOW accounts and MMDA accounts	$ 2,557,964	$ 1,371,109	$ 1,245,110
Passbook and Club accounts	31,414	27,867	26,325
Certificate accounts	12,882,284	11,765,562	9,065,269
Total	$ 15,471,662	$ 13,164,538	$ 10,336,704

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Company has a line of credit with the Federal Home Loan Bank of which $31.5 million and $58.2 million of the available $75.0 million was used at September 30, 2007 and 2006, respectively. The average balance outstanding on the line of credit for the years ended September 30, 2007 and 2006 was $48.2 million and $29.3 million, respectively. The maximum amount outstanding at any time for 2007 and 2006 was $67.4 million and $59.4 million, respectively. The weighted average interest rate during 2007 and 2006 was 5.36% and and 4.89%.

Long-term debt consist of the following:

	Amount		Weighted Average Rate	
	2007	2006	2007	2006
	(dollars in thousands)			
FHLB long-term debt:				
Fixed rate advances maturing:				
2008	$ 37,727	$ 21,292	5.00%	3.79%
2009	20,043	46,949	4.37%	4.79%
2010	17,410	25,851	4.50%	4.07%
2011	23,595	8,375	4.99%	3.96%
2012	58,334	39,418	4.48%	5.38%
2013	5,000	59,526	3.80%	4.47%
2014	5,000	5,000	3.54%	3.80%
Maturing after 9/30/2014:	60,000	30,000	4.42%	4.10%
Total FHLB long-term debt	$227,109	$236,411	4.56%	4.16%
Other long-term debt:				
Fixed rate advances maturing:				
2013	$ 15,000	$ --	4.90%	--
2014	15,000	--	4.50%	--
Total other long term debt fixed	$ 30,000	$ --	4.70%	
Adjustable long-term debt maturing:				

2017	$ 10,000	$ --	4.97%	--
Total other long term debt adjustable	$ 10,000	$ --	4.97%	
Total other long term debt	$ 40,000	$ --	4.77%	--
Total Long Term Debt	$267,109	$236,411	4.59%	4.16%

Federal Home Loan Bank (FHLB) advances are collateralized by Federal Home Loan Bank stock and substantially all first mortgage loans. In addition, there are three long-term advances from other financial institutions that are secured by investment and mortgage-backed securities totaling $40 million.

11. INCOME TAXES

The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million.

Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2007 and 2006 includes approximately $1,325,000 representing bad debt deductions for which no deferred income taxes have been provided.

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

	Year Ended September 30,				
	2007		2006		
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income	Amo
At statutory rate	$ 1,413,361	34.0%	$ 1,855,280	34.0%	$ 2,2
Adjustments resulting from:					
Tax-exempt income	(557,602)	(13.4)	(592,375)	(10.9)	(5
State tax-net of federal tax benefit	--	--	--	--	
Other	55,241	1.3	(7,728)	(0.1)	(
Expense per consolidated statements of income	$ 911,000	21.9%	$ 1,255,177	23.0%	$ 1,6

Income tax expense is summarized as follows:

	Year Ended September 30,		
	2007	2006	2005
Current	$ 855,223	$1,244,214	$1,624,759

Deferred	55,777	10,963	67,768
Total Income Tax Expense	$ 911,000	$1,255,177	$1,692,527

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

	September 30, 2007	2006
Deferred Tax Assets:		
Deferred Loan Fees	$ 55,064	$ 73,722
Allowance for Loan Losses	657,065	664,974
Unrealized loss on investment securities	45,945	6,212
Other	26,714	39,564
Sub-Total	784,788	784,472
Deferred Tax Liabilities:		
Property	(450,282)	(433,922)
Sub-Total	(450,282)	(433,922)
Total	$ 334,506	$ 350,550

Income taxes paid were approximately $665,000, $1,378,000, and $1,528,000 for the years ended September 30, 2007, 2006, and 2005, respectively.

12. REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal Banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for

prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to assets (as defined). Management believes, as of September 30, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		For Capital Adequacy Purposes		To B Ca Pr Ac
	Amount	Ratio	Amount	Ratio	
As of September 30, 2007					
Tier 1 Capital (to assets)	$46,796,989	6.02%	$31,020,640	4.00%	$38
Tier 1 Capital (to risk weighted assets)	46,796,989	12.12%	15,442,800	4.00%	23
Total Capital (to risk weighted assets)	48,729,123	12.62%	30,885,600	8.00%	38
As of September 30, 2006					
Tier 1 Capital (to assets)	$48,182,567	6.24%	$30,868,800	4.00%	$38
Tier 1 Capital (to risk weighted assets)	48,182,567	13.02%	14,800,960	4.00%	22
Total Capital (to risk weighted assets)	50,138,888	13.55%	29,601,920	8.00%	37

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

13. RETIREMENT SAVINGS PLANS

The Company has an employee stock ownership pension plan and a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for both plans are at the discretion of the Company's Board of Directors. Contributions expense related to the plans was $277,946, $254,989 and $260,528 for the years ended September 30, 2007, 2006, and 2005, respectively.

