



Union Financial Corporation

**Third Quarter Report
September 30, 2008**

To Our Shareholders and Friends:

The third quarter saw considerable progress for Union Financial Corporation on several levels. Assets increased to \$188.4 million, up \$4.1 million from the same period last year. Deposits also rose significantly to \$143.4 million from \$137 million last year. Much of this increase can be found in our demand deposits, both interest and non-interest bearing.

In that sense, we believe that we have benefitted somewhat from the turmoil on Wall Street. Many customers are removing their funds from exposure to turbulent markets and coming home to the relative safety of community banks such as ours.

Net income for the corporation remains negative on a year to date basis, but we made significant progress during the third quarter. UFC currently shows a loss of 4 cents per share, versus the loss of 17 cents per share at the end of the second quarter. This improvement is due to a higher level of total operating income in the quarter, combined with a reduction in expenses. Another key item that occurred for us during the third quarter was the sale of a few of the bank's other real estate properties. While these sales did render immediate losses on our books, we will no longer incur the costs of carrying these assets (such as property taxes and upkeep costs) nor utilize staff time in managing the properties.

The majority of community banks across the country, like Union Bank, are in sound financial condition. We have plenty of liquidity, sensible underwriting standards, and are ready to lend – factors essential to keeping our community strong and families secure in their homes. In the months to come, community banks will continue to be a critical component in mending the financial ills plaguing our nation.

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
*Senior Vice President
& Senior Lender*

Officers

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

Union Financial Corporation
Consolidated Balance Sheets

September 30, 2008 & 2007

	2008	2007
ASSETS		
Cash & due from banks	\$ 2,031,735	\$ 3,412,524
Federal funds sold	<u>10,859,785</u>	<u>4,527,235</u>
Total cash and cash equivalents	12,891,520	7,939,759
Securities	8,978,083	12,099,994
Total loans	154,970,408	154,734,674
Less: Allowance for loan losses	<u>(2,910,309)</u>	<u>(3,152,911)</u>
Net loans	152,060,099	151,581,763
Premises and equipment	6,267,747	4,898,479
Accrued interest receivable	1,794,298	2,786,300
Other assets	<u>6,407,447</u>	<u>4,962,474</u>
Total assets	<u>\$188,399,194</u>	<u>\$184,268,769</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 20,140,521	\$ 16,990,460
Interest-bearing transaction accounts	42,758,435	37,167,310
Savings	14,651,306	15,061,016
Time	<u>65,822,630</u>	<u>67,820,577</u>
Total deposits	143,372,892	137,039,363
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	24,092,654	26,397,621
Accrued interest payable	368,627	449,088
Other liabilities	1,963,226	1,400,009
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities	174,797,399	170,286,081
Total shareholders' equity	13,601,795	13,982,688
Total liabilities and shareholders' equity	<u>\$188,399,194</u>	<u>\$184,268,769</u>

Union Financial Corporation
Consolidated Statements of Income

Nine months ended September 30, 2008 & 2007

	2008	2007
Interest income		
Loans, including fees	\$8,116,218	\$9,221,674
Federal funds sold	121,047	259,494
Securities	<u>338,751</u>	<u>437,544</u>
	8,576,016	9,918,712
Interest expense		
Deposits	2,675,552	2,945,524
Federal Home Loan Bank borrowings	833,273	880,726
Other borrowings	<u>238,955</u>	<u>328,125</u>
	3,747,780	4,154,375
Net interest income	4,828,236	5,764,337
Provision for loan losses	<u>1,180,000</u>	<u>1,879,665</u>
Net interest income after provision for loan losses	3,648,236	3,884,672
Other income		
Service charges on deposit accounts	411,486	438,433
Other income	<u>516,258</u>	<u>472,376</u>
	927,744	910,809
Other expenses		
Salaries and benefits	2,285,114	2,223,127
Occupancy & equipment	720,600	664,286
Other expenses	<u>1,739,614</u>	<u>1,453,259</u>
	4,745,328	4,340,672
Income before income tax	(169,348)	454,809
Income tax expense	<u>(79,168)</u>	<u>141,739</u>
Net income	<u>\$ (90,180)</u>	<u>\$ 313,070</u>
Earnings per share	<u>\$ (0.04)</u>	<u>\$ 0.15</u>