



**Union Financial Corporation**

**Second Quarter Report  
June 30, 2008**

To Our Shareholders and Friends:

The first half of 2008 is complete and UFC's asset size at the end of June equates to \$182.4 million, with \$156.5 million in loans and \$138.2 million in deposits. During the second quarter, the bank experienced growth in our total loan portfolio of \$2.2 million. This 1.4% increase was in our commercial and consumer loan portfolios. Total deposits decreased during the quarter due to the fluctuating interest rate environment, but we are optimistic going forward in acquiring new growth through our Hastings office and more emphasis in pricing strategies in our certificates of deposit.

Net income continues to be impacted by the economic conditions affecting the customers and businesses within our communities. In order to safe guard the bank against potential losses in the loan area, a provision of \$900,000 was made to the bank's loan loss reserve. This money may not need to be used for losses but management felt that it was necessary to make the additional provision at this time. This, combined with further expenses to maintain some of the properties the bank has had to foreclose on, resulted in the year-to-date negative earnings of \$363,159. A great deal of time has been allotted towards the analysis of the bank's earnings potential and we anticipate positive earnings during the remainder of 2008.

The new office building in Hastings opened on June 28th and celebrated its Grand Opening celebration in July. Many tours of the new office have been given over the past weeks. The Hastings community has been wonderful in their welcoming of Union Bank. We anticipate our growth in that market to continue throughout the years to come.

Despite current economic challenges, the bank has been fortunate to work through a number of its problem credits. Any remaining problem credits have been identified and plans have been formulated to work through them. Union Bank remains in a well capitalized position; this combined with our experienced staff will benefit the bank during these adverse times. I would like to thank you, our shareholders, for your ongoing support of our organization.

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 &amp; COO</i>
Cortney Collison <i>President</i>	Christine Fortier <i>Vice President &amp; CFO</i>
Richard Russo <i>Senior Vice President &amp; Senior Lender</i>	

### **Officers**

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

**Union Financial Corporation**  
**Consolidated Balance Sheets**

June 30, 2008 & 2007

	2008	2007
<b>ASSETS</b>		
Cash & due from banks .....	\$ 4,183,181	\$ 3,915,242
Federal funds sold .....	<u>1,819,477</u>	<u>3,629,505</u>
Total cash and cash equivalents .....	6,002,658	7,544,747
Securities .....	10,053,408	12,987,614
Total loans .....	156,494,168	154,589,705
Less: Allowance for loan losses .....	<u>(2,926,115)</u>	<u>(3,047,682)</u>
Net loans .....	153,568,053	151,542,023
Premises and equipment .....	5,972,171	4,939,171
Accrued interest receivable .....	2,004,189	2,340,905
Other assets .....	<u>4,773,801</u>	<u>4,789,975</u>
Total assets .....	<u>\$182,374,280</u>	<u>\$184,144,435</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposits		
Demand .....	\$ 17,342,401	\$ 18,412,609
Interest-bearing transaction accounts .....	42,210,527	35,666,253
Savings .....	14,673,066	15,381,373
Time .....	<u>63,939,632</u>	<u>68,891,135</u>
Total deposits .....	138,165,626	138,351,370
Federal funds purchased .....	-	-
Federal Home Loan Bank borrowings .....	24,092,654	25,597,621
Accrued interest payable .....	406,614	416,992
Other liabilities .....	1,392,379	1,177,843
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures .....	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities .....	169,057,273	170,543,826
Total shareholders' equity .....	<u>13,317,007</u>	<u>13,600,609</u>
Total liabilities and shareholders' equity .....	<u>\$182,374,280</u>	<u>\$184,144,435</u>

**Union Financial Corporation**  
**Consolidated Statements of Income**

Six months ended June 30, 2008 & 2007

	2008	2007
Interest income		
Loans, including fees .....	\$5,440,383	\$6,035,928
Federal funds sold .....	100,469	188,770
Securities .....	<u>239,536</u>	<u>286,665</u>
	5,780,388	6,511,363
Interest expense		
Deposits .....	1,856,285	1,916,036
Federal Home Loan Bank borrowings .....	568,703	589,129
Other borrowings .....	<u>169,496</u>	<u>218,750</u>
	<u>2,594,484</u>	<u>2,723,915</u>
Net interest income .....	3,185,904	3,787,448
Provision for loan losses .....	<u>1,075,000</u>	<u>1,774,665</u>
Net interest income after provision for loan losses .....	2,110,904	2,012,783
Other income		
Service charges on deposit accounts .....	259,313	292,863
Other income .....	<u>350,169</u>	<u>343,408</u>
	609,482	636,271
Other expenses		
Salaries and benefits .....	1,541,253	1,507,034
Occupancy & equipment .....	482,690	445,712
Other expenses .....	<u>1,257,139</u>	<u>1,013,639</u>
	<u>3,281,082</u>	<u>2,966,385</u>
Income before income tax .....	(560,696)	(317,331)
Income tax expense .....	<u>(197,537)</u>	<u>(107,765)</u>
Net income .....	<u>\$ (363,159)</u>	<u>\$ (209,566)</u>
Earnings per share .....	<u>\$ (0.17)</u>	<u>\$ (0.10)</u>