14. STOCK OPTIONS

In 1987, the Company established a stock compensation program for executive officers and other selected full-time employees and directors of the Company. The 1987 program consists of four plans that are available for grant: Plan I - incentive stock options; Plan II - compensatory stock options; Plan III - stock appreciation rights; and Plan IV - performance share awards.

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

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

In January 2006, the stockholders approved the 2005 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options. There are 219,642 options remaining for grant in this plan.

A summary of transactions under this plan follows:

	Year Ended September 30, 2007 Options	2007 Weighted Average Price	2006 Options	2006 Weighted Average Price
Outstanding, beginning of year	243,100	$ 15.01	169,032	$ 13.23
Exercised	(3,751)	10.10	(10,704)	8.93
Canceled	(8,750)	14.35	(2,078)	12.16
Granted	49,200	17.68	86,850	17.68
Outstanding, end of year	279,799	$ 15.54	243,100	$ 15.01
Options exercisable, end of year	145,599	$ 13.86	130,400	$ 13.32

A summary of the exercise price range at September 30, 2007 is as follows:

Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
60,350	$8.10 - 12.80	2.89 years	$ 9.77
102,400	$13.13 - 17.50	7.21 years	16.42
117,049	$17.68 - 18.00	8.43 years	17.81
279,799	$8.10 - 18.00	6.79 years	$ 15.54

For the years ended September 30, 2007 and 2006, the aggregate intrinsic value of options outstanding was $251,000 and $984,000, respectively. For the years ended September 30, 2007 and 2006, the aggregate intrinsic value of options exercisable was $242,000 and $425,000, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2007. This amount changes based on changes in the market value of the Company's stock.

Stock Based Compensation Expense. As stated in Note 1 - Significant Accounting Policies, the Company adopted the provisions of SFAS 123R on October 1, 2005. SFAS 123R requires that stock-based compensation to employees be recognized as compensation cost in the consolidated statements of income based on their fair values on the measurement date, which, for the Company, is the date of grant. Included in the results for the years ended September 30, 2007 and 2006 were compensation costs relating to the adoption of Statement No. 123R of approximately $97,000, or $64,000 net of tax and $109,000, or $72,000, net of tax, respectively. As of September 30, 2007, there was approximately $224,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

The Company also has established an Employee Stock Purchase Plan (the "Purchase Plan") whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% nor more than 10% of such employee's total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company's Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. During 2007, 2006 and 2005, 0, 0 and 3,729 shares were issued to employees, respectively. At September 30, 2007 and 2006, there were 31,081 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

15. COMMITMENTS

At September 30, 2007, the Company had approximately $8.9 million in outstanding commitments to originate mortgage loans, of which $7.7 million were at fixed rates ranging from 5.88% to 7.75% and adjustable rates of $1.2 million at 6.25%. The unfunded line of credit commitments at September 30, 2007 were $41.0 million. The Company had $1.3 million and $7.2 million of committed commercial and consumer loans, respectively at September 30, 2007. In addition, the Company had $2.1 million of unused commercial lines of credit. The amounts of undisbursed portions of loans in process at September 30, 2007 were $2.9 million. The Company had a total of $292,000 in standby letters of credit. Also, at September 30, 2007 the Company had no outstanding futures or options positions.

The Company leases land for two of its branch offices. Minimum rental commitments for the next five years at September 30, 2007, are summarized below:

	Fiscal Year	Rental Amount
	2008	98,407
	2009	104,332
	2010	106,978
	2011	108,300
	2012	113,168
Total		$531,185

16. LEGAL CONTINGENCIES

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

17. CONVERSION TO A STOCK SAVINGS BANK

At the time of conversion, in 1987, the Bank established a liquidation account in an amount equal to the Bank's net worth as reflected in the latest consolidated statement of financial condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder's proportionate amount of the total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately $2,300,000 at September 30, 2007. Furthermore, the Company may not repurchase any of its stock if the effect thereof would cause the Company's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

18. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret the market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The

use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	Septem	
	2007	
	Carrying Amount	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 8,316,939	$ 8,316,939
Investment securities held to maturity	108,693,247	109,305,489
Investment securities available-for-sale at fair value	1,909,949	1,909,949
Mortgage-backed securities held to maturity	192,842,505	188,612,469
Mortgage-backed securities available-for-sale at fair value	817,524	817,524
Loans receivable - net	419,052,750	411,520,696
Federal Home Loan Bank Stock	14,140,100	14,140,100
Accrued interest receivable	4,046,947	4,046,947
Liabilities:		
Passbook, Club and NOW accounts	54,065,528	54,065,528
Money Market Demand accounts	51,826,626	51,826,626
Certificate accounts	318,142,918	315,847,783
Borrowings	298,608,628	300,032,013
Accrued interest payable	1,556,225	1,556,225
Off balance sheet financial instruments	--	--

The carrying amounts of cash and short-term instruments approximate fair values. The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. The fair value of investment securities and mortgage-backed securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Although Federal Home Loan Bank Stock (FHLB) is an equity interest in FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount. The fair value of accrued interest receivable and payable is the carrying amount.

