



Union Financial Corporation



# 2016

**ANNUAL REPORT**

# HISTORY/MISSION STATEMENT

Union Bank is a full service independent community bank that has been serving local farming communities for over 80 years. Union Bank started out in 1934 as the result of a “union” of two Lake Odessa banks which were closed during a bank holiday. Since then, we have served the Lake Odessa community and slowly expanded into other neighboring communities. Union Bank now has branch locations in Lake Odessa, Mulliken, Dimondale, Pewamo, Westphaila and Hastings.

Since inception in 1934, Union Bank has been proud to be a partner with local farmers, and that still holds true to this day with 40% of our commercial loan portfolio consisting of agricultural loans. Along with our local farmers, Union Bank is also proud to support our customers’ commercial, mortgage and consumer financial needs through offering industry competitive products and exceptional customer service.

At Union Bank, our top priority has always been the Union Bank family. While we continue to enhance our products and services to provide our customers with the best that the financial industry has to offer, our dedication to shaping those services to fit individual lifestyle, and meet the needs of our communities, hasn’t changed. When we say “Your life. Your bank.” we back it up with hard work and personal service. Our commitment to our customers and local communities is even the focus of our mission statement:



## TABLE OF CONTENTS:

- Financial Highlights
- President’s Letter
- Mortgage Banking
- Commercial Banking
- Retail Banking
- Unique Services
- Financials
- Employee Anniversaries
- Community Involvement
- Leadership

## OUR MISSION:

**To build relationships in our communities through the delivery of excellent financial service products while realizing the greatest benefit for our customers, employees and shareholders.**

# FINANCIAL HIGHLIGHTS

## Union Financial Corporation

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
TOTAL ASSETS	\$174,930,217	\$166,721,215	\$171,024,097
TOTAL GROSS LOANS	119,637,802	115,798,107	115,407,614
TOTAL DEPOSITS	153,878,402	145,884,646	148,779,289
TOTAL SHAREHOLDERS' EQUITY	13,747,248	13,462,167	13,117,079
ALLOWANCE FOR LOAN LOSSES	1,265,154	1,237,580	1,297,748
ALLOWANCE FOR LOAN LOSSES AS A % OF GROSS LOANS	1.06%	1.07%	1.12%
COMMON SHARES OUTSTANDING	2,353,761	2,353,498	2,351,744
EQUITY AS A % OF ASSETS	7.86%	8.07%	7.67%

	<u>2016</u>	<u>2015</u>	<u>2014</u>
NET INCOME	\$672,224	\$324,546	\$453,147
CASH DIVIDENDS DECLARED	235,350	117,605	0

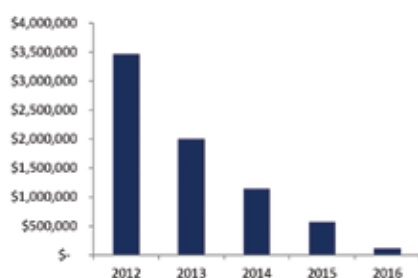
### PER SHARE DATA

Basic Earnings	\$0.29	\$0.14	\$0.19
Diluted Earnings	\$0.29	\$0.14	\$0.19
Cash Dividends Declared	\$0.10	\$0.05	\$0.00
Dividend Yield	2.00%	1.00%	0.00%
Market Value	\$5.00	\$5.00	\$5.50
Price to Earnings Ratio	17.24	35.71	28.95
Book Value	\$5.84	\$5.72	\$5.58

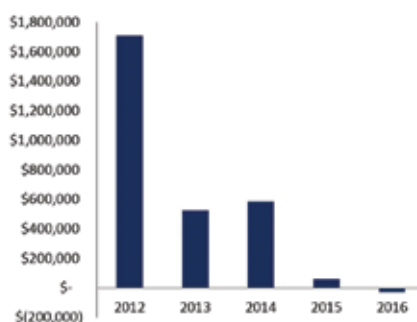
### PROFITABILITY

Return on Average Assets	0.40%	0.19%	0.26%
Return on Average Equity	4.95%	2.44%	3.53%

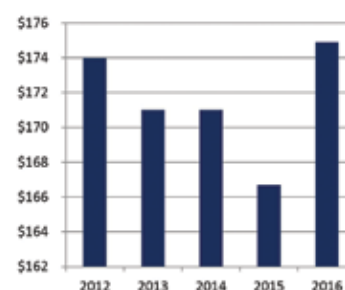
### OTHER REAL ESTATE (ORE)



### NET CHARGE-OFFS



### TOTAL ASSETS



# PRESIDENT'S LETTER

As we look back on the past year, I think of our vibrant communities, our loyal customers, shareholders and the dedication of our employees, all of which contributed to our continued success in 2016. Our ongoing strategic initiatives of improved earnings and asset quality will provide great momentum as we execute our strategic plan for 2017. We continue to invest in people, technology and products to diversify and grow our revenue stream.

Throughout 2016 the Union Bank team worked diligently to accomplish the organization's budgeted and strategic objectives. Although loan growth was slightly below our year-end budgeted target, there was substantial loan activity throughout the year. While our in-house mortgage portfolio declined in size, the activity on the secondary market was quite strong. Union Bank's mortgage department sold \$13.1 million in residential loans; an increase from the prior year of \$5.3 million. This activity generated significant income for the bank; a 66% increase from the prior year-end. The commercial loan portfolio grew by a net \$8.1 million during the year, mainly in the agricultural sector. Additionally, our consumer loans were up slightly. Funding of the loan growth came from our core deposits which continued to show growth throughout the year and ended 2016 at \$153.9 million; a 5% increase over the prior year-end. The overall growth in the deposit area led to an increase in the asset size of the bank, which concluded the year at \$174.9 million in assets; \$8.2 million above 2015.

