



Union Financial Corporation

September 30, 2017

Dear Shareholders and Friends,

I am pleased to share with you positive results for Union Financial Corporation for the third quarter of 2017. The corporation ended the quarter with year-to-date net income of \$375,670; up 8.6% from the same quarter the previous year. The increase in earnings can be attributed to a growth in interest income from both loans and securities, and a decline in interest expense. The bank has also been able to maintain operating expenses fairly consistent with the prior year. Non-interest income is down in 2017 mainly due to a decline in mortgage banking business; however, sales of other investment services have increased resulting in a higher level of income for Union Investment Solutions.

The corporation concluded the quarter with a total asset size of \$171,554,110; a growth of \$2.1 million over the third quarter 2016. The bank's deposits ended the quarter at \$150,281,417; up \$2.4 million over the same quarter the previous year. The bank's loan portfolio showed \$4.6 million in growth when compared to the same quarter last year, ending the third quarter of 2017 at \$124,581,735. The majority of the corporation's loan growth is in the bank's commercial loan portfolio, which experienced a 9% increase when compared to the same quarter 2016. The bank's loan officers have been working hard and have developed a nice pipeline for the fourth quarter of this year. I am looking forward to finishing 2017 strong with continued growth in loans and income for the corporation.

In August, the bank welcomed a new Senior Lender to the team, Kevan Van Fleet. Kevan joins Union Bank with over 14 years of experience in the banking

industry. As Senior Lender, Kevan oversees all areas of the bank's lending efforts- commercial, consumer and mortgage loans. Kevan looks forward to servicing the financial needs of our communities.

The third quarter of 2017 was also a busy one for the bank's new branch implementation team. Since June of this year the implementation team has been working on opening a new Union Bank branch in Ada. This new leased office space is located in the Ada First building on the corner of Ada Drive and Headley Street. Since the announcement of this new location, the bank has experienced an increase in loans and deposit requests in the Grand Rapids Market. The new Ada location is scheduled to open as a full service branch this fall. The staff at the bank is excited about this expansion. We hope that once this office is open, you will stop in and visit our Ada team and discover all that the Ada community has to offer.

Thank you for your continued support. Please continue to refer your family and friends to Union Bank.

Sincerely,

A handwritten signature in cursive script that reads "Cortney H. Collison".

Cortney H. Collison
President & CEO

Union Financial Corporation Officers

Cortney Collison
President

Suzanne Dahms
Secretary

Christine Fortier
Vice President

Board of Directors

Tim Brodbeck
Cortney Collison
Lloyd Cunningham

Suzanne Dahms
Christopher Fluke
Paul Trierweiler

Directors Emeriti

William Bulling
Jerry Collison
LaVon Deatsman

Lynn Fetterman
Marvin Head
Dean Hyde

Union Bank Senior Staff

Cortney Collison
President & CEO

Christine Fortier
Senior Vice President & CFO

Suzanne Dahms
Executive Vice President & COO

Union Bank Officers

Zachary Dennis
Edith Farrell
Doug Flessner
John Mull

Stacey Nurenberg
Bret Simonton
Kevan Van Fleet
Melody Warzecha

Union Investment Solutions

David White

Meg Wheeler

UFC Consolidated Balance Sheets: September 30, 2017 and 2016

Assets	2017	2016
Cash and Due from Banks	\$6,911,815	\$10,337,926
Federal Funds Sold	3,000,000	483,799
Total Cash and Cash Equivalents	9,911,815	10,821,725
Securities	24,018,666	25,389,316
Total Loans	124,581,735	119,981,277
Less: Allowance for Loan Losses	(1,247,396)	(1,258,843)
Net Loans	123,334,339	118,722,434
Premises and Equipment	4,926,508	4,879,761
Accrued Interest Receivable	1,023,436	885,232
Other Assets	8,339,346	8,736,169
Total Assets	\$171,554,110	\$169,434,637
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$29,838,750	\$28,914,687
Interest-Bearing Transaction Accounts	68,359,410	64,142,844
Savings	34,018,518	32,943,921
Time	18,064,739	21,842,559
Total Deposits	150,281,417	147,844,011
Federal Funds Purchased	—	—
Federal Home Loan Bank Borrowings	—	—
Accrued Interest Payable	16,971	19,661
Other Liabilities	1,692,436	1,816,619
Subordinated Debentures	1,022,000	1,022,000
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	4,500,000	5,000,000
Total Liabilities	157,512,824	155,702,291
Total Shareholders' Equity	14,041,286	13,732,346
Total Liabilities and Shareholders' Equity	\$171,554,110	\$169,434,637

UFC Consolidated Income Statement: September 30, 2017 and 2016

	2017	2016
Interest Income		
Loans, Including Fees	\$4,421,264	\$4,294,127
Federal Funds Sold and Other	77,052	46,387
Securities	350,836	310,103
Total Interest and Dividend Income	4,849,152	4,650,617
Interest Expense		
Deposits	198,944	203,269
Federal Home Loan Bank Borrowings	0	0
Other Borrowings	190,211	188,329
Total Interest Expense	389,155	391,598
Net Interest Income	4,459,997	4,259,019
Provision for Loan Losses	0	0
Net Interest Income After Provision for Loan Losses	4,459,997	4,259,019
Other Income		
Service Charges on Deposit Accounts	180,572	192,738
Other Income	1,005,540	1,111,583
	1,186,112	1,304,321
Other Expenses		
Salaries and Employee Benefits	2,725,714	2,663,612
Occupancy and Equipment	689,102	648,261
Other Expenses	1,764,773	1,834,066
	5,179,589	5,145,939
Income Before Income Tax	466,520	417,401
Income Tax Expense	90,850	71,618
Net Income	\$375,670	\$345,783
Earnings Per Share	\$0.16	\$0.15