The fair value of NOW and money market deposits and savings accounts is the amount reported in the consolidated financial statements. The fair value of savings certificates and borrowings are based on a present value estimate using rates currently offered for instruments of similar remaining maturity. Fair values for off-balance sheet lending commitments are based on fees currently charged to enter similar agreements.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

19. PARENT COMPANY CONDENSED FINANCIAL INFORMATION

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

Condensed Statements of Financial Condition	September 30, 2007	September 30, 2006
Assets		
Cash	$ 194,960	$ 183,080
Investment in subsidiary	47,311,645	48,662,388
Total Assets	$ 47,506,605	$ 48,845,468
Liabilities & Stockholders' Equity		
Other Liabilities	$ 465,702	$ 374,098
Stockholders' equity	47,040,903	48,471,370
Total Liabilities & Stockholders' Equity	$ 47,506,605	$ 48,845,468

Condensed Statements of Income

Income:	For the Year Ended September 30 2007	2006	2
Equity in income of subsidiary	$ 3,679,733	$ 4,594,634	$ 5,3

Other expense	433,790	393,096	3
Net income	$ 3,245,943	$ 4,201,538	$ 5,0

Condensed Statements of Cash Flows Income:	For the Year Ended September 30, 2007	2006	2
Net income	$ 3,245,943	$ 4,201,538	$ 5,0
Increase in other liabilities	91,604	326,922	
Income of Harleysville Savings Bank	(3,679,733)	(4,594,634)	(5,3
Net cash used by operating activities	(342,186)	(66,174)	(3
Investing activities:			
Dividends received from subsidiary	5,050,000	3,641,975	1,9
Net cash provided by investing activities	5,050,000	3,641,975	1,9
Financing activities:			
Acquisition of treasury stock	(2,693,853)	(1,681,657)	(3
Use of treasury stock	595,171	451,402	4
Proceeds from issuance of common stock	--	300,599	4
Dividends paid	(2,597,252)	(2,482,506)	(2,2
Net cash used in financing activities	(4,695,934)	(3,412,162)	(1,6
Net increase (decrease) in cash and cash equivalents	11,880	163,639	(1
Cash and cash equivalents at the beginning of the period	183,080	19,441	1
Cash and cash equivalents at the end of the period	$ 194,960	$ 183,080	$

68

20. Quarterly Financial Data (Unaudited)

Unaudited quarterly financial data for the years ended September 30, 2007 and 2006 is as follows: (in thousands, except per share data)

	2007				200	
	1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR

Interest Income	$ 9,840	$ 9,899	$10,115	$10,442	$ 9,463	$ 9,635
Interest Expense	7,015	6,957	7,249	7,572	6,422	6,371
Net Interest Income	2,825	2,942	2,866	2,870	3,041	3,264
Provision for loan losses	--	--	--	--	--	--
Net interest income after provision for loan losses	2,825	2,942	2,866	2,870	3,041	3,264
Non-interest income	373	546	475	477	329	282
Non-interest expense	2,260	2,315	2,316	2,326	1,973	2,031
Income before income taxes	938	1,173	1,025	1,021	1,397	1,515
Income tax expense	181	269	212	250	316	354
Net income	$ 757	$ 904	$ 813	$ 771	$ 1,081	$ 1,161
Per Common Share:						
Earnings per share - basic	$ 0.20	$ 0.23	$ 0.21	$ 0.21	$ 0.28	$ 0.30
Earnings per share - diluted	$ 0.19	$ 0.23	$ 0.21	$ 0.21	$ 0.27	$ 0.29

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

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

Not Applicable.

Item 9A. Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2007. 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 fourth fiscal quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required herein is incorporated by reference from the information contained in the sections captioned "Information with Respect to Nominees for Director, Directors Whose Terms Continue and Executive Officers" and "Beneficial Ownership of Common Stock by Certain Beneficial Owners and Management - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the 2008 Annual Meeting of Stockholders to be held in January 2008 (the "Proxy Statement").