Net income for 2016 totaled \$672,224; more than double that of the prior year and led to a 15-cent increase in the earnings per share of your UFC stock, ending the year at \$0.29. The loan activity experienced during the year generated \$5.8 million in gross earnings for the bank. Also contributing to the growth in net income was UB Consulting, LLC. With the addition of HR consulting services in 2016 and our already established bank compliance consulting, revenue generated increased 82% over the prior year. Net income produced from our other non-banking segment, Union Investment Solutions, amounted to nearly \$73,000 for the year. Expenses for the year were also well managed and concluded the year below our budgeted targets. Interest expense, once again,



ended the year below the prior year's expense amount due to managing interest rates and funding sources. Another provider of expense reduction was the substantial decline in the Other Real Estate Owned (ORE) portfolio in 2016. The ORE portfolio ended the year at \$112,000; the lowest the portfolio has been since the year 2000. Throughout the year the bank's asset quality also continued to improve, resulting in zero provision necessary to fund the loan loss reserve for 2016.

During the fourth quarter, Union Financial Corporation was presented with an opportunity to retire a portion of the \$5 million in Trust Preferred Securities (TPS) that had been issued in 2003 as a means to provide capital for Union Bank. This opportunity arose when the Federal Deposit Insurance Corporation (FDIC), who had been appointed the receiver for one of the investors of our TPS, auctioned off \$500,000 in TPS. UFC held the winning bid of 60% of the original value. This event then allowed UFC to retire the \$500,000 in TPS and record a gain on settlement of \$200,000 due to the bid of 60%. This additional income combined with the many other positives at the bank level led to the year-end net income results. The retirement of this portion of TPS not only improved 2016 earnings but brings about a future reduction in interest expense for UFC.

In 2017 shareholder value will remain to be one of our top priorities. As we continue to see increased earnings and capital growth, the value of being a shareholder will also grow. We are committed to increasing stock value and will continue to work hard on creating a liquid market. The Board of Directors and bank management were pleased to be able to increase the dividend that was paid in January of 2017. This increase was based on improved earnings, asset quality and all around improved financials. All of us at Union Bank are very humbled by the support that we have received from all of you, our shareholders. We truly appreciate the investment that you have made in the bank and the communities we serve.

In closing, I want to thank our employees for their hard work and support in delivering the Union Bank brand of community banking to our customers. Their efforts to build lasting relationships and create value for our customers is a key part of maintaining our success. I would also like to thank all of our shareholders for their continued support of Union Bank. I am looking forward to what 2017 brings for our corporation as we move ahead on this path of continued success.

Sincerely,



Cortney H. Collison  
President & CEO



## 2017 STRATEGIC OBJECTIVES

- Strengthen the foundation of the organization to provide a better investment for our shareholders
- Focus on fund management in an increasing rate environment
- Expansion of the many facets of the organization to grow revenue
- Attract home buyers through the offering of competitive mortgage products
- Continue to show commitment to the agriculture industry while also diversifying the commercial loan portfolio through the expansion of presence in the Lansing and West Michigan communities
- Development of products and services to meet the needs of our growing communities
- Increase non-interest income earned from unique services
- Invest in the communities that we live and work in



# MORTGAGE BANKING

Union Bank's mortgage team ended 2016 with a flurry of activity, loan closings and happy homeowners served. We believe that the fourth quarter volume portends exciting developments for our 2017 production. We have positioned the mortgage department for the expected transition from a refinance market that we experienced in 2016 to a purchase market due to an expected rising rate environment for 2017.

Union Bank's mortgage team is made up of mortgage professionals that are dedicated, experienced and understand the unique and personal nature of home financing. We are committed to being a market leader in this very valuable service for our clients. Utilizing a *suite of mortgage products*, along with an improved process, we strive to meet the timing needs that are so important to our clients.

In 2015 we introduced Mortgagebot, an online mortgage application and resource website. Throughout 2016, Mortgagebot has continued to be valuable to both the bank and home borrowers that are looking for an online mortgage resource that is available 24/7. At Union Bank we have the technological capabilities to compete in the market, but we also understand the personal relationship element that defines mortgage financing. We believe that a balanced combination offers our clients a memorable experience with outstanding people. At Union Bank, you are not a number, but a valued partner.

Our experienced mortgage team can navigate you through the process of obtaining a home loan. Sally Cranson, Kim Werschem and Angie Gilliland provide outstanding support, guidance and caring throughout the process. Walk into any one of our branch offices or give us a call and one of these mortgage bankers will be happy to explain different options, listen to your needs, and offer a solution. We back



Left to Right: Terri Dow, Kim Werschem, Angie Gilliland, Jennifer Henry and Sally Cranson

that up with a process that keeps the client's situation at its center. After your mortgage has closed, our service team of Jennifer Henry and Terri Dow assist our mortgage bankers with ensuring your questions and concerns are satisfied throughout the life of your mortgage.

