



Union Financial Corporation

**First Quarter Report
March 31, 2010**

To Our Shareholders and Friends:

The first quarter of 2010 is complete and on a financial basis the bank performed better than anticipated. The corporation did experience a net operating loss for the quarter of \$64,694, but this is an improvement compared to budget. Lower operating expenses and a steady net interest margin played major roles in our outcome for the quarter.

Total loans have declined 6.7% since March 2009 and currently stand at \$136.3 million. This reduction is partly due to the deliberate liquidation of problem credits and a decline in loan demand. The reduction in loans has allowed the bank to increase its investment portfolio. Total investments have increased by 26% from one year ago and equate to \$18.8 million. Deposits also continue to increase and have risen a significant 6.3% over the past twelve months to end the quarter at \$147.6 million. Due to this increase in deposits, we have been fortunate to pay off higher-costing alternative borrowings as they matured throughout the year.

UFC's subordinated debt offering has been quite successful. A total of \$870,000 of these notes was sold as of year-end and an additional \$445,000 were closed in the first quarter of 2010. While the bank's capital remains in the "well-capitalized" classification we felt it prudent to have these funds available as part of our capital recovery strategy.

The bank has undertaken a major technology upgrade this year, which in the first quarter included a database conversion and an upgrade to our online banking system. I am pleased to report that these conversions went very smoothly. In the next few months, we will add teller capture scanners in the branches and upgrade our existing remote capture system for our business customers. All of these changes will bring about enhanced services for our customers along with improved functionality for our staff.

Thank you for your continued support. We will see you at the Shareholder Meeting on May 11, 2010.

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, 2010 & 2009

	2010	2009
ASSETS		
Cash & due from banks	\$ 12,178,542	\$ 3,260,297
Federal funds sold	2,482,194	4,673,991
Total cash and cash equivalents	14,660,736	7,934,288
Securities	18,825,815	14,938,286
Total loans	136,315,895	146,040,393
Less: Allowance for loan losses	(3,022,745)	(3,330,761)
Net loans	133,293,150	142,709,632
Premises and equipment	5,986,425	6,167,747
Accrued interest receivable	1,270,880	1,280,251
Other assets	7,859,443	6,413,891
Total assets	<u>\$181,896,449</u>	<u>\$179,444,095</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 19,361,228	\$ 17,363,946
Interest-bearing transaction accounts	51,394,826	45,905,821
Savings	18,348,107	15,575,909
Time	58,483,523	59,952,734
Total deposits	147,587,684	138,798,410
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	13,992,102	21,344,627
Accrued interest payable	212,996	302,801
Other liabilities	1,684,330	1,339,790
Subordinated debentures	1,315,000	-
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	5,000,000	5,000,000
Total Liabilities	169,792,112	166,785,628
Total shareholders' equity	12,104,337	12,658,467
Total liabilities and shareholders' equity	<u>\$ 181,896,449</u>	<u>\$179,444,095</u>

Union Financial Corporation
Consolidated Statements of Income

Three months ended March 31, 2010 & 2009

	2010	2009
Interest income		
Loans, including fees	\$2,157,109	\$ 2,405,087
Federal funds sold	522	2,287
Securities	90,494	107,050
	<u>2,248,125</u>	<u>2,514,424</u>
Interest expense		
Deposits	492,526	649,195
Federal Home Loan Bank borrowings	171,147	237,615
Other borrowings	66,453	46,875
	<u>730,126</u>	<u>933,685</u>
Net interest income	1,517,999	1,580,739
Provision for loan losses	450,000	265,000
Net interest income after provision for loan losses	<u>1,067,999</u>	<u>1,315,739</u>
Other income		
Service charges on deposit accounts	110,279	114,914
Other income	187,354	368,035
	<u>297,633</u>	<u>482,949</u>
Other expenses		
Salaries and benefits	735,647	732,479
Occupancy & equipment	238,365	263,461
Other expenses	499,919	582,839
	<u>1,473,931</u>	<u>1,578,779</u>
Income before income tax	(108,299)	219,909
Income tax expense	(43,605)	70,601
Net income	<u>\$ (64,694)</u>	<u>\$ 149,308</u>
Earnings per share	<u>\$ (0.03)</u>	<u>\$ 0.07</u>