



Union Financial Corporation

**First Quarter Report
March 31, 2008**

To Our Shareholders and Friends:

I am honored to be reporting to you as the new President of Union Bank. This is a solid and dynamic organization with a strong tradition of service and financial stewardship to our communities.

During the first quarter of 2008, total deposits grew \$1.6 million to end at \$141.6 million. The growth in total deposits equates to \$4 million, or 2.9%, since March 2007. Loans decreased \$1.3 million during the quarter, but are up \$2 million from one year ago. The bank's overall net interest margin remains above that of our peer banks.

Commercial loans ended the quarter at \$122.5 million and represent 79% of our total loan portfolio. Agricultural loans account for \$43.3 million, while other commercial loans make up the remaining \$79.2 million. Real estate loans, at \$21.4 million, account for another 14% of the portfolio, and consumer loans, at \$10.4 million, the remaining 7%. The local agricultural industry remains strong, and is a very important part of the bank's makeup.

Net income continues to be impacted by economic conditions affecting our commercial customers and surrounding communities. Earnings per share equated to \$.06 for the quarter, compared to \$.19 for the first quarter of 2007.

The Hastings branch continues to grow as we near completion of the new office on State Street, scheduled to open in June. Total loans at this branch office increased \$2.4 million during the quarter to \$18.7 million, up an impressive \$9.9 million since March 2007.

Although the current economic conditions present certain challenges, the bank remains well capitalized and I am confident that we will weather this storm as we have all others in the bank's long history.

Sincerely,
Cortney Collison
President

**Union Financial Corporation
Officers**

Cortney Collison <i>President</i>	Jerry Collison <i>Vice President</i>
Suzanne Dahms <i>Secretary</i>	

Board of Directors

William Bulling	Lynn Fetterman
Cortney Collison	Christopher Fluke
Jerry Collison	Marvin Head
Lloyd Cunningham	Dean Hyde
Suzanne Dahms	Paul Trierweiler

Directors Emeriti

Henry Beland	LaVon Deatsman
Laverne Eldridge	

Union Bank Senior Staff

Jerry Collison <i>CEO</i>	Suzanne Dahms <i>Executive Vice President & COO</i>
Cortney Collison <i>President</i>	Christine Fortier <i>Vice President & CFO</i>
Richard Russo <i>Senior Vice President & Senior Lender</i>	

Officers

Dan Austin	Dan King
Sandra Boyer	Jean'Ne Swiatek
Jeff Chmielewski	Troy Thelen
Bill Cobb	Meg Wheeler
Edith Farrell	David White
Doug Flessner	Todd Willoughby

Union Financial Corporation
Consolidated Balance Sheets

March 31, 2008 & 2007

	2008	2007
ASSETS		
Cash & due from banks	\$ 4,553,551	\$ 4,153,766
Federal funds sold	<u>8,767,723</u>	<u>7,767,704</u>
Total cash and cash equivalents	13,321,274	11,921,470
Securities	9,225,478	11,673,757
Total loans	154,271,039	152,228,583
Less: Allowance for loan losses	<u>(3,029,072)</u>	<u>(1,628,841)</u>
Net loans	151,241,967	150,599,742
Premises and equipment	5,303,293	4,348,147
Accrued interest receivable	2,267,942	1,969,651
Other assets	<u>4,891,139</u>	<u>4,699,488</u>
Total assets	<u>\$186,251,093</u>	<u>\$185,212,255</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 16,653,041	\$ 16,494,493
Interest-bearing transaction accounts	43,928,185	37,948,611
Savings	14,303,901	15,422,750
Time	<u>66,696,770</u>	<u>67,709,118</u>
Total deposits	141,581,897	137,574,972
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	23,368,738	25,668,893
Accrued interest payable	460,631	388,017
Other liabilities	1,672,725	1,902,414
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
	172,083,991	170,534,296
Total shareholders' equity	<u>14,167,102</u>	<u>14,677,959</u>
Total liabilities and shareholders' equity	<u>\$186,251,093</u>	<u>\$185,212,255</u>

Union Financial Corporation
Consolidated Statements of Income

Three months ended March 31, 2008 & 2007

	2008	2007
Interest income		
Loans, including fees	\$2,844,221	\$2,896,834
Federal funds sold	76,977	119,005
Securities	<u>140,093</u>	<u>137,712</u>
	3,061,291	3,153,551
Interest expense		
Deposits	1,000,329	923,800
Federal Home Loan Bank borrowings	297,354	297,511
Other borrowings	<u>96,875</u>	<u>109,375</u>
	<u>1,394,558</u>	<u>1,330,686</u>
Net interest income	1,666,733	1,822,865
Provision for loan losses	<u>105,000</u>	<u>105,000</u>
Net interest income after provision for loan losses	1,561,733	1,717,865
Other income		
Service charges on deposit accounts	132,387	137,024
Other income	<u>204,756</u>	<u>158,380</u>
	337,143	295,404
Other expenses		
Salaries and benefits	889,779	844,332
Occupancy & equipment	249,669	221,985
Other expenses	<u>586,626</u>	<u>373,357</u>
	<u>1,726,074</u>	<u>1,439,674</u>
Income before income tax	172,802	573,595
Income tax expense	<u>50,844</u>	<u>182,646</u>
Net income	<u>\$ 121,958</u>	<u>\$ 390,949</u>
Earnings per share	<u>\$ 0.06</u>	<u>\$ 0.19</u>