Union Bank recognizes the changing economic conditions that occur within the mortgage industry. With rate increases likely in 2017, having options for our clients has become very important. With that in mind, we offer many mortgage structures to be able to finance clients with different needs and conditions. We can confidently say that Union Bank offers the *mortgage products that today's home buyers are looking for*. This includes rural development loans, homes with acreage as well as programs that can assist with low down payments.

We understand the benefit of operating a successful mortgage operation, from the satisfaction of helping someone buy their first home, to the pride of building our communities with new construction loans. We encourage all of our constituents, from current customers to our shareholders, to encourage your friends and family members to consider utilizing the mortgage team at Union Bank for their home financing needs.

"I would like to thank Union Bank, and especially Sally Cranson, for our recent loan experience. I first visited the branch in Mulliken to inquire about a loan for farmland in estate settlements. Sally, and all the Union Bank employees, were so friendly and helpful during the entire process: from application to closing. My wife and I especially appreciated the fact that we only had to deal with local people from start to finish. We would highly recommend Sally Cranson and Union Bank to all our friends and family."

– Don Volk

## COMMERCIAL BANKING

For over 80 years Union Bank has held true to the bank's roots of being a financial partner to the agricultural industry. We proudly support our rural communities and farmers with operating and working capital financing, as well as farm land and equipment financing. We understand the cycles that surround the agriculture industry and have the knowledge and skills to serve our clients in good times, and challenging cycles. That commitment lies in our depth of industry experts. Doug Flessner leads our agriculture team with over 25 years of farm lending experience. Our unwavering *commitment to agriculture* runs from our commercial banker's right through our Board of Directors. We serve farmers from the Michigan Thumb, to Lake Michigan and all places in between.

We also take great pride in being a true community bank. Union Bank takes very seriously our commitment to serve the small businesses that operate within our footprint. We look to assist our community business partners with starting their new business or expanding their current

operations. Union Bank is proud to be part of the fabric of these communities. Bret Simonton has led our efforts in small business outreach. His experience and deep caring for assisting business owners as they realize their dream is one element that sets Union Bank apart. Our team also brings other resources that are beneficial to small business; we utilize SBA and FSA programs, as well as working with local economic development partners and other resources to ensure that our local small business partners are set up for success.



Left to Right: Doug Flessner, Melody Warzecha, Judy Rodriguez, Charise Blossom, Ken Sommerdyke and Bret Simonton

# COMMERCIAL BANKING

With any business, *diversification* is an important concept to consider; Union Bank is no different. We understand that industry and geographic diversity carries opportunity. In late 2015, Melody Warzecha joined Union Bank to serve the *Greater Mid-Michigan and Lansing area*, from our Dimondale location. She has demonstrated her skill in working with many different industry types and complexities. Through the efforts of Melody and the rest of our commercial banking team, we are working with more clients and experiencing more opportunities than ever before in industries ranging from health care to the service industry. To expand on that success, we were thrilled to add Eric Van Gessel to our team in 2016. Eric serves the *West Michigan market*, while having his office based out of our Hastings location. We take great pride in serving all needs

for our clients including excelling in customer service. Judy Rodriguez and Charise Blossom, Commercial Loan Assistants, prepare the documentation for all of our commercial loans and are always available to help before, during and after the loan documents have been signed.

In addition to lending, we also provide options and solutions to make sure that our business clients can move, control, secure and monitor their money. Through the offering of cash management, remote deposit scanning, merchant services and smart pay express, an online payment portal, we have truly become that one stop location for all commercial banking needs. We are continuously researching and developing products and services with our commercial clients' needs in mind. In 2017 we will be introducing a *new mobile remote deposit* product that will offer the option for

From Day 1, our experience with Union Bank has been amazing. We had some discouraging experiences talking with other banks about our new microbrewery business, Dimes Brewhouse, so we were hesitant to approach another bank. However, at the urging of several local family members and friends, we called Stephanie at the Dimondale branch.

Stephanie got us in touch with Bret in commercial lending, who led us through the loan process. Bret took the time to review our business plan and understand our vision of what we are trying to bring to our small town.

We now have a Small Business Administration-backed loan that has helped us buy equipment for the brewery, and a line of credit that will help us with our initial operating costs. We are on track to open soon, and the residents of Dimondale are excited!

What sets Union Bank apart from others is their understanding and connection to our local community. We know that the folks at Union Bank see us as people with a vision and a plan, not just numbers on a piece of paper.

– Chad and Michelle Rogers  
Owners of Dimes Brewhouse in Dimondale





our small business partners to make bank deposits without visiting one of our branch locations.

