



Union Financial Corporation

**Third Quarter Report
September 30, 2009**

To Our Shareholders and Friends:

Union Bank has worked very hard during this economic downturn to ensure that the bank remains a safe and viable organization. We have always managed the bank in a risk averse manner, but these economic times have caused us to tighten our practices even further.

Throughout the current recession, Union Bank has strengthened its underwriting policies, originated loans within our lending philosophy, proactively managed our credit portfolio and worked with clients on loan resolution issues. An extensive review of our lending strategies, policies, and procedures has also been conducted. As a result of this review, we have enhanced a number of our existing procedures and implemented new lending strategies. We believe that this process will help us to identify problem credits before they emerge, thus lessening the financial impact to the bank.

While still operating at a year-to-date net loss of \$235,162, UFC did experience an improved third quarter. Net income for the quarter equated to \$72,359. In addition, seven other real estate (ORE) properties were sold during the quarter, bringing the total to eleven for the year. The sale of these ORE properties brings about a lower level of operating expenses and therefore benefits future earnings.

Union Bank has taken hits to its capital levels due to the negative earnings over the past few quarters. However, our capital remains in the "well-capitalized" category by regulatory standards. We do continue to pursue other capital-increasing alternatives in order to replenish the lost capital and further enhance the safety of the bank.

Some signs of economic stability are beginning to emerge throughout the country. However, many economists believe that recovery will be slow and that the lingering effects of the recession are likely to continue well into 2010. We are optimistic about the future and are confident that our management approach further strengthens our company and places us in a favorable position as economic conditions improve.

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

September 30, 2009 & 2008

	2009	2008
ASSETS		
Cash & due from banks	\$ 9,068,017	\$ 2,031,735
Federal funds sold	<u>2,690,117</u>	<u>10,859,785</u>
Total cash and cash equivalents	11,758,134	12,891,520
Securities	13,406,934	8,978,083
Total loans	142,347,524	154,970,408
Less: Allowance for loan losses	<u>(3,288,304)</u>	<u>(2,910,309)</u>
Net loans	139,059,220	152,060,099
Premises and equipment	6,019,356	6,267,747
Accrued interest receivable	1,342,143	1,794,298
Other assets	<u>6,197,841</u>	<u>6,407,447</u>
Total assets	<u>\$177,783,628</u>	<u>\$188,399,194</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 16,494,913	\$ 20,140,521
Interest-bearing transaction accounts	48,062,206	42,758,435
Savings	15,873,046	14,651,306
Time	<u>59,853,262</u>	<u>65,822,630</u>
Total deposits	140,283,427	143,372,892
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	18,263,408	24,092,654
Accrued interest payable	262,824	368,627
Other liabilities	1,649,640	1,963,226
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities	165,459,299	174,797,399
Total shareholders' equity	<u>12,324,329</u>	<u>13,601,795</u>
Total liabilities and shareholders' equity	<u>\$177,783,628</u>	<u>\$188,399,194</u>

Union Financial Corporation
Consolidated Statements of Income

Nine months ended September 30, 2009 & 2008

	2009	2008
Interest income		
Loans, including fees	\$7,145,762	\$8,116,218
Federal funds sold	3,755	121,047
Securities	<u>305,905</u>	<u>338,751</u>
	7,455,422	8,576,016
Interest expense		
Deposits	1,831,553	2,675,552
Federal Home Loan Bank borrowings	693,967	833,273
Other borrowings	<u>140,625</u>	<u>238,955</u>
	2,666,145	3,747,780
Net interest income	4,789,277	4,828,236
Provision for loan losses	<u>1,598,803</u>	<u>1,180,000</u>
Net interest income after provision for loan losses	3,190,474	3,648,236
Other income		
Service charges on deposit accounts	373,900	411,486
Other income	<u>803,736</u>	<u>516,258</u>
	1,177,636	927,744
Other expenses		
Salaries and benefits	2,241,491	2,285,114
Occupancy & equipment	724,500	720,600
Other expenses	<u>1,830,841</u>	<u>1,739,614</u>
	4,796,832	4,745,328
Income before income tax	(428,722)	(169,348)
Income tax expense	<u>(193,560)</u>	<u>(79,168)</u>
Net income	<u>\$ (235,162)</u>	<u>\$ (90,180)</u>
Earnings per share	<u>\$ (0.11)</u>	<u>\$ (0.04)</u>