The Company has adopted a Code of Conduct and Ethics that applies to its principal executive officer and principal financial officer, as well as other officers and employees of the Company and the Bank. A copy of the Code of Ethics, was included as an exhibit to the Company's Form 10-K for the year ended September 30, 2003 and filed with the Securities and Exchange Commission, may also be found on the Company's website at www.harleysvillesavingsbank.com.

Item 11. Executive Compensation.

The information required herein is incorporated by reference from the information contained in the sections captioned "Management Compensation" and "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement.

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

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

Equity Compensation Plan Information

The following table sets forth certain information for all equity compensation plans and individual compensation arrangements (whether with employees or non-employees, such as directors), in effect as of September 30, 2007.

Plan Category	Number of Shares to be issued upon the Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options	Number of Share Available for Fut (Excluding Share in the First C
Equity compensation plans approved by security holders	279,799	$ 15.54	273
Equity compensation plans not approved by security holders	--	--	
Total	279,799	$ 15.54	273

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(1) Does not take into account purchase rights accruing under the Company's 1995 Employee Stock Purchase Plan, which was approved by stockholders and provides for up to 87,281 shares to be issued. Under the Employee Stock Purchase Plan, each eligible employee may purchase shares of common stock at semi-annual intervals each year at a purchase price determined by the committee of the board of directors which administers the plan, which shall not be less than the lesser of (i) 85% of the fair market value of a share of common stock on the first business day of the applicable semi-annual offering period or (ii) 85% of the fair market value of a share of common stock on the last business day of such offering period. In no event may the amount of common stock purchased by a participant in the Employee Stock Purchase Plan in a calendar year exceed $25,000, measured as of the time an option under the plan is granted.

(2) Includes shares available for future issuance under the Employee Stock Purchase Plan. As of September 30, 2007, an aggregate of 53,583 shares of common stock were available for issuance under this plan.

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

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

Item 14. Principal Accounting Fees and Services.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

Consolidated Statements of Financial Condition as of September 30, 2007 and 2006
Consolidated Statements of Income for the Years Ended September 30, 2007, 2006 and 2005
Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2007, 2006 and
2005
Consolidated Statements of Comprehensive Income for the Years Ended September 30, 2007, 2006 and 2005
Consolidated Statements of Cash Flows for the Years Ended September 30, 2007, 2006 and 2005 Notes to Consolidated Financial Statements

(2) All schedules are omitted because they are not required or

applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

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

No.	Description	Loc
3.1	Amended and Restated Articles of Incorporation	
3.2	Amended and Restated Bylaws	
4.0	Common Stock Certificate	
10.1	1995 Stock Option Plan*	
10.2	2000 Stock Option Plan*	
10.3	2005 Stock Option Plan*	
10.4	Profit Sharing Incentive Plan*	
10.5	Amended and Restated Employment Agreement between the Company, the Bank and Ronald B. Geib*	
22.0	Subsidiaries of the Registrant - Reference is made to "Item 1. Business - Subsidiaries" of this Form 10-K for the required information	
23.1	Consent of Beard Miller Company LLP	Filed
23.2	Consent of Deloitte & Touche LLP	Filed
31.1	Certification of Chief Executive Officer	Filed
31.2	Certification of Chief Financial Officer	Filed
32.0	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer	Filed
99.0	Code of Conduct and Ethics	

(Footnotes on following page)

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* Denotes management compensation plan or arrangement.

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

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

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

(4) Incorporated by reference to the Company's definitive proxy statement dated December 19, 2000 filed with the SEC.

(5) Incorporated by reference from the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders filed with the SEC on December 16, 2005.

(6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 1, 2006.

(b) Exhibits

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARLEYSVILLE SAVINGS
FINANCIAL CORPORATION

December 21, 2007 By: /s/ Ronald B. Geib

Ronald B. Geib
President and Chief Executive Officer

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

Name	Title	Date
/s/ Edward J. Molnar Edward J. Molnar	Chairman of the Board	December 21, 2007
/s/ Ronald B. Geib Ronald B. Geib	President and Chief Executive Officer (principal executive officer)	December 21, 2007
/s/ Brendan J. McGill Brendan J. McGill	Senior Vice President, Treasurer and Chief Financial Officer (principal financial and principal accounting officer)	December 21, 2007
/s/ Sanford L. Alderfer Sanford L. Alderfer	Director	December 21, 2007
/s/ Mark R. Cummins Mark R. Cummins	Director	December 21, 2007
/s/ David J. Friesen David J. Friesen	Director	December 21, 2007

Name	Title	Date
/s/ Charlotte A. Hunsberger Charlotte A. Hunsberger	Director	December 21, 2007
/s/ George W. Meschter George W. Meschter	Director	December 21, 2007
/s/ James L. Rittenhouse James L. Rittenhouse	Director	December 21, 2007
/s/ Philip A. Clemens Philip A. Clemens	Director	December 21, 2007