



Union Financial Corporation

**Fourth Quarter Report
December 31, 2008**

To Our Shareholders and Friends:

Union Financial Corporation experienced significant growth in deposits during the last year, rising nearly \$5 million from \$140 million at year-end 2007 to \$144.8 million at year-end 2008. Customers continue to move their funds to the relative safety of our community bank. We have also seen a shift in the concentration of the deposit balance from more expensive certificates of deposit to less costly checking and savings accounts. This has helped relieve pressure on our net interest margin.

The growth in core deposits has also reduced our reliance on alternative funding sources and we plan to continue to pay back these funds as they come due in 2009. This will aid in the reduction of the bank's overall interest expense. Since we are currently in a very liquid state, we continue to search for appropriate investment vehicles to house some of our excess funds, and further improve the net interest margin.

Credit quality remains one of the bank's most significant concerns and we continue to be relentlessly vigilant in the identification and management of problem assets. Our total loan portfolio has decreased this quarter due to some problem credits exiting the bank. We are pursuing every opportunity to mitigate risk with existing borrowers, but at the same time we continue to book new loans with an increasingly conservative approach.

An additional provision was made to the bank's loan loss reserve in December to properly fund the reserve for any inherent risk that still lies within the bank's loan portfolio. This left us with a net loss for 2008, but positions us well for more positive results in 2009.

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 <i>Senior Vice President & Senior Lender</i>	

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

December 31, 2008 & 2007

	2008	2007
ASSETS		
Cash & due from banks	\$ 5,508,093	\$ 3,919,339
Federal funds sold	<u>10,238,862</u>	<u>7,008,315</u>
Total cash and cash equivalents	15,746,955	10,927,654
Securities	12,694,011	11,490,615
Total loans	148,982,873	155,543,107
Less: Allowance for loan losses	<u>(2,438,214)</u>	<u>(3,013,475)</u>
Net loans	146,544,659	152,529,632
Premises and equipment	6,234,072	4,885,491
Accrued interest receivable	1,444,219	2,347,861
Other assets	<u>6,167,235</u>	<u>4,395,711</u>
Total assets	<u>\$188,831,151</u>	<u>\$186,576,964</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	\$ 18,414,727	\$ 18,325,073
Interest-bearing transaction accounts	47,151,917	39,833,422
Savings	15,173,600	14,237,730
Time	<u>64,066,923</u>	<u>67,604,229</u>
Total deposits	144,807,167	140,000,454
Federal funds purchased	-	-
Federal Home Loan Bank borrowings	23,092,654	25,647,621
Accrued interest payable	357,062	488,951
Other liabilities	1,920,085	1,409,362
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	<u>5,000,000</u>	<u>5,000,000</u>
Total liabilities	175,176,968	172,546,388
Total shareholders' equity	13,654,183	14,030,576
Total liabilities and shareholders' equity	<u>\$ 188,831,151</u>	<u>\$186,576,964</u>

Union Financial Corporation
Consolidated Statements of Income

Twelve months ended December 31, 2008 & 2007

	2008	2007
Interest income		
Loans, including fees	\$10,637,549	\$12,219,217
Federal funds sold	129,267	360,775
Securities	<u>445,706</u>	<u>582,270</u>
	11,212,522	13,162,262
Interest expense		
Deposits	3,462,774	3,965,154
Federal Home Loan Bank borrowings	1,080,498	1,184,649
Other borrowings	<u>307,705</u>	<u>431,250</u>
	4,850,977	5,581,053
Net interest income	6,361,545	7,581,209
Provision for loan losses	<u>1,415,000</u>	<u>2,057,315</u>
Net interest income after provision for loan losses	4,946,545	5,523,894
Other income		
Service charges on deposit accounts	555,427	595,805
Other income	<u>650,174</u>	<u>526,307</u>
	1,205,601	1,122,112
Other expenses		
Salaries and benefits	3,066,414	2,988,429
Occupancy & equipment	966,932	886,955
Other expenses	<u>2,354,338</u>	<u>1,859,984</u>
	6,387,684	5,735,368
Income before income tax	(235,538)	910,638
Income tax expense	<u>(106,393)</u>	<u>265,928</u>
Net income	<u>\$ (129,145)</u>	<u>\$ 644,710</u>
Earnings per share	<u>\$ (0.06)</u>	<u>\$ 0.31</u>