



Union Financial Corporation

**Second Quarter Report
June 30, 2009**

To Our Shareholders and Friends:

The first half of 2009 is complete and UFC's asset size is at \$180.8 million, down from \$182.4 million one year ago. Similarly, total loans have decreased to \$145.7 million from \$156.5 million from June 2008. These reductions are, in part, attributable to our overall strategy of liquidating properties and limiting our exposure to more risky loans. The bank does continue to put new loans on the books, however loan demand has lessened over the last several months so growth has been slow.

During the second quarter, the bank has sold nearly \$310,000 in other real estate (ORE) properties, but these sales have come at further losses. The bank has also experienced loan losses due to declining values on the collateral we have lent against. As we incur losses on loans and write-downs in value of ORE, the bank not only has to realize those hits to income but then an increased allocation to the loan loss reserve (LLR) is needed to maintain the reserve at an adequate level. Year-to-date, the bank has contributed nearly \$1.3 million to the LLR.

Income, therefore, has been negatively impacted by the larger than forecasted LLR provisions. As of month-end June, UFC is showing a loss of \$307,521 compared to a loss of \$363,159 at this time last year. On a positive note, other income has increased substantially from second quarter 2008 due mainly to enhanced activity in the mortgage re-finance business. Income generated from sales of loans is approximately 2.8 times greater in 2009 versus 2008.

Deposits have increased to \$142.2 million from \$138.2 million one year ago. The largest increases can be found in demand and savings accounts, which carry a lower cost to the bank.

I was very pleased to see many of you at the Shareholder's Meeting on May 12. The format of the meeting seemed to be well-received by everyone and attendance was very good. We also saved a great deal of money with this format, which is in line with our overall strategy of expense reduction. You may be excited to hear that the food left over was donated to a local charity, which also complements our efforts to support our communities in need.

The economic environment continues to challenge all of us, but we remain committed to improving the performance of this organization. Thank you for your support.

Sincerely,

Cortney Collison, President & CEO

Union Financial Corporation Officers

Cortney Collison
President

Jerry Collison
Vice President

Suzanne Dahms
Secretary

Board of Directors

William Bulling
Cortney Collison
Jerry Collison
Lloyd Cunningham

Suzanne Dahms
Christopher Fluke
Marvin Head
Paul Trierweiler

Directors Emeriti

Henry Beland
LaVon Deatsman
Laverne Eldridge

Lynn Fetterman
Dean Hyde

Union Bank Senior Staff

Cortney Collison
President & CEO

Christine Fortier
Vice President & CFO

Suzanne Dahms
*Executive Vice
President & COO*

Richard Russo
*Senior Vice President
& Senior Lender*

Officers

Doug Abel
Sandra Boyer
Jeff Chmielewski
Bill Cobb
Edith Farrell
Doug Flessner

Dan King
Bret Simonton
Jean'Ne Swiatek
Meg Wheeler
David White
Todd Willoughby

Union Financial Corporation
Consolidated Balance Sheets

June 30, 2009 & 2008

	2009	2008
ASSETS		
Cash & due from banks	\$ 9,362,655	\$ 4,183,181
Federal funds sold	<u>2,215,993</u>	<u>1,819,477</u>
Total cash and cash equivalents	11,578,648	6,002,658
Securities	13,557,319	10,053,408
Total loans	145,745,003	156,494,168
Less: Allowance for loan losses	<u>(3,594,213)</u>	<u>(2,926,115)</u>
Net loans	142,150,790	153,568,053
Premises and equipment	6,111,353	5,972,171
Accrued interest receivable	1,400,408	2,004,189
Other assets	<u>6,057,047</u>	<u>4,773,801</u>
Total assets	<u>\$180,855,565</u>	<u>\$182,374,280</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 18,397,246	\$ 17,342,401
Interest-bearing transaction accounts	45,950,151	42,210,527
Savings	16,824,875	14,673,066
Time	<u>61,067,223</u>	<u>63,939,632</u>
Total deposits	142,239,495	138,165,626
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	19,763,408	24,092,654
Accrued interest payable	283,682	406,614
Other liabilities	1,354,131	1,392,379
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities	168,640,716	169,057,273
Total shareholders' equity	12,214,849	13,317,007
Total liabilities and shareholders' equity	<u>\$180,855,565</u>	<u>\$182,374,280</u>

Union Financial Corporation
Consolidated Statements of Income

Six months ended June 30, 2009 & 2008

	2009	2008
Interest income		
Loans, including fees	\$4,784,002	\$5,440,383
Federal funds sold	3,172	100,469
Securities	<u>209,116</u>	<u>239,536</u>
	4,996,290	5,780,388
Interest expense		
Deposits	1,256,522	1,856,285
Federal Home Loan Bank borrowings	477,310	568,703
Other borrowings	<u>93,750</u>	<u>169,496</u>
	1,827,582	2,594,484
Net interest income	3,168,708	3,185,904
Provision for loan losses	<u>1,273,803</u>	<u>1,075,000</u>
Net interest income after provision for loan losses	1,894,905	2,110,904
Other income		
Service charges on deposit accounts	243,444	259,313
Other income	<u>628,348</u>	<u>350,169</u>
	871,792	609,482
Other expenses		
Salaries and benefits	1,477,261	1,541,253
Occupancy & equipment	496,245	482,690
Other expenses	<u>1,276,606</u>	<u>1,257,139</u>
	3,250,112	3,281,082
Income before income tax	(483,415)	(560,696)
Income tax expense	<u>(175,894)</u>	<u>(197,537)</u>
Net income	<u>\$ (307,521)</u>	<u>\$ (363,159)</u>
Earnings per share	<u>\$ (0.15)</u>	<u>\$ (0.17)</u>