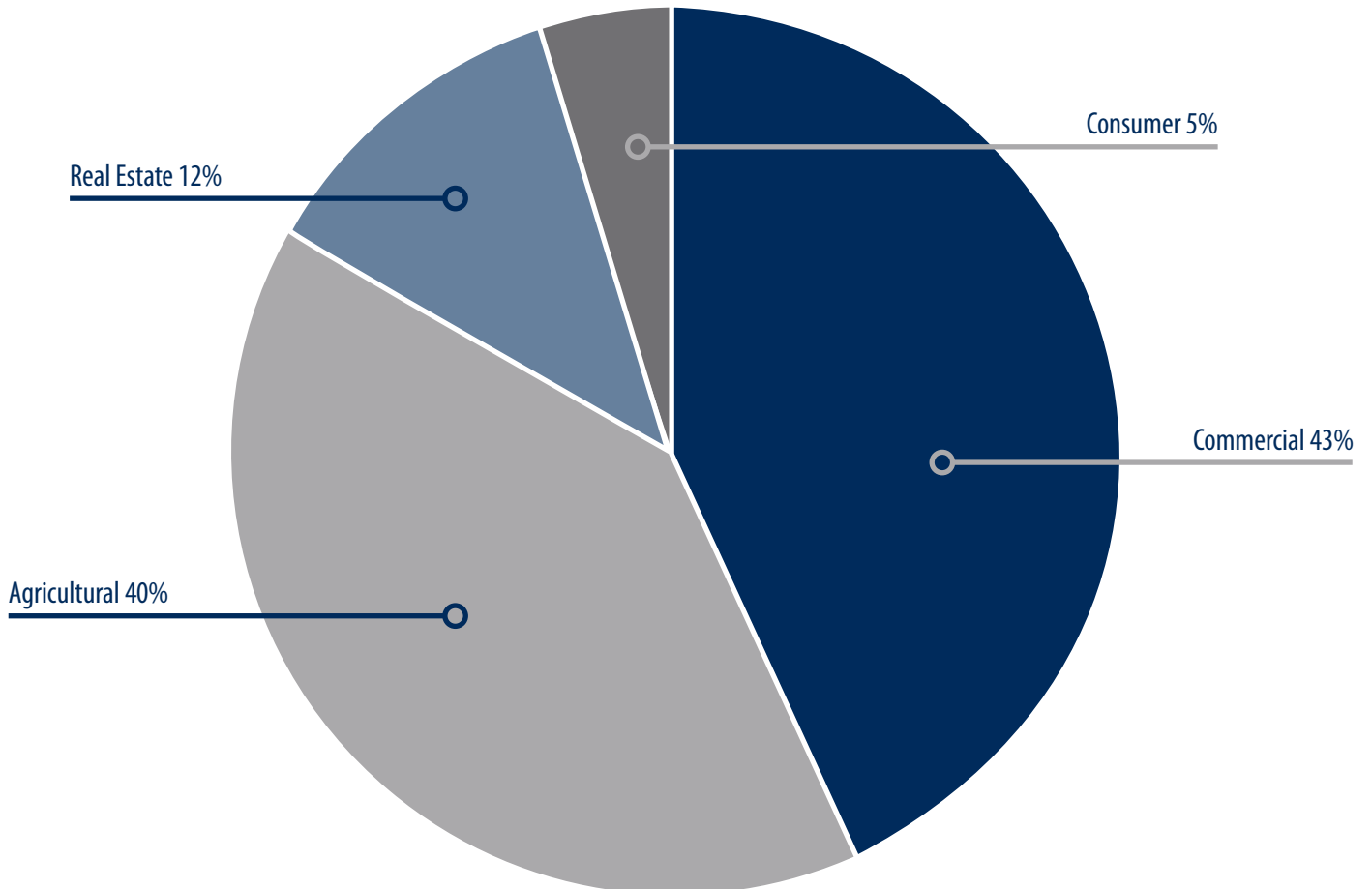
Our team takes the promise of *dedication to our clients, communities and shareholders* very seriously. Union Bank's commercial team is committed to current and future shareholders. We promise to make every effort to provide growth for your investment, offer confidence that referrals for new business will be treated with respect and professionalism, and we will always conduct business with a high level of integrity, just the way a community bank should.



"We were in search of a lender who didn't categorize us by our age or the size of our farm. Melody listened to our goals and helped us to set-up a financial plan to achieve them. We look forward to working with Union Bank for many years to come."

– Kris and Alicia Smith  
Portland, MI

### LOAN PORTFOLIO MIX



# RETAIL BANKING

Today's consumers are using their Smartphones to connect with their financial institution more than ever before. This creates challenges for financial institutions to satisfy tech-savvy consumers without alienating those who are slower to adapt to new technology. Electronic banking, whether initiated through the use of a computer or other electronic devices, allows for consumers to do their banking 24/7 without stepping foot into a branch.

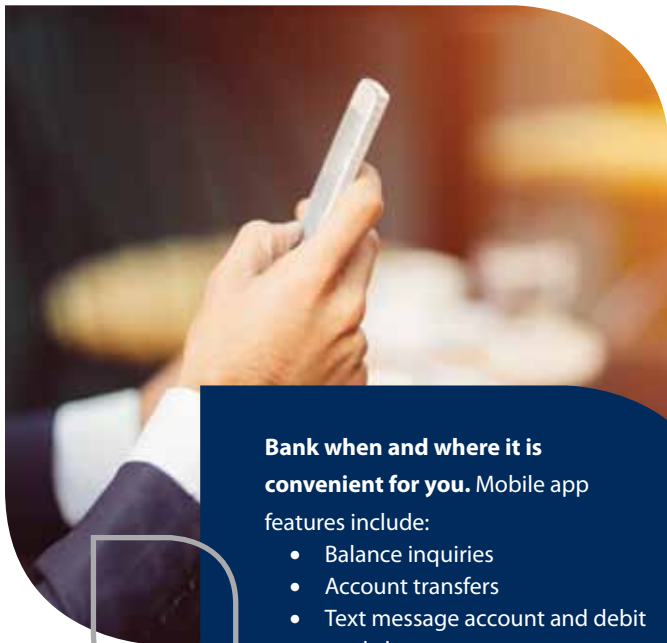
Union Bank *recognizes the importance of electronic banking to consumers*, but with that also comes challenges such as increased fraud, identity theft and the potential of compromised data. As a part of Union Bank's strategic initiative in 2016, the bank's core processing contracts were renegotiated with a focus on *expense reduction and product enhancement*. Not only were we able to reduce our technology expense by 20% over the life of the contract, but we also improved the quality and value of our current suite of products.

