



Union Financial Corporation

**Fourth Quarter Report
December 31, 2007**

To Our Shareholders and Friends:

During the final quarter of 2007, total deposits grew \$3 million to end the year at \$140 million. The growth in total deposits equates to \$5.8 million for the year, or a 4.3% increase. Loans increased nearly \$1 million during the quarter, ending the year at \$155.5 million, up \$11 million from one year ago. While other banks in the state and in our markets are experiencing flat or even negative growth, we continue to experience normal positive growth. The bank's overall net interest margin also remains strong and above that of peer banks.

As mentioned in previous quarterly letters, the bank did deal with its share of loan issues throughout much of 2007. These matters heavily impacted the corporation's income for the year. The year-to-date earnings of \$644,710 resulted in a Return on Average Assets of .35% and a Return on Average Equity of 4.57%. Earnings per share equated to \$0.32 as of year-end.

As I reflect back on the past year, I will remember 2007 as one of the most challenging years in my banking experience. Union Financial Corporation has faced many difficulties this year and we have grown and enhanced our processes as a result. Economic difficulties do continue in our communities and we will remain focused on the financial health of our customers.

We understand the challenges our customers are facing and we are committed to supporting and guiding our communities. We have always been your bank, through good times and bad, and we are very optimistic about the future. Your bank continues to grow and provide solid financial leadership.

Sincerely,

Jerry Collison
President

Union Financial Corporation Officers

Jerry Collison
President

Suzanne Dahms
Secretary

Board of Directors

William Bulling
Jerry Collison
Lloyd Cunningham
Suzanne Dahms

Lynn Fetterman
Marvin Head
Dean Hyde
Paul Trierweiler

Directors Emeriti

Henry Beland

LaVon Deatsman
Laverne Eldridge

Union Bank Senior Staff

Jerry Collison
CEO

Suzanne Dahms
*Executive Vice
President & COO*

Cortney Collison
President

Christine Fortier
Vice President & CFO

Richard Russo
*Senior Vice President
& Senior Lender*

Officers

Dan Austin
Sandra Boyer
Jeff Chmielewski
Bill Cobb
Joan Eldridge
Edith Farrell
Doug Flessner
Judy Jackson

Dan King
Connie Scheurer
Jean'Ne Swiatek
Troy Thelen
Meg Wheeler
David White
Annie Wittenberg
Todd Willoughby

Union Financial Corporation
Consolidated Balance Sheets

December 31, 2007 & 2006

	2007	2006
ASSETS		
Cash & due from banks	\$ 3,919,339	\$ 4,161,613
Federal funds sold.....	<u>7,008,315</u>	<u>12,367,948</u>
Total cash and cash equivalents.....	10,927,654	16,529,561
Securities	11,490,615	12,035,380
Total loans.....	155,543,107	144,507,464
Less: Allowance for loan losses.....	<u>(3,013,475)</u>	<u>(1,805,253)</u>
Net loans	152,529,632	142,702,211
Premises and equipment.....	4,885,491	4,358,696
Accrued interest receivable	2,347,861	2,417,481
Other assets.....	<u>4,395,711</u>	<u>4,297,662</u>
Total assets	<u>\$186,576,964</u>	<u>\$182,340,991</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 18,325,073	\$ 18,485,577
Interest-bearing transaction accounts.....	39,833,422	38,018,837
Savings	14,237,730	15,456,313
Time	<u>67,604,229</u>	<u>62,267,064</u>
Total deposits.....	140,000,454	134,227,791
Federal funds purchased.....	-	-
Federal Home Loan Bank borrowings	25,647,621	27,083,360
Accrued interest payable	488,951	352,458
Other liabilities.....	1,409,362	1,400,299
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities.....	172,546,388	168,063,908
Total shareholders' equity	<u>14,030,576</u>	<u>14,277,083</u>
Total liabilities and shareholders' equity	<u>\$186,576,964</u>	<u>\$182,340,991</u>

Union Financial Corporation
Consolidated Statements of Income

Twelve months ended December 31, 2007 & 2006

	2007	2006
Interest income		
Loans, including fees	\$12,219,217	\$10,976,926
Federal funds sold.....	360,775	280,968
Securities.....	<u>582,270</u>	<u>606,587</u>
	13,162,262	11,864,481
Interest expense		
Deposits.....	3,965,154	2,988,928
Federal Home Loan Bank borrowings	1,184,649	1,203,488
Other borrowings	<u>431,250</u>	<u>424,120</u>
	<u>5,581,053</u>	<u>4,616,536</u>
Net interest income	7,581,209	7,247,945
Provision for loan losses.....	<u>2,057,315</u>	<u>1,168,940</u>
Net interest income after provision for loan losses	5,523,894	6,079,005
Other income		
Service charges on deposit accounts	595,805	579,376
Other income	<u>526,307</u>	<u>215,576</u>
	1,122,112	794,952
Other expenses		
Salaries and benefits.....	2,988,429	2,496,340
Occupancy & equipment	886,955	804,317
Other expenses.....	<u>1,859,984</u>	<u>1,849,692</u>
	<u>5,735,368</u>	<u>5,150,349</u>
Income before income tax	910,638	1,723,608
Income tax expense	<u>265,928</u>	<u>548,873</u>
Net income	<u>\$ 644,710</u>	<u>\$1,174,735</u>
Earnings per share	<u>\$ 0.32</u>	<u>\$ 0.59</u>