



Union Financial Corporation

**First Quarter Report
March 31, 2009**

To Our Shareholders and Friends:

First quarter 2009 results are in and Union Financial Corporation is reporting net income of \$149,308 up from \$121,958 at March 31, 2008. Earnings per share for the first quarter equate to \$0.07 compared to \$0.06 for the prior year. Total assets have declined 3.6% over the last twelve months and end the first quarter at \$179.4 million.

Total loans have declined 5.3% since March 2008 and end the quarter at \$146,040,393. This reduction is from the liquidation of problem credits and the decline in loan demand. Due to the reduction in loans, more funds have been freed up to grow the bank's investment portfolio. Total investments have increased by 62% from one year ago and equate to \$14.9 million. Deposits have fallen approximately 2% over the past twelve months as higher-cost brokered deposits paid off in first quarter of 2009.

Net income was up slightly from the previous year with a large portion of the increase from new or refinanced mortgage business due to the low interest rate environment. Operating expenses are down substantially from last year which is attributed to the control of expenses primarily in the salaries and benefits area.

The current economic environment continues to plague our businesses and consumers' ability to remain current on their loan payments. This continues to elevate our problem loans but we have been prudent in our evaluation of these credits and the allocations to our allowance for loan losses.

We recognize the inherent risks associated with this challenging economic environment, but are committed to improve the performance of the organization. Thank you for your support. We hope to see you at the Shareholder Meeting on May 12, 2009.

Sincerely,
Cortney Collison
President & CEO

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	Suzanne Dahms
Cortney Collison	Christopher Fluke
Jerry Collison	Marvin Head
Lloyd Cunningham	Paul Trierweiler

Directors Emeriti

Henry Beland	Lynn Fetterman
LaVon Deatsman	Dean Hyde
Laverne Eldridge	

Union Bank Senior Staff

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

Officers

Doug Abel	Dan King
Sandra Boyer	Bret Simonton
Jeff Chmielewski	Jean'Ne Swiatek
Bill Cobb	Meg Wheeler
Edith Farrell	David White
Doug Flessner	Todd Willoughby

Union Financial Corporation
Consolidated Balance Sheets

March 31, 2009 & 2008

	2009	2008
ASSETS		
Cash & due from banks	\$ 3,260,297	\$ 4,553,551
Federal funds sold	<u>4,673,991</u>	<u>8,767,723</u>
Total cash and cash equivalents	7,934,288	13,321,274
Securities	14,938,286	9,225,478
Total loans	146,040,393	154,271,039
Less: Allowance for loan losses	<u>(3,330,761)</u>	<u>(3,029,072)</u>
Net loans	142,709,632	151,241,967
Premises and equipment	6,167,747	5,303,293
Accrued interest receivable	1,280,251	2,267,942
Other assets	<u>6,413,891</u>	<u>4,891,139</u>
Total assets	<u>\$179,444,095</u>	<u>\$186,251,093</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 17,363,946	\$ 16,653,041
Interest-bearing transaction accounts	45,905,821	43,928,185
Savings	15,575,909	14,303,901
Time	<u>59,952,734</u>	<u>66,696,770</u>
Total deposits	138,798,410	141,581,897
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	21,344,627	23,368,738
Accrued interest payable	302,801	460,631
Other liabilities	1,339,790	1,672,725
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities	166,785,628	172,083,991
Total shareholders' equity	12,658,467	14,167,102
Total liabilities and shareholders' equity	<u>\$179,444,095</u>	<u>\$186,251,093</u>

Union Financial Corporation
Consolidated Statements of Income

Three months ended March 31, 2009 & 2008

	2009	2008
Interest income		
Loans, including fees	\$2,405,087	\$2,844,221
Federal funds sold	2,287	76,977
Securities	<u>107,050</u>	<u>140,093</u>
	2,514,424	3,061,291
Interest expense		
Deposits	649,195	1,000,329
Federal Home Loan Bank borrowings	237,615	297,354
Other borrowings	<u>46,875</u>	<u>96,875</u>
	933,685	1,394,558
Net interest income	1,580,739	1,666,733
Provision for loan losses	<u>265,000</u>	<u>105,000</u>
Net interest income after provision for loan losses	1,315,739	1,561,733
Other income		
Service charges on deposit accounts	114,914	132,387
Other income	<u>368,035</u>	<u>204,756</u>
	482,949	337,143
Other expenses		
Salaries and benefits	732,479	889,779
Occupancy & equipment	263,461	249,669
Other expenses	<u>582,839</u>	<u>586,626</u>
	1,578,779	1,726,074
Income before income tax	219,909	172,802
Income tax expense	<u>70,601</u>	<u>50,844</u>
Net income	<u>\$ 149,308</u>	<u>\$ 121,958</u>
Earnings per share	<u>\$ 0.07</u>	<u>\$ 0.06</u>