The first course of action was to improve the bank's debit/ATM card program by changing the bank's card vendor. With this change, customers now have customer support 24/7 including PIN changes, activation and fraud notification. As an added value, *additional fraud protection features* are now available including text alerts if fraud is suspected, ability to block transactions (especially international transactions), and the ability to turn the debit card off when not in use. These features allow the consumer to help mitigate fraud. If a customer has the unfortunate experience of a compromised card, the bank can now offer instant issue cards so they no longer have to wait for their replacement card.

For our Internet banking customers, a *new bill pay* feature was added for both our Internet and mobile banking systems. Some of the features include person-to-person payments and gift checks to streamline the way consumers move their money. The mobile banking product has also been enhanced to provide additional functionality including consumer remote deposit.

In addition to our electronic service products, a customer relationship management system (CRM) was installed that provides customer service and event tracking, sales and referral tracking and marketing initiative tools. The contemporary functionality places the power of information, efficient customer interaction, and workflow at the fingertips of our sales associates, calling officers, lenders and support staff. This system was installed July 2016 and has been an excellent tool for internal and external customer relations.

Today's consumers are very mobile and need financial access 24/7. We have a diverse customer base, and as a community bank, we need to *tailor our products and services* to meet the needs of our customers. We strive to provide excellent products at an affordable price and are pleased to offer enhanced services to our customers, allowing them *more flexibility* in the way they conduct their day-to-day banking business.



## Bank when and where it is convenient for you. Mobile app

features include:

- Balance inquiries
- Account transfers
- Text message account and debit card alerts
- Manage debit card functionalities
- Person to person payments
- Bill payments
- Access/export account statements
- Check & deposit image viewing
- Remote deposit capture
- Fingerprint authentication

# UNIQUE SERVICES

## UNION INVESTMENT SOLUTIONS

Union Investment Solutions (UIS) reported another solid year of growth in sales totaling over \$10 million, which is down slightly from the previous year. Even though sales were down somewhat, overall net revenue was up from the previous year due to the mix of investments. This performance has placed David White at 43rd nationally for all Cetera Representatives and 3rd in the State of Michigan.

Assets under Management continues to remain strong with a 13% increase over year-end 2015. With the addition of Meg Wheeler to the UIS Team in 2016, additional efforts have been made to assist in managing current clients while focusing on portfolio



Left to Right: Meg Wheeler, David White, Jennifer Bowers

"Our employees enjoy working with David and they are thankful for his financial guidance. They also appreciate his willingness to meet them at any time."

– Denny Mutschler  
Chrouh Communications



expansion into other areas. Jennifer Bowers, administrative assistant, is also licensed in many areas and she continues to provide the back-office support for the team.

The UIS team is able to provide *customized financial and retirement plans* to individuals and business clients. They use a variety of investment products along with the customized plans to attain the goals of these clients. Many times IRAs, Roth IRAs, and College Savings accounts, along with other investment accounts, are used in this planning. David and Meg are also licensed life insurance agents, allowing them to provide life insurance products to both existing and new clients.

In addition to managing the current client base, in 2016 the UIS group *expanded their focus* on providing customized company retirement plans to small and mid-size businesses in their footprint. The goal was for the UIS team to review the company's existing employer sponsored retirement plan and look for opportunities to improve the program for the company and the employees. These typically consist of 401k

# UNIQUE SERVICES

plans, Solo 401k plans, SEP IRA, or Simple IRA plans. Not only can the UIS team assist in offering employer sponsored retirement programs, but they can also provide financial planning for the employees.

Along with being a strong revenue contributor to the bank, UIS also provides clients with additional financial service products that cannot be offered by the bank. If you have not met the UIS team, please visit our Lake Odessa office or give them a call at 616-374-1530.

## UB CONSULTING, LLC

### *Compliance Consulting*

In 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Acts were signed into federal law. With these new regulations came many changes to the financial industry which in turn had many community banks wondering how they would keep up with all of the anticipated modifications. In 2013 management recognized that there was a need within the community banking industry for a compliance service that could offer community banks guidance and support with their compliance programs. With that in mind, UB Consulting, LLC was created.

UB Consulting, LLC was established as a consulting subsidiary to take advantage of *revenue opportunities* through providing compliance consulting support to community banks. John Mull, VP Compliance Consultant, oversees Union Bank's compliance department while also devoting 25% of his time as the compliance consultant for UB Consulting, LLC. As a consultant, John spends time working with Michigan based community banks on an array of different compliance related projects. Compliance consulting services include regulatory compliance reviews for lending, deposit operations, Bank Secrecy Act, and anti-money laundering regulations, specialized reviews for HMDA and TRID, and consulting for regulatory training. John also specializes in new regulation implementation and offers support with examination planning, preparation and administration. Since inception, UB Consulting, LLC has

been a good source of revenue for the corporation. As of year-end 2016, revenue earned from compliance consulting services totaled \$83,800; a 52% increase from revenue that the LLC generated year-end 2013.

John Mull has worked in the financial services industry for over 35 years, with the most recent 25 years being spent working with some aspect of administering compliance with government regulations. His experience includes 12 years of managing compliance for a large regional bank as well as 12 years of experience as a regulatory compliance consultant. This combination of industry experience and technical knowledge of regulations has enhanced his ability to merge regulatory requirements with operation challenges in supporting clients with the development of compliance solutions. John has a Bachelor's Degree in Business Administration from Michigan State University.



## ***Human Resource Consulting***

UB Consulting, LLC expanded our reach with the addition of human resource consulting services in second quarter 2016. As with the compliance services, a need was identified to provide human resource expertise to other community banks. Amy Bergman, VP Human Resources Consultant, joined Union Bank and UB Consulting, LLC to bring HR expertise to Union Bank as well as to offer these services to other community banks. The need of human resource solutions also extends to other small businesses and with that, the HR solutions arm of UB Consulting is available for community banks and for small businesses in both the for-profit and non-profit sectors.

Out of the gate, HR solutions through UB Consulting brought on new clients and *provided non-interest income* to the organization in 2016. Plans for *continued growth* of UB Consulting's HR solutions in 2017 are underway. There are a variety of capacities in which HR solutions are offered including full service outsourced HR where we serve as the client's full HR department; and, HR leadership with clients that need that high-level oversight and strategy to lead an internal team of HR staff within their organization; as well as, providing ad-hoc HR services on a project basis. HR solutions are provided for all facets of HR including policies, procedures, employment law compliance, strategic staffing management, compensation/benefits, performance management, recognition/rewards, training/development, employee engagement, strategic planning, workers' compensation, HR audit and much more.

Amy Bergman is a certified Senior Professional in Human Resources as recognized by the Human Resources Certification Institute and the Society for Human Resources Management. She is the President of the Board of Directors for the HR Association of Southeast Michigan and serves on a variety of other non-profit boards. She has a Bachelor's Degree from Michigan State University in Human Resources.



# FINANCIALS

## Union Financial Corporation

### CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 15,471,129	\$ 10,938,297
Federal funds sold	602,977	1,133,832
Total cash and cash equivalents	16,074,106	12,072,129
Interest-bearing deposits in other financial institutions	1,571,000	3,147,893
Securities available for sale	24,269,494	22,316,341
Federal Home Loan Bank stock	426,200	426,200
Loans, net	118,372,648	114,560,527
Premises and equipment, net	4,838,498	5,070,510
Other real estate	111,993	573,247
Goodwill	980,947	980,947
Bank owned life insurance	4,342,315	4,221,564
Deferred tax assets, net	1,756,914	1,869,253
Accrued interest receivable and other assets	2,186,102	1,482,604
Total assets	\$ 174,930,217	\$ 166,721,215
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 30,276,976	\$ 27,823,083
Interest-bearing demand	68,348,433	63,936,540
Savings	34,034,868	31,082,297
Time	21,218,125	23,042,726
Total deposits	153,878,402	145,884,646
Subordinated debentures	5,522,000	6,022,000
Accrued interest payable and other liabilities	1,782,567	1,352,402
Total liabilities	161,182,969	153,259,048
Shareholders' equity		
Preferred stock: 200,000 shares authorized and no shares outstanding at December 31, 2016 and 2015	–	–
Common stock: \$1 par value, 10,000,000 shares authorized and 2,353,761 shares issued and outstanding at December 31, 2016 and 2,353,498 shares issued and outstanding at December 31, 2015	2,353,761	2,353,498
Surplus	15,408,022	15,406,986
Accumulated deficit	(3,859,911)	(4,296,785)
Accumulated other comprehensive loss	(154,624)	(1,532)
Total shareholders' equity	13,747,248	13,462,167
Total liabilities and shareholders' equity	\$ 174,930,217	\$ 166,721,215

**Union Financial Corporation**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Interest and dividend income		
Loans, including fees	\$ 5,765,449	\$ 5,771,997
Securities available for sale		
Taxable	241,951	275,046
Nontaxable	171,889	173,720
Federal funds sold and other	59,260	48,833
Total interest and dividend income	6,238,549	6,269,596
Interest expense		
Deposits	270,926	293,408
Federal Home Loan Bank borrowings	-	20,451
Other borrowings	248,992	239,137
Total interest expense	519,918	552,996
<b>Net interest income</b>	5,718,631	5,716,600
Provision for loan losses	-	-
<b>Net interest income after provision for loan losses</b>	5,718,631	5,716,600
Noninterest income		
Service charges on deposit accounts	252,322	273,480
Net investment advisory fee income	72,743	182,522
Net gain on sale of loans	437,027	263,645
Net gain on sale of securities available for sale	19,439	3,890
Gain on extinguishment of debt	200,00	-
Other	660,696	561,465
Total noninterest income	1,642,227	1,285,002
Noninterest expense		
Salaries and employee benefits	3,493,659	3,484,720
Other real estate, net	58,414	244,690
Occupancy	474,247	479,588
Furniture and equipment	392,277	370,715
Professional services	644,319	653,003
Director compensation	128,785	58,427
FDIC insurance	88,315	137,331
Other	1,204,544	1,230,153
Total noninterest expense	6,484,560	6,658,627
<b>Income before income tax expense</b>	876,298	342,975
Income tax expense	204,074	18,429
<b>Net income</b>	\$ 672,224	\$ 324,546
Basic income per weighted average share of common stock	\$ 0.29	\$ 0.14

**Union Financial Corporation**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
Years ended December 31, 2016 and 2015

	2016	2015
Net income	\$ 672,224	\$ 324,546
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale	(251,397)	198,654
Reclassification adjustment for gains included in net income (presented in net gain on sale of securities available for sale)	(19,439)	(3,890)
Net unrealized gains (losses)	(231,958)	194,764
Income tax expense (income tax expense includes \$6,609 and \$1,323 related to reclassification adjustments)	78,866	(66,220)
Total other comprehensive income (loss)	(153,092)	128,544
Comprehensive income	\$ 519,132	\$ 453,090

**Union Financial Corporation**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
Years ended December 31, 2016 and 2015

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<b>Balance, January 1, 2015</b>	\$ 2,351,744	\$ 15,399,137	\$ (4,503,726)	\$ (130,076)	\$ 13,117,079
Net income	-	-	324,546	-	324,546
Other comprehensive income	-	-	-	128,544	128,544
Cash dividend (\$0.05 per share)	-	-	(117,605)	-	(117,605)
Issuance of common stock	1,754	7,849	-	-	9,603
<b>Balance, December 31, 2016</b>	2,353,498	15,406,986	(4,296,785)	(1,532)	13,462,167
Net income	-	-	672,224	-	672,224
Other comprehensive loss	-	-	-	(153,092)	(153,092)
Cash dividend (\$0.10 per share)	-	-	(235,350)	-	(235,350)
Issuance of common stock	263	1,036	-	-	1,299
<b>Balance, December 31, 2016</b>	\$ 2,353,761	\$ 15,408,022	\$ (3,859,911)	\$ (154,624)	\$ 13,747,248





**Union Financial Corporation**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 672,224	\$ 324,546
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	580,068	688,531
Loss on other real estate	22,455	178,436
Net gain on sale of loans	(437,027)	(263,645)
Net gain on sale of securities available for sale	(19,439)	(3,890)
Gain on extinguishment of debt	(200,000)	-
Proceeds from sale of loans	13,490,218	7,984,928
Loans originated for sale	(13,053,191)	(7,721,283)
Earnings on bank owned life insurance	(120,751)	(122,401)
Net change in:		
Accrued interest receivable and other assets	(591,159)	213,409
Accrued interest payable and other liabilities	509,031	(244,547)
Net cash from operating activities	852,429	1,034,084
<b>Cash flows (for) from investing activities</b>		
Securities available for sale:		
Purchases	(6,210,905)	(764,265)
Proceeds from sales, calls, principal paydowns, and maturities	3,803,152	6,685,177
Proceeds from maturities of interest-bearing deposits in other financial institutions	1,577,000	1,737,000
Proceeds from redemption of FHLB stock	-	300,000
Net change in loans	(3,812,121)	(620,652)
Net premises and equipment expenditures	(106,082)	(271,157)
Proceeds from sales of other real estate	438,799	559,778
Net cash (for) from investing activities	(4,310,157)	7,625,881
<b>Cash flows (for) from financing activities</b>		
Net change in deposits	7,993,756	(2,894,643)
Repayment of Federal Home Loan Bank borrowings	-	(1,575,000)
Redemption of subordinated debentures	(300,000)	-
Proceeds from issuance of common stock	1,299	9,603
Dividends paid	(235,350)	(117,605)
Net cash (for) from financing activities	7,459,705	(4,577,645)
Net change in cash and cash equivalents	4,001,977	4,082,320
Cash and cash equivalents at beginning of year	12,072,129	7,989,809
<b>Cash and cash equivalents at end of year</b>	<b>\$ 16,074,106</b>	<b>\$ 12,072,129</b>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest expense	\$ 522,466	\$ 564,979
Income tax expense	-	107,400
Supplemental noncash disclosures		
Transfers from loans to other real estate	\$ -	\$ 169,991

# EMPLOYEE ANNIVERSARIES

In 2016, Union Bank recognized a number of outstanding employees for their years of service and dedication to the organization.

## 3 YEARS



**MARY BRESNAHAN**

Branch Manager  
*Dimondale Office*

## 5 YEARS



**CARMEN KUESTNER**

Teller  
*Hastings Office*



**JERRI BLUST**

Teller  
*Dimondale Office*

## 10 YEARS



**CORTNEY COLLISON**

President & CEO



**ROBERTA KROUSE**

Head Teller  
*Hastings Office*

## 15 YEARS



**BRENDA WALTHER**

Teller  
*Hastings Office*



**JENNIFER COOK**

Teller  
*Dimondale Office*



**AARON REISER**

Teller  
*Lake Odessa Office*

## 20 YEARS



**SANDRA KAY COLLISON**

Accountant  
*Corporate Office*

## 25 YEARS



**PEGGY RATHBURN**

Head Teller  
*Mulliken Office*



**KAROL DEWEERD**

Bookkeeping Assistant  
*Corporate Office*



# COMMUNITY HIGHLIGHTS

Union Bank remained committed to the local communities it serves through both financial support and outlay of time and talents. Union Bank employees were extremely active and volunteered with many community organizations, for numerous events and leadership roles.

2016 Marked the 17th consecutive year that Union Bank offered a scholarship to local graduating seniors. 2016 Union Bank Scholarship recipients were:

Emily Barker – Lakewood High School

Alli Brighton – Lakewood High School

Rachel Smith – Hastings High School

Peri Pung – Pewamo-Westphalia High School

Cameron Cook – Pewamo-Westphalia High School



Union Bank sponsored and employees attended the 2016 Lansing Entrepreneurial Awards.



Union Bank employees helped with the 1st annual Sunfield Fire Department Auxiliary Color Fun Run.



Union Bank employees organized and delivered 15 Christmas gift baskets to local retired Veterans.



Union Bank employees volunteered at Manna's Market, a local food and clothing bank and baby pantry.



Union Bank sponsored and hosted a free tailgate cookout at Lakewood High school and Pewamo-Westphalia High School.

# LEADERSHIP

## BOARD OF DIRECTORS

---

### **TIMOTHY BRODBECK**

Elected 2013

Farmer and Co-owner, Woodbury Grain, LLC

### **CORTNEY COLLISON**

Elected 2007

President & Chief Executive Officer, Union Bank

### **LLOYD CUNNINGHAM, CHAIRMAN**

Elected 1996

Co-owner, Specialty Industries Inc.

### **SUZANNE DAHMS**

Elected 1999

Executive Vice President & Chief Operations Officer,  
Union Bank

### **CHRISTOPHER FLUKE**

Elected 2007

Sr. Partner, Walker, Fluke & Sheldon, CPAS

### **BRIAN POTTER**

Elected 2010

President, Architectural Metals Inc.

### **PAUL TRIERWEILER**

Elected 2006

Farmer

## DIRECTORS EMERITI

---

William Bulling

Jerry Collison

LaVon Deatsman

Lynn Fetterman

Marvin Head

Dean Hyde

## SENIOR MANAGEMENT

---

Cortney Collison

President

Chief Executive Officer

Suzanne Dahms

Executive Vice President

Chief Operations Officer

Christine Fortier

Senior Vice President

Chief Financial Officer

Ken Sommerdyke

Senior Vice President

Commercial Lending Manager

## BANK OFFICERS

---

Amy Bergman

Edith Farrell

Doug Flessner

John Mull

Stacey Nurenberg

Bret Simonton

Eric Van Gessel

Melody Warzecha

## UNION INVESTMENT SOLUTIONS

---

David White

Meg Wheeler





# UNION BANK OFFICE LOCATIONS

## **CORPORATE OFFICE**

**933 Fourth Ave.  
PO Box 488  
Lake Odessa, MI 48849**  
  
(616) 374-3278  
Toll Free 800-974-3273  
Fax (616) 374-3276  
  
Mon.-Fri. 9:00 a.m.-4:30 p.m.

## **LAKE ODESSA BRANCH\***

**1150 Jordan Lake St.  
Lake Odessa, MI 48849**  
  
(616) 374-8829  
Fax (616) 374-5621  
  
Mon.-Fri. 9:00 a.m. - 4:30 p.m.  
Sat. 9:00 a.m. - noon  
Drive-thru open daily at 8:30 a.m. to 5:30 p.m.  
Sat. 8:30 a.m. - noon

## **DIMONDALE OFFICE\***

**127 East Rd.  
Dimondale, MI 48821**  
  
(517) 646-9095  
Fax (517) 646-7170  
  
Mon.-Fri. 9:00 a.m. - 4:30 p.m.  
Drive-thru open late on Friday until 5:30 p.m.  
Sat. 9:00 a.m. - noon

## **HASTINGS OFFICE\***

**529 W. State St.  
Hastings, MI 49058**  
  
(269) 945-9911  
Fax (269) 945-9359  
  
Mon.-Fri. 9:00 a.m. - 4:30 p.m.  
Sat. 9:00 a.m. - noon  
Drive-thru open daily 8:30 a.m. - 5:30 p.m.  
Sat. 8:30 a.m. - noon

## **MULLIKEN OFFICE\***

**233 Grand Ledge Hwy.  
Mulliken, MI 48861**  
  
(517) 649-2333  
Fax (517) 649-8802  
  
Mon.-Fri. 9:00 a.m. - 4:30 p.m.  
Sat. 9:00 a.m. - noon  
Drive-thru opens at 8:30 a.m. daily and open  
late on Friday until 5:30 p.m.  
Sat. 8:30 a.m.-noon

## **PEWAMO OFFICE\***

**11755 E. Bluewater Hwy.  
Pewamo, MI 48873**  
  
(989) 593-2886  
Fax (989) 593-4096  
  
Mon.-Fri. 9:00 a.m. - 4:30 p.m.  
Drive-thru open late on Friday until 5:30 p.m.  
Sat. 9:00 a.m.-noon

## **WESTPHALIA OFFICE\***

**202 E. Main St.  
Westphalia, MI 48894**  
  
(989) 587-5400  
Fax (989) 587-5404  
  
Mon., Tues., Thur. & Fri. 9:00 a.m. - 4:30 p.m.  
Wed. 9:00 a.m. - noon  
Drive-thru open late on Friday until 5:30 p.m.  
Sat. 9:00 a.m. - noon

**\*Drive-thru and 24-hour Automatic  
Teller Machine available.**



**Union Financial Corporation**