

The bank's newest branch location in Ada has now been open for almost five months. I am happy to share with you that we have seen great success in loan and deposit growth in this market. In addition to focusing on new loans and deposits, the Ada team is also spending time becoming more embedded in the community and sharing our community bank mission of not only providing competitive financial solutions, but also building financial relationships and giving back to the community. As we move forward in 2018 I am excited about all of the opportunities that this new branch brings to the organization.

I am pleased to announce that in March the Board of Directors appointed a new director, Steve Millman, President and Owner of NorthStar Commercial, located in Grand Rapids. Steve has over 14 years of real estate experience. His vast knowledge of commercial real estate and the West Michigan market will be a great benefit to our board. In March we also promoted two new bank officers, Derek Dickinson, Credit and CRA Officer, and Lindsay Farrell, Marketing Officer. Both of these individuals have worked for the bank for five plus years and have been instrumental in growing and overseeing their respective departments.

I hope to see many of you at our annual meeting on May 8th. The agenda for the meeting includes reviewing our 2017 results and sharing more of our 2018 growth initiatives. The meeting will once again be held at Kilpatrick Church, located at 10005 E Barnum Rd., Woodland, MI 48897. Breakfast will be served at 8:30 a.m. with the formal meeting starting promptly at 9:00 a.m.

Thank you for your continued support.

Sincerely,



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
Steve Millman
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
Derek Dickinson
Edith Farrell
Lindsay Farrell
Doug Flessner

John Mull
Stacey Nurenberg
Bret Simonton
Kevan Van Fleet
Melody Warzecha

Union Investment Solutions

David White

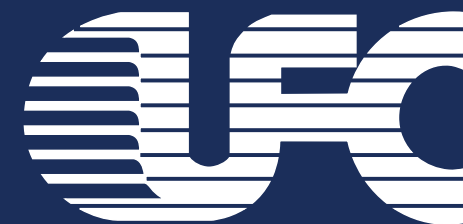
Meg Wheeler

Dear Shareholder and Friends,

Union Financial Corporation ended the first quarter of 2018 with total assets of \$173,726,443; down 1.6% from the same quarter of 2017. A majority of this decrease is due to the bank's deposit size which experienced a decline of \$2.4 million compared to the same quarter last year. Loans ended the quarter up \$8.3 million over the prior year. The majority of loan growth was in the commercial loan portfolio with a moderate increase also in the consumer loan portfolio.

Net interest income for the first quarter is nearly 10% above 2017's results. The loan growth experienced in recent months combined with rising interest rates has benefited the bank with additional interest and fee income. However, with rising rates we have also experienced an increase in interest expense. The rising cost of funding combined with strong loan competition may lead to a tighter net interest margin that we will need to pay close attention to. Other non-interest income ends the first quarter below 2017 due mainly to fewer sales of mortgages on the secondary market combined with a slower start to the year in consulting revenue. The addition of the Ada location, while bringing on loan growth and interest income, did also lead to an increase in operating expenses but this will be absorbed by further loan growth that is anticipated from that location.

During the quarter we expanded UB Consulting, LLC to include IT consulting services. In March we welcomed Damian Walters to the organization as VP, Sr. IT Auditor and Assessor. Damian specializes in working in the financial and health care IT industries as well as small businesses. He brings with him over 35 years of experience. IT consulting services offered include compliance audits and security assessments, disaster recovery, and PCI compliance to name a few. The addition of IT consulting services not only brings more income generating opportunities to the corporation, but also gives us additional services to offer to our clients.



Union Financial Corporation

March 31, 2018

UFC Consolidated Balance Sheets: March 31, 2018 and 2017

| Assets | 2018 | 2017 |
|--|-----------------------|-----------------------|
| Cash and Due from Banks | \$12,943,950 | \$14,913,029 |
| Federal Funds Sold | 3,000,000 | 5,605,723 |
| Total Cash and Cash Equivalents | 15,943,950 | 20,518,752 |
| Securities | 20,686,779 | 26,517,227 |
| Total Loans | 124,750,850 | 116,430,092 |
| Less: Allowance for Loan Losses | (1,269,943) | (1,269,583) |
| Net Loans | 123,480,907 | 115,160,509 |
| Premises and Equipment | 4,894,983 | 4,761,489 |
| Accrued Interest Receivable | 865,809 | 953,208 |
| Other Assets | 7,854,015 | 8,566,746 |
| Total Assets | \$173,726,443 | \$176,477,931 |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Deposits | | |
| Demand | \$31,379,139 | \$27,741,929 |
| Interest-Bearing Transaction Accounts | 69,806,713 | 73,171,124 |
| Savings | 35,242,733 | 34,204,060 |
| Time | 16,918,350 | 20,620,584 |
| Total Deposits | 153,346,935 | 155,737,697 |
| Federal Funds Purchased | — | — |
| Federal Home Loan Bank Borrowings | — | — |
| Accrued Interest Payable | 12,804 | 17,913 |
| Other Liabilities | 1,701,368 | 1,609,695 |
| Subordinated Debentures | 1,022,000 | 1,022,000 |
| Guaranteed preferred beneficial interests in the Corporation's subordinated debentures | 4,500,000 | 4,500,000 |
| Total Liabilities | 160,583,107 | 162,887,305 |
| Total Shareholders' Equity | 13,143,336 | 13,590,626 |
| Total Liabilities and Shareholders' Equity | \$ 173,726,443 | \$ 176,477,931 |

UFC Consolidated Income Statements: March 31, 2018 and 2017

| | 2018 | 2017 |
|--|------------------|------------------|
| Interest Income | | |
| Loans, Including Fees | \$1,552,759 | \$1,409,753 |
| Federal Funds Sold and Other | 28,080 | 22,259 |
| Securities | 119,783 | 113,517 |
| Total Interest and Dividend Income | 1,700,622 | 1,545,529 |
| Interest Expense | | |
| Deposits | 76,688 | 67,189 |
| Federal Home Loan Bank Borrowings | — | — |
| Other Borrowings | 69,025 | 60,587 |
| Total Interest Expense | 145,713 | 127,776 |
| Net Interest Income | 1,554,909 | 1,417,753 |
| Provision for Loan Losses | — | — |
| Net Interest Income After Provision for Loan Losses | 1,554,909 | 1,417,753 |
| Other Income | | |
| Service Charges on Deposit Accounts | 60,276 | 59,724 |
| Other Income | 329,549 | 363,862 |
| | 389,825 | 423,586 |
| Other Expenses | | |
| Salaries and Employee Benefits | 1,006,249 | 947,796 |
| Occupancy and Equipment | 278,926 | 243,573 |
| Other Expenses | 669,270 | 621,947 |
| | 1,954,445 | 1,813,316 |
| Income Before Income Tax | (9,711) | 28,023 |
| Income Tax Expense | (14,492) | (13,542) |
| Net Income | \$4,781 | \$41,565 |
| Basic Earnings Per Share | \$0.00 | \